DLSU BUSINESS NOTES AND BRIEFINGS
ISSN (Print): 2345-8216 | ISSN (Online): 2350-6814
Volume 5 | Number 3 March 2017

Ramon V. del Rosario College of Business

CBRD
Center for Business Research & Development

Compilation certificate: Concerns, conflicts, and recommendations

Written by:

Jerwin Tubay
Accountancy Department
De La Salle University – Manila

Accounting-related business in the country is very competitive. In order to survive the competition, one must not only be well-versed and manifest expertise in the profession, but also be able to provide clients value-added services that might not be found in other firms. Some accounting and auditing firms, therefore, make their firms a one-stop shop for business owners. This means handling the initial set-up and registration of the business, putting up accounting systems, doing the bookkeeping, filing the related tax returns, and ultimately providing audit of the financial statements. Evidently, there is a possible conflict of interest in auditing the financial statements. However, this could be allowed if the person who does the audit is not the exact person who prepared the financial statements. Though everyone is aware of this, there is a huge possibility that this could happen.

In response, the Board of Accountancy (BOA) on January 19, 2016 issued Board resolution no. 3 series of 2016 (BOA 3-2016), which requires a certified public accountant (CPA) who prepares a company's financial statements and their accompanying notes to issue a compilation certificate. To ensure strict compliance with the resolution, it was amended by Board resolution no. 68 series of 2016 (BOA 68-2016), which made external auditors responsible for monitoring the compliance of their client with BOA 3-2016. Given that some provisions of the amended resolution are unclear, BOA issued multiple board resolutions that supplemented, supported, and clarified the previously issued resolutions.

What is a compilation?

As defined in par. 17 (b) of Philippine Standard on Related Services (PSRS) 4410 (Revised), "*Compilation engagement is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework, and reports.*"

Companies can have an in-house accountant to prepare their financial statements for them. In the absence of an in-house accountant, they can avail of the services of a CPA in public practice. This type of engagement is a non-assurance engagement. This type of engagement, which is performed by a professional accountant, does not render credibility and does not provide any assurance about the correctness of financial statements. The management of the company who engaged the compiler is not relieved of its responsibility and full accountability of the financial statement presentation ("PSRS 4410 revised").

Compilation services occupy a small chunk in the portfolio of services offered by accounting firms. In a study of strategic and functional orientation of public accounting firms by Bagchi-Sen & Kuechler (2000), services that generate more revenue are audit and management advisory services, whereas the bottom sources of revenue are shared by tax, review and compilation. Accounting firms can bill their clients higher professional fees for audit because of the high assurance level provided compared to compilation, for which no assurance is provided (Foster et al., 2016). In terms of demand, corporations are required to file audited financial statements to comply with the Securities and Exchange Commission (SEC) and the Bureau of Internal Revenue (BIR). There was no such requirement for compilation until the issuance of BOA 3-2016, as amended by BOA 68-2016. This meant the companies may hire an in-house accountant to do the compilation work instead of availing the services of public accounting firms.

Who should certify?

To prevent a CPA who prepared a company's financial statement from providing audit services to the same company, such CPA shall issue a certification accompanying the audited financial statements specifying that he/she was not, in any form, assisted by the company's external auditor in the preparation of financial statement. This is clearly to avoid the self-review threat, which is as the name implies, the possibility that an auditor may have, in whole or in part, made a decision that was supposed to have been made by the audit client, thus impairing the objectivity (Beattie et. Al, 2002). Another perspective is when an auditor is reviewing the previous year's audit and trying to avoid the wrong doing made (Hudaib & Cooke, 2005).

The certification applies to companies whose gross receipts during any accounting year exceeds P10 million (BOA3-2016). This threshold, though, is subject to further review by the BOA for reasonableness (BOA 115-2016). This applies to CPAs who are either employees of the company or CPAs in public practice contracted by the company, and both shall have an accreditation as CPA in commerce and industry (BOA 68-2016). This resolution is a bit confusing, though, because a public practitioner, in the first place, is required to be accredited under commerce and industry, which is defined as a private scope of practice under RA 9298.

The confusion was addressed by a Question & Answer discussion requested by Philippine Institute of Certified Public Accounts (PICPA) with the BOA. In Question no. 11 of the Q&A discussion, it was clarified that CPA accreditation in public practice is enough to sign the compilation certificate. Therefore, a CPA accredited as public practitioner is already qualified to be a compiler without the need to be accredited under commerce and industry.

"To prevent a CPA who prepared a company's financial statement from providing audit services to the same company, such CPA shall issue a certification accompanying the audited financial statements specifying that he/she was not, in any form, assisted by the company's external auditor in the preparation of financial statement."

PSRS 4410, as revised, states that compilation service is performed by a practitioner, which is defined as "(a) *professional accountant in* ***public practice*** *who conducts the compilation engagement*." It is worth noting that additional accreditation and certification was originally required for compilation services (BOA 3-2016). This service is to be performed by a public practitioner (PSRS 4410 revised), but a public practitioner is not required to have an additional accreditation (Q&A BOA & PICPA).

Therefore, based on the BOA resolutions, a compiler is a CPA either privately employed (practice of commerce and industry) or externally engaged by the company (a public practitioner) notwithstanding the fact that PSRS 4410 revised defined compiler as a public practitioner only. Including privately employed accountants appears to be appropriate because in a study made by Iyoha & Jimoh (2011) to determine the perception of compilers and users of financial statements in Nigeria, they used a group of finance managers to represent the compilers. Finance managers are considered as privately employed, or in the practice of commerce and industry, rather than as a public practitioner. PSRS 4410 revised may be wrong to limit a compiler as public practitioner because the way I see it now, a compiler is more of a function rather than a title or accreditation.

Monitoring the compliance

The Board requires all external auditors of the company to notify the management within one month – counted from the end of audit engagement – of any circumstances of non-compliance with the resolutions (BOA 68-2016). The Board also advised the Department of Finance (DOF), the Securities and Exchange Commission (SEC), and the Bureau of Internal Revenue (BIR) about the resolutions and requested their help in monitoring the filing of certificate in the audited financial statements submitted to SEC and the BIR (Q&A BOA & PICPA). As we can see, the external auditors are required via resolution whereas the BIR and SEC are only advised and requested to help. Given that BOA does not have authority to mandate BIR and SEC for compliance monitoring, how can it ensure that external auditors will comply?

The Board was granted a power by section 9 (g) of RA 9298, which states "*to monitor the conditions affecting the practice of accountancy and adopt such measures,* *including promulgation of accounting and auditing standards, rules and regulations and best practices as may be deemed proper for the enhancement and maintenance of high professional, ethical, accounting and auditing standards*". This includes requiring external auditors to help in monitoring the compliance of their audit clients with BOA 3-2016 as amended. However, external auditors are using the Philippine Standards on Auditing (PSA) in carrying out their procedures. This standard provides guidance to external auditors in performing their audit in different circumstances and for the purpose only of expressing an audit opinion in the financial statements. Though nothing in BOA 68-2016 requires external auditors to design their audit to uncover such non-compliance, still the external auditors may not be able to carry out effectively the provision of said resolutions due to the absence of guidance in PSA about this specific matter. This put external auditors in an unfair situation because the absence of clear guidelines could lead to a charge of non-compliance with the resolution by BOA. Failure to comply with such provision could lead to reprimand, revocation, or suspension of the CPA license and can also lead to legal charges (BOA 68-2016). Hence, the implementation of this part of resolution was deferred by BOA pending clear guidelines and operating procedures on how the external auditors will monitor such non-compliance (BOA 163-2017).

BIR and SEC are currently requiring companies to file audited financial statements, which BIR and SEC relies on for regulatory purposes. Recall that the BOA requirement to issue a certificate of compilation together with the audited financial statement is aimed to lessen the risk of self-review threat. However, addressing the self-review threat is not a concern of the BIR and SEC. BIR, in fact, clarified that it is only requiring the existing documentary requirements to accompany the income tax return for year 2016 to facilitate the ease of doing business (RMC 16-2017). As of the writing, SEC has yet to release its statement about requiring the company to file this certificate of compilation. The stance of BIR and of SEC contributes to the confusion and potential disagreement among the accounting professionals, business owners, and other stakeholders with regards to this issue.

Accreditation status

In the monitoring list of PICPA in its website, there were 1,702 CPAs already accredited in commerce and industry. Even without knowing the exact number of CPAs in the practice of commerce and industry in the Philippines, everyone will agree that the number is still low. Could it be that accountants are reluctant to undergo accreditation because of the cost involved and because of BOA's relaxed deadline? The deadline for application of accreditation imposed by BOA was initially set on February 29, 2016 (BOA 3-2016), then April 30, 2016 (BOA 68-2016), December 31, 2016 (BOA 115-2016) and now, beyond December 31, 2016 with no specific date stipulated until further notice (BOA 195-2017).

Contracted compilers, fortunately, will not be directly affected because they are religiously collecting CPD units in relation to their accreditation in public practice. Compilers in private companies, however, need to shell out cash for their CPD units and accreditation. For business owners, this means increasing the cost of doing business in the country.

It must be noted, though, that since the certificate should accompany the audited financial statements, a number of companies will not be able to comply with this resolution for the year ended December 31, 2016. If the audited financial statements are ready for filing with BIR and SEC but the CPA's accreditation has not yet been approved by BOA (though already filed), the

CPA preparer is still allowed to sign the certificate. In return, the certificate shall contain the following statement "*CPA accreditation filed on _____ still in process"* in the space where the accreditation no. is supposed to be written. (BOA 68-2016).

It is understandable that BOA is supporting and providing several chances for the profession to comply with the resolution, but BOA's multiple deadlines seem to have created an impression among CPAs that they can still delay their application knowing that the Board will still provide an extension date.

What to do next?

There are three main concerns discussed in this paper: (1) the different interpretation of who a compiler is by PSRS 4410 as revised and by BOA 3-2016; (2) how compliance to resolutions will be monitored; and (3) the low rate of compliance for filing of accreditation.

To address the first concern, the BOA can come up with an accreditation for compiler that will combine those privately employed compiler and public practitioner compiler. The objective is to distinguish an accredited compiler in public practice and an accredited public practitioner performing an audit. It can be called accreditation for compiler or certified compiler, perhaps, a better name that is descriptive of the nature of the work of a compiler.

Secondly, addressing the self-review threat is, indeed, not a concern for BIR and SEC. The Board, however, can encourage them to help the monitoring by enumerating some benefits that these regulatory bodies can derive from such an arrangement. An example of a benefit is the reduced possibility of only one person doing the financial statements and at the same time doing the audit. This will further promote the fair presentation of financial statements. Fairly presented financial statements contribute to a reasonable computation of taxes and regulatory fees. Aside from helping regulatory bodies realize the possible benefits, the external auditors may provide a helping hand in the monitoring process. The Board may come-up with the details of operational guidelines on how the auditors will report and address the possible non-compliance identified during their audit. The guidelines should be in line with the Philippine Standards on Auditing.

The last concern will be affected by successfully addressing the second concern. If the regulatory bodies are convinced to include the certificate of compilation in their list of requirements, this will increase the rate of compliance.

Recall that one thing that causes resistance of compliance is the cost involved. The requirement of completing the required number of CPD units (which will eventually become 120 units) is quite expensive. In current practice, companies who are managing and financing the CPD units of their CPA employees are the auditing firms. Very few private companies are spending for the CPD of their CPA employees. Worth noting, however, are the efforts of the Philippine Institute of Certified Public Accountants (*PICPA)*, which is doing its fair-share by building packaged training seminars at lower prices. They could, perhaps, also provide additional venues for CPAs to earn their CPD at a cost affordable to them and at place accessible to them, especially for those working outside Metro Manila.

The move of BOA to require additional accreditation for CPAs especially those in the practice of commerce and industry is truly an act of development of the profession. However, we recognize that change cannot be implemented easily. While some are adaptive to change, others are resistant to it. But as the saying goes, "change is the one thing that is permanent in this world," so we better get used to it.

References

Bagchi-Sen, Sharmistha, and Linda Kuechler. "Strategic and functional orientation of small and medium sized enterprises in professional services: An analysis of public accountancy." *Service Industries Journal 20.3 (2000): 117-146.*

Beattie, Vivien, and Stella Fearnley. "Auditor independence and non-audit services: A literature review." *Institute of Chartered Accountants in England and Wales, London* (2002).

Board of Accountancy "Q&A discusses rules on CPA compilation services certification" (2016). *Downloaded from BOA website www.boa.com.ph*

Board of Accountancy Resolution No. 3 Series of 2016.

Board of Accountancy Resolution No. 68 Series of 2016.

Board of Accountancy Resolution No. 115 Series of 2016.

Board of Accountancy Resolution No. 163 Series of 2017.

Board of Accountancy Resolution No. 185 Series of 2017.

Bureau of Internal Revenue Memorandum Circular No. 16 Series of 2017

Code of Ethics for Professional Accountants, IFAC (2006).

Foster, Benjamin Patrick, et al. "Independent accountant's reports: signaling and early-stage venture funding." *Managerial Auditing Journal* 31.4/5 (2016): 362-386.

Hudaib, Mohammad, and T. E. Cooke. "The impact of managing director changes and financial distress on audit qualification and auditor switching." *Journal of Business Finance & Accounting* 32.9-10 (2005): 1703-1739.

Iyoha, F. O., and Jafaru Jimoh. "Institutional infrastructure and the adoption of International Financial Reporting Standards (IFRS) in Nigeria." *School of Doctoral Studies European Union* 17 (2011).

New Excelsior General Merchandising, Inc. et. Al vs. PRC & BOA, *Civil Case no. 16-137284, February 13, 2017.*

Philippine Institute of Certified Public Accountants. List of accredited CPAs in commerce and industry. Found in *http://www.picpa.com.ph/attachment/12202016114312461.pdf*

Philippine Standard on Related Services 4410 (Revised).

Republic Act 9298, otherwise known as the Accountancy Law (2004).

DLSU BUSINESS NOTES AND BRIEFINGS

ISSN (Print): 2345-8216 | ISSN (Online): 2350-6814

Published by the De La Salle University Ramon V. del Rosario - College of Business, Center for Business Research and Development (CBRD)

Volume 5 No. 3 March 2017