



# THE AUDITOR'S REPORT

News and Events in the Practice of Accountancy

January 2017

ACPAPP 2017 THEME:

## MOVING FORWARD TOGETHER

The festive mood brought by the recently concluded holidays hasn't even subsided yet when the realization that the normally dreaded audit season is just around the corner comes kicking in. With all the holiday feelings and hangover still running through the veins of every auditor and accountant, it is somewhat challenging to maintain a steady and ready mindset for what's ahead of everyone, especially for us who are engaged in public practice.

Nevertheless, although this season is not as anticipated as our most celebrated holidays, this is definitely something that is worth looking forward to. The audit season, as how it can initially be perceived, is like a bloodied and gruesome battleground where only the fittest dwell and survive. Seen in a different light, nobody can pass through the audit season without getting inflicted with wounds from seemingly impossible deadlines, overly demanding clients, and extremely pressing workloads. Despite all these, hundreds of thousands, even millions of accounting people, have all stood up to the challenge and conquered what appears to be an unsurpassable endeavor. What could have caused this to happen? From what can easily be observed, an auditor in public practice will not last as one if his passion is not bigger than his fear of failure. An auditor will not be credible if his integrity is overridden by personal desires. An auditor will not be a figure of public trust and confidence if his desire to serve his clients is tainted by malice and greed. An auditor is honest, competent and confident. An auditor is the epitome of grace under pressure. An auditor is somebody who defies the 24-hour limitation to cater to the needs of a normally long list of clients. Considering all that was said above, it is hard to imagine how a person manages to do all of these, but we, the Certified Public Accountants engaged in public practice, have all gone through everything with poise and heads still held high. Brought closer by the passion and willingness to serve, and amidst all the reports required to be submitted, the accounting world witnessed the birth of the Association of Certified Public Accountants in Public Practice (ACPAPP).

Founded and registered with the Securities and Exchange Commission (SEC) in December 11, 1980, ACPAPP has had a long history of advocating for CPAs in public practice. It has worked steadfastly toward fulfilling four areas: (1) concern for its members; (2) professional development and



increased capabilities for practice; (3) high standards of professional services to clients and society; and (4) harmony and cooperation.

While ACPAPP remains faithful to its mandate, the business environment is evolving rapidly. Technological advancements, in particular, have accelerated the pace of change and they are transforming both the workplace and the workforce. These developments are inevitable and necessary. They compel us to reflect and to further strengthen our resolve to advance our duty as an organization. If we are to sustain our mission and reach our vision, we need to recommit ourselves and rise to the challenges.

ACPAPP's theme for 2017, Moving Forward Together, is a call to action – an invigorating message to guide us on the journey to transform the Association into a more accessible channel; a venue that pledges to help advance the professional development and promote high professional and ethical standards of Filipino CPAs in public practice. This focus serves as a reminder that by moving forward to reach a common objective, we are aiming for excellence as a community.



# ACPAPP'S NEW BOARD OF DIRECTORS FOR 2017



As with other organizations, ACPAPP would not be able to achieve its goals and its ultimate vision and mission *“to be an organization that is committed to help advance the professional development and promote high professional and ethical standards of the Certified Public Accountants in public practice in the Philippines”* without the direction and wholehearted compassion of its Board of Directors. Here is the new set of ACPAPP officers who will shed light on the Association’s directives for the year 2017:



*President*  
**J. Carlitos G. Cruz**



*Executive Vice President*  
**Arminda T. Acyatan-Guerrero**



*VP External Affairs and Corporate Secretary*  
**Marites B. Landicho**



*VP Internal Affairs and Corporate Treasurer*  
**Ramilito L. Nanola**



*VP Professional Development Metro Manila*  
**Noel Antonio E. Canlas**



*VP Accounting and Auditing Standards*  
**Ma. Lois G. Abad**



*Director Taxation and Advocacy*  
**Roberto B. Villanueva**



*Director Ethics and Governance*  
**Noel A. Baladiang**



*Director Meetings and Programs*  
**Jacqueline Y. Villar**



*Director Chapters and Membership*  
**Ma. Alma C. Sese**



*Director Fellowship and Special Events*  
**Editha C. Dela Cruz**



*Director Publications*  
**Honorata L. Paguio**



*Director PD Luzon*  
**Ronaldo S. Barleta**



*Director PD Visayas*  
**Jane A. Lamboso**



*Director PD Mindanao*  
**Lope L. Bato Jr.**

# RECAP OF WHAT HAPPENED IN 2016



The year 2016 has been a very productive year for the Association. It was then that ACPAPP was able to overcome limitations and bridge borders as it held its first ever international conference in Macau. Our yearly traditions, the Accountancy Week Celebration and the Annual National Convention were also conducted, both of which provided participants with incomparable learning experiences. Seeing how the Association was able to transcend boundaries, these events signify how prepared the Association is in presenting itself, its members and ideals to the world.

It is also worthy to note the issuances in 2016 that have a significant impact on our profession. These include, among others, the new auditor's report, the compilation services for financial statements preparation and amendments to certain financial reporting standards.

Below are snapshots of ACPAPP-sponsored activities in 2016:

## ACPAPP 16<sup>th</sup> Annual National Convention (ANC)



ACPAPP President George Villaruz, ACPAPP Foundation President Che Javier, Executive Vice President Itos Cruz and 16th ANC Chairman Barbie Guerrero present the token of appreciation to the keynote speaker, the Honorable Senator Franklin Drilon.



APAPP President George Villaruz and PICPA President Ramonito Pernato during the signing of the Memorandum of Agreement on the Voluntary Quality Assurance Review.



ACPAPP Foundation President Che Javier, ACPAPP President George Villaruz, Trustee Cita Rodriguez, Trustee Grace Morfe and Trustee Ting Samonte present the token of appreciation to the Light Session speaker, Francis Kong.



The 16<sup>th</sup> ANC delegates actively participate during the Light Session.



## ACCPAP 2016 Accountancy Week Celebration



ACPAPP President George Villaruz delivers the welcome remarks during the 2016 Accountancy Week Celebration.



ACPAPP members recite the ACPAPP Pledge.

## ACPAPP 2016 International Conference in Macau



ACPAPP President George Villaruz welcomes the delegates of the 1st International Conference in Macau SAR, China.



ACPAPP President George Villaruz, 1st International Conference Chairman Noemi Villaruz, and Directors Edith Dela Cruz, Nhorie Paguio and Lois Abad present the token of appreciation to keynote speaker, the Honorable Consul General Lilybeth Deapera of the Philippine Consulate General in Macau SAR, China.



ACPAPP President George Villaruz, Trustee Grace Morfe and 1st International Conference Co-Chairman and Guest Speaker Jun Cuaserna pose for a photo.



Over 50 delegates joined ACPAPP's 1st International Conference in Macau SAR, China in celebration of its 35<sup>th</sup> Anniversary.



## 2016 - New Issuances, Amendments and Revisions of Standards for Audit and Accounting and Other Related Services

### Auditing and Other Related Services

The following is the list of new and revised Philippine Standards on Auditing (PSA) as well as standards on assurance engagements and other related services effective for the audit of financial statements for the period ending on or after December 15, 2016 adopted by the Auditing and Assurance Standards Council and approved by the Board of Accountancy and Professional Regulation Commission:

- PSA 260 (revised) - Communication with Those Charged with Governance
- PSA 570 (revised) - Going Concern
- PSA 700 (revised) - Forming an Opinion and Reporting on Financial Statements
- PSA 701 - Communicating Key Audit Matters in the Independent Auditor's Report
- PSA 705 (revised) - Modification to the Opinion in the Independent Auditor's Report
- PSA 706 (revised) - Emphasis of Matter Paragraph and Other Matters Paragraph in the Independent Auditor's Report
- PSA 720 (revised) - The Auditor's Responsibilities Relating to Other Information

### The New Auditor's Report

The aforementioned new and revised auditing standards paved the way for the release of the new auditor's report. As we all know, the previous auditor's report was not very specific as to the role of the management and the auditor when it comes to financial reporting. With the updated version of the auditor's report, the public is given a more intricate view of what a CPA in public practice really does. The new report also requires additional disclosures, specifically those pertaining to the communication of significant audit matters to those charged with governance, and how to deal with information beyond the scope of a specific engagement.

The auditor's report is the main deliverable communicating the results of the audit process. The primary objective of auditing financial statements is to express an opinion whether the financial statements are free from material misstatements. While users of the financial statements have valued the auditor's opinion on the financial statements, many have called for the auditor's report to be more informative and relevant - in particular, for auditors to provide more relevant information to users based on the audit that was performed.

The new and revised Auditor Reporting standards are designed to enhance the auditor's reports for investors and other users of financial statements. This is mandatory for audits of financial statements for all entities, most especially for listed entities. The changes are as follows:

1. The most significant change is the reporting of "Key Audit Matters" (KAM). KAM are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements. KAM are mandatory only for the audit of listed entities.
2. The auditor's opinion is required to be presented first, followed by the Basis for Opinion section, unless law or regulation prescribes otherwise.
3. The Basis for Opinion section for unmodified opinions is required.
4. There is a statement about independence and other ethical responsibilities.
5. There is an enhanced description of auditor responsibilities and key features of the audit.
6. An identification section, when those charged with governance (TCWG) are separate from management, is required.

## Philippine Financial Reporting Standards (PFRS)

Below are some of the newly adopted and newly issued amendments to financial reporting standards during the year 2016:

- Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions.

The Amendments contain three changes covering the following matters: (1) the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; (2) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and (3) the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Amendments are effective for annual periods beginning on or after January 1, 2018 subject for the approval of the Board of Accountancy (BOA).

- Amendments to PFRS 4, Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance Contracts.

These Amendments were issued to narrow the scope of amendments to PFRS 4, Insurance Contracts. The Amendments provide temporary accounting solutions, for entities that issue insurance contracts, for the practical challenges of implementing PFRS 9, Financial Instruments, before the forthcoming insurance contracts standard. The Amendments introduce the following: (1) overlay approach - an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of PFRS 9; and (2) temporary exemption - an optional temporary exemption from applying PFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of PAS 39, Financial Instruments: Recognition and Measurement. The Amendments are effective for annual periods beginning on or after January 1, 2018 subject for the approval of the Board of Accountancy (BOA).

- Amendments to Philippine Accounting Standards (PAS) 7, Disclosure Initiative.

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). The Amendments require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement. The Amendments also suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (1) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and (2) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statements of financial position including those changes identified immediately above. The Amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted.

- Amendments to PAS 12, Recognition of Deferred Tax Assets for Unrealized Losses.

The Recognition of Deferred Tax Assets for Unrealised Losses was issued to narrow the scope of the Amendments to PAS 12, Income Taxes. The focus of the Amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments add guidance to the standard to the areas where diversity in practice previously existed. These areas include the existence of a deductible temporary difference; recovering an asset for more than its carrying amount; probable future taxable profit against which deductible temporary differences are assessed for utilization; and combined versus separate assessment. The Amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted.

## Compilation Services

The Board of Accountancy (BOA), in its Professional Regulation Commission (PRC) BOA Resolution No. 03 - Series of 2016 dated January 19, 2016, has adopted the following rules and regulations on the submission of the Certificate of Compilation Services (Certificate) on the preparation of financial statements (FS) and notes to the FS as well as the procedures to implement them:

- Preparation of the FS and Notes to the FS
  1. The preparation and presentation of FS is a practice of accountancy in commerce and industry and shall be prepared by a Certified Public Accountant (CPA).
  2. A CPA preparing these documents shall be either:
    - a. A CPA employed by the organizations (CPA Employee) or
    - b. A CPA contracted by the organizations to perform the service (Contracted CPA)
  3. The contracted CPA shall not be the same CPA who shall be rendering the attest services for the organization.
- Certificate on the Compilation Services for Preparation of the FS and Notes to the FS
  1. The Certificate shall be prepared and signed by the CPA who is tasked to prepare and present the FS and notes to the FS (see Annex A of the Resolution for the format of the Certificate).
  2. The Certificate shall be attached to the audited FS that are submitted to the regulatory offices.
  3. The Certificate shall be prepared only for issuers which have gross sales or revenues exceeding Php10,000,000.00 for a particular accounting year.
  4. However, the rules prescribed in all other sections of the Resolution shall apply to all issuers of the FS.
- Accreditation by the Board
  1. CPAs preparing the FS, notes to the FS and the Certificate shall be first accredited by the Board after the submission of the necessary application requirements (see Annex C of the Resolution), including compliance with the Continuing Professional Development (CPD) requirements.
  2. CPAs shall apply for accreditation not later than December 31, 2016 (pursuant to BOA resolution No. 2016-115).

## 2017 – WHAT LIES AHEAD

The year 2017 has just started, yet can be seen as another fruitful and promising year, not just for the Association but for all Certified Public Accountants. For this year, there are a lot to look forward to. As we came to know ourselves better and recognized rooms for improvement as the years have passed, so did our standard-setting bodies, which have authored revisions to our widely accepted reporting standards. The revisions gave birth to a more elaborate auditor's report, which better presented both the auditor's and the management's responsibility in a company's financial statements, and which could give the public a clearer glimpse of what an auditor's role is. Aside from this, filing deadlines are to be strictly observed, so as to avoid non-compliance and all inconveniences which could be caused by mere unawareness and misinformation with regard to these deadlines.



## 2017 Year-Start Tax and Regulatory Reminders

The beginning could sometimes be the end, just how the end can also be the beginning of something. The end of the year as we all know, is the beginning of every business's struggle in meeting numerous regulatory deadlines, be it a sole proprietorship, partnership, or more so a corporation. From the closing of books to the filing of returns, every entity should be fully informed of the deadlines and schedules of filing to keep away from avoidable penalties and surcharges.

In line with this, we have laid out the following summary of filing deadlines other than those regular/monthly filings for everyone's reference and convenience:

Description	Date
Inventory list as of December 31, 2016 (kindly refer BIR Ruling - RMC 57-2015 for the prescribed format)	January 30, 2017
Books generated from the taxpayer's computerized accounting system (CAS)	January 30, 2017
Employee alphalist and BIR Form 1604CF	January 31, 2017
Payment of BIR annual registration fees (ARF) of all forms of business organizations (sole proprietorship, partnership, corporations and cooperatives) and professionals	January 31, 2017
List of Regular Supplier of Goods and Services by the Top 5,000/20,000 Individual/Corporations including Large Taxpayers (for the second semester)	January 31, 2017
Lessees Information Statement including other attachments	January 31, 2017
Submission of 2316 duly signed by employees who are covered under the substituted Filing	February 28, 2017
2016 annual alphalist of payees and BIR Form 1604E	March 1, 2017
2016 annual income tax return for individuals and non-individual taxpayers whose account period ends at December 31, 2016	April 15, 2017
Quarterly income tax return of self-employed individuals, estates and trusts through BIR Form 1701Q [BIR Form 1701Q is used by (1) individuals earning mixed income from compensation, business or practice of professions and/or (2) estates and trusts.]	April 15, 2017
Quarterly income tax return of partnerships, corporations and other non-individual taxpayers through BIR Form 1702Q	May 30, 2017

*Note: If the deadline falls on Saturday, Sunday or Holidays, normally it is being moved to next working day.*

## Financial Reporting Standards to Watch out for in the Coming Years

- Amendments to PFRS 9, Financial Instruments (2014 or final version).

In July 2014, the final version of PFRS 9, Financial Instruments, was issued by the International Accounting Standards Board (IASB). PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9.

The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Below are some of the summarized significant changes to the amended standard:

1. Financial assets - Classification and measurement are identified using a principle-based, not rules-based, approach.
2. Impairment - Changes from the "incurred credit loss" to the "expected credit loss" model.
3. Hedging - Arbitrary rules are replaced with principle-based requirements.

PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.



- PFRS 16, Leases

On January 13, 2016, the IASB issued its new standard, IFRS 16, Leases, which was adopted by the Financial Reporting Standards Council (FRSC) on February 17, 2016. The new standard replaces PAS 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted IFRS 15, Revenue from Contracts with Customers.

- International Financial Reporting Standards (IFRS) 15, Revenue from Contracts with Customers.

IFRS 15 was issued in May 2014 by the IASB and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is not yet locally adopted by the FRSC. Once adopted and effective, this will be applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted once adopted locally.

## **SOMETHING TO PONDER UPON**

The Association of Certified Public Accountants in Public Practice is only one among the many organizations that focus on the professional growth and development of its members. It aims to foster values for which a professional should be recognized. In the same way that the Association aims to hone the skills of its members, so should the members be concerned with the development of their professional competence and values. After all, the Association's performance relies on the people behind and within it. So as Certified Public Accountants, we must take the time to review the revisions to standards and amendments to regulatory reports. We must be passionate about this profession. We must have a mind that is always open to new learning experiences, a heart that is humble enough to accept that we could still do and be better than what and who we are now, and a spirit that never gives up and takes pride in the fact that the work that we do champions not only our clients, not only our bosses, but also ourselves and Him to whom we offer whatever we have. We are challenging you to heed this call. We are encouraging you to make this year better than the years before.

