



Republic of the Philippines
OFFICE OF THE PRESIDENT
Department of Finance
COOPERATIVE DEVELOPMENT AUTHORITY

MEMORANDUM CIRCULAR NO. 2009-03

Series of 2009

TO : *ALL CONCERNED*

SUBJECT : *GUIDELINES FOR THE ACCREDITATION OF COOPERATIVE EXTERNAL AUDITORS*

Pursuant to Section 3 (f) of Republic Act 6939, an Act creating the Cooperative Development Authority (CDA) and Article 80 of Republic Act 9520, otherwise known as the Philippine Cooperative Code of 2008, the following guidelines are issued to govern the accreditation of cooperative external auditors:

SECTION 1. *Definition of Terms*

COOPERATIVE DEVELOPMENT AUTHORITY or CDA – is the only government agency granting juridical personality to cooperatives, herein referred to as the Authority

ASSOCIATE – any director, officer, manager, or any person occupying a similar status or performing similar functions in the audit firm including employees performing supervisory role in the auditing process

AUDITING FIRM - means either the partners of a firm providing audit services or a sole practitioner providing audit services, as appropriate.

AUDITOR-IN-CHARGE – this refers to the team leader of the audit engagement.

COOPERATIVE EXTERNAL AUDITOR – an independent Certified Public Accountant (CPA) accredited by the CDA, whose relationship to the client is to express an opinion on the financial statements. He/she may be the signing partner in an auditing firm or a sole practitioner.

FRAUD - means an intentional act by one or more individuals among management, employees, or third parties that result in a misrepresentation of financial statements. It may involve:

- Manipulation, falsification or alteration of records or documents.
- Misappropriation of assets.
- Suppression or omission of the effects of transactions from records or documents.
- Recording of transactions without substance.

- Intentional misapplication of accounting policies.
- Omission of material information
- And any other instance/factor which may be classified as fraud.

PARTNER - all partners including those not performing audit engagements

PARTNERSHIP - means a professional partnership engaged in the practice of public accountancy duly registered with the Securities and Exchange Commission. [Art 1, Sec 1(g), Board of Accountancy Resolution No. 69, Series of 2003]

AUDIT ENGAGEMENT LETTER - informs the cooperative of an upcoming audit. It details the audit objectives, the timeline, and the audit team members. It also covers the pre-audit meeting, expected deliverables, and the audit team's mission.

SECTION 2. *Application Requirements*

A. Documentary Requirements

1. *For Individual CPA*

An individual Certified Public Accountant (CPA) who seeks to be accredited as Cooperative External Auditor must file an accomplished application form (*Annex 1*) directly to the Cooperative Development Authority – Extension Office (CDA-EO) where such CPA is based, attaching thereto duly certified true copies of the following documents:

- i. Professional Regulation Commission Identification Card (PRC ID);
- ii. Valid Certificate of Registration with the Professional Regulation Commission – Board of Accountancy (PRC-BOA);
- iii. Current Professional Tax Receipt (PTR) issued by the local government;
- iv. Certificate of Membership in Good Standing with the Philippine Institute of Certified Public Accountants (PICPA) Chapter;
- v. Certificate/s of Completion of Training equivalent to a minimum of 24 hours of training with topics on Standard Chart of Accounts (SCA), Performance Standards for Credit & Other Types of Cooperatives with Credit Services of COOP-PESOS, Financial Reporting Standards for Cooperatives, Philippine Cooperative Code and other Rules and Regulations issued by the Authority. Such training shall be provided by the CDA or CDA recognized/ accredited institutions.

2. *For Partnership/Auditing Firm*

The Partnership/Auditing Firm which seeks to be accredited as Cooperative External Auditor must file an accomplished application form (*Annex 2*) directly to the CDA EO where such firm is based; attaching thereto duly certified true copies of the following documents:

- i. SEC Registration;
- ii. Partnership's Current Certificate of Registration with the BOA;

- iii. Business Permit/Municipal License;
- iv. Certificate of Membership in Good Standing with PICPA chapter of at least one (1) partner;
- v. Certification that at least one (1) partner complied with the required training as prescribed in Section 2.A.1.v for the Individual CPAs, duly supported by certified true copies of certificates of completion or attendance;

SECTION 3. *Accrediting Body*

The accreditation of Cooperative External Auditor shall be approved by the CDA Board of Administrators (CDA-BOA) upon recommendation of the Regulatory Unit of the CDA-CO.

The applications for accreditation shall be fully disposed of within a period of thirty (30) days from the receipt of completed documents by the CDA-CO.

SECTION 4. *Validity of Accreditation and Inclusion in CDA List*

The accreditation of external auditor shall be valid for a period of three (3) years from the date of issue. The CDA-accredited external auditors may apply for the renewal of their accreditation within three months prior to the expiration. The provisions of Section 3 of this Accreditation Criteria shall likewise apply for each application renewal.

The CDA will circularize to all cooperatives the list of accredited cooperative external auditors once a year. The CDA, however, shall not be held liable for any damage or loss that may arise from the selection of the accredited cooperative external auditors to be engaged by the cooperatives for regular or special audit engagements.

SECTION 5. *Conditions for Engagement of an External Auditor*

- a) No external auditor may be engaged/qualified in the audit of a cooperative and any of its subsidiary if he/she or any member of his/her immediate family had or has committed to acquire any direct or indirect financial interest in the cooperative, or if his/her independence is considered impaired under the circumstances specified in the Code of Professional Ethics for Certified Public Accountants. In the case of a partnership, this limitation shall apply to the partners, associates, and the auditor-in-charge of the engagement and members of their immediate family.
- b) The external auditor and the members of the audit team do not have/shall not have outstanding loans or any credit accommodations with the cooperative at the time of signing of the engagement and during the engagement. In the case of partnership, this prohibition shall apply to the partners and the auditor-in-charge of the engagement.
- c) The external auditor must not be currently engaged nor was engaged during the past 3 years in providing the following services to the Cooperative:
 - i. Internal audit functions;
 - ii. Information systems design, implementation, and assessment; and

- iii. Such other services, which could affect his/her independence as, may be determined by the CDA.
- d) The external auditor, auditor-in-charge, and members of the audit team must adhere to the highest standards of professional conduct and shall carry out services in accordance with relevant ethical and technical standards, such as the Philippine Accounting Standards, Philippine Financial Reporting Standards, Philippine Standards on Auditing (PSA) and the Code of Professional Ethics for Certified Public Accountants;
- e) For the immediate past three years, the external auditor must not have held a position relevant to the conduct of audit such as, but not limited to, Chief Executive Officer, Chief Financial Officer, Comptroller, Accountant, Bookkeeper, Audit Committee, etc;
- f) For the immediate past three years, the external auditor must not have been a member/officer of the cooperative or employee/officer of a federation/union to which the cooperative being audited is affiliated;
- g) The external auditor must not be related to any officer and employee of the cooperative up to the fourth degree of consanguinity or affinity; and
- h) The external auditor, whether on his/her individual capacity or as partner of a firm, may undertake the external audit of the concerned cooperative for not more than five (5) consecutive years, provided that the external auditor may be allowed to audit the same client after a gap of two (2) years.

Section 6. Reportorial Requirements

- a) The external auditor shall prepare the audited financial statements in accordance with Philippine Financial Reporting Standards (PFRS) taking into consideration cooperative laws, rules and regulations. At the minimum, the report shall meet the following requirements:
 - a.1) Standard format in the presentation of the audited financial statements with comparative figures of the immediately preceding year, which will include the following:
 - Auditors' Report
 - Statements of Financial Condition
 - Statements of Operations
 - Statements of Cash Flows
 - Statements of Changes in Equity (to include changes in Statutory Funds)
 - Notes to Financial Statements
 - a.2) Statement of Management Responsibility
 - a.3) Statement of representation of the external auditor to the Authority
- b) Disclosure of external auditor's adverse findings
 - b.1. To enable timely and appropriate remedial action, the external auditor must report to the CDA EOs where the cooperative being audited is registered, within thirty (30) calendar days after discovery, the following cases:

- b.1.1. Any material findings involving fraud or dishonesty (including cases that were resolved during the period of audit);
- b.1.2. Any potential losses the aggregate of which amounts to at least one percent (1%) of the paid-up share capital; and
- b.1.3. Insufficiency of the cooperative's assets to cover claims of creditors.
- b.2. The external auditor shall report directly to the CDA EO where the cooperative being audited is registered, within fifteen (15) calendar days after the occurrence of the following:
 - b.2.1. Termination or resignation as external auditor, prior to the completion of audit engagement, and stating the reason thereof;
 - b.2.2. Discovery of a material breach of cooperative laws or these rules and regulations such as, but not limited to;
 - b.2.2.1. Net worth to risk assets ratio; Loans and other risk assets review and classification using portfolio at risk; and
 - b.2.2.2. Findings on matters of cooperative governance that may require urgent action by the Authority.
- b.3. The external auditor shall inform and/or discuss with the management of the cooperative details of the adverse findings with the corresponding corrective measures.

SECTION 7. *Working Paper Retention*

In all cases, accredited external auditor shall maintain the audit working paper for a minimum period of seven (7) years.

SECTION 8. *Accreditation Fees*

1. Initial Filing Fee

For Individual - Two Thousand Pesos (P2, 000.00).

For Partnership or Firm – Five Thousand Pesos (P5, 000.00)

Renewal Fee

For Individual - One Thousand Pesos (P1, 000.00).

For Partnership or Firm – Three Thousand Pesos (P3, 000.00)

2. Re-application Fee

For Individual - Two Thousand Pesos (P2, 000.00).

For Partnership or Firm – Five Thousand Pesos (P5, 000.00)

SECTION 9. *Revocation/Cancellation of Accreditation*

The CDA shall make a periodic review of the financial statements audited by the accredited external auditor and their compliance with the above.

Non-compliance with any of the provisions of this circular, rules and regulations issued by the Authority and the requirements for accreditation shall be a ground for the revocation/cancellation of his/her accreditation.

An external auditor whose accreditation has been cancelled may re-apply for accreditation after two years. Provided, that no further re-accreditation shall be granted after two (2) cancellations.

In the re-application, the procedures and requirements for renewal shall be observed.

SECTION 10. *Renewal of Accreditation*

Interested party must file an accomplished application form for renewal (Annex 3 or 4) directly to the CDA EO where such CPA/Partnership/Auditing Firm is based, attaching thereto duly certified true copies of the following documents:

A. For Individual CPA

- i. PRC ID;
- ii. Individual's current Certificate of Registration with the PRC-BOA;
- iii. Current PTR issued by the local government;
- iv. Certificate of Membership in Good Standing with his/her PICPA Chapter;
- v. Certificate of Training equivalent to 24 hours of training attended on cooperative updates and issuances and other related courses provided by CDA/CDA-accredited institutions;
- vi. Expired Certificate of Accreditation issued by the CDA;
- vii. List of cooperatives audited;
- viii. Sworn statement that the cooperative external auditor has engaged in at least one activity for cooperatives that is free of charge (e.g. installation of books of accounts, consultancy, etc) as part of his/her social responsibility; and
- ix. Sworn statement by the Cooperative External Auditor that he has observed the conditions prescribed under Sec. 5 of these guidelines.

B. For partnership/Firm

- i. SEC Registration;
- ii. Partnership's Current Certificate of Registration with the BOA;

- iii. Business Permit/Municipal License;
- iv. In case such partner referred to in Section 2.A.2.iv. decides to leave the said Partnership, another partner associated with it shall comply with Section 2.A.2.iv;
- v. Certificate of Training equivalent to 24 hours of training attended on cooperative updates and issuances and other related courses provided by the CDA or CDA-accredited institutions;
- vi. Expired Certificate of Accreditation issued by the CDA;
- vii. List of cooperatives audited;
- viii. Sworn statement that the cooperative external auditor has engaged in at least one activity for cooperatives that is free of charge (e.g. installation of books of accounts, consultancy, etc) as part of his/her social responsibility; and
- ix. Sworn statement that the partnership/firm has observed the conditions prescribed under Section 5 of these guidelines.

Section 11. Effectivity

This Circular shall take effect upon approval by the CDA-BOA and fifteen (15) days after publication in the Office of National Administration Registry (ONAR).

This Circular shall be subject to review two years after its initial implementation.

Signed this 14th day of September, 2009 at Quezon City, Philippines

(signed) **LECIRA V. JUAREZ**
Chairperson

*CDA Board Resolution No. 203, S-2009
August 14, 2009*

(Annex 1)

PRO-FORMA APPLICATION FOR ACCREDITATION
(Individual CPA)

Cooperative Development Authority

Extension Office

Dear Sir/Madam:

I have the honor to apply for Accreditation as a Cooperative External Auditor pursuant to CDA Memorandum Circular _____ dated _____.

In compliance to the said Memorandum Circular, I am attaching herewith duly certified true copies of the following documents:

- a. Professional Regulation Commission Identification Card (PRC ID);
- b. Valid Certificate of Registration with the Professional Regulation Commission – Board of Accountancy (PRC-BOA);
- c. Current Professional Tax Receipt (PTR) issued by the local government;
- d. Certificate of Membership in Good Standing with the Philippine Institute of Certified Public Accountants (PICPA) Chapter; and
- e. Certificate/s of Completion of Training equivalent to a minimum of 24 hours of training.

Thank you for your favorable consideration.

Very truly yours,

Name

(Annex 2)

PRO-FORMA APPLICATION FOR ACCREDITATION
(Partnership/Audit Firm)

Cooperative Development Authority

Extension Office

Dear Sir/Madam:

Our Partnership/Audit Firm has the honor to apply for accreditation as a Cooperative External Auditor pursuant to CDA Memorandum Circular _____ dated _____.

In compliance to the said Memorandum and in behalf of _____ (name of firm _____), I am attaching herewith duly certified true copies of the following documents:

- a. SEC Registration;
- b. Partnership's Current Certificate of Registration with the BOA;
- c. Business Permit/Municipal License;
- d. Certificate of Membership in Good Standing with PICPA chapter of at least one (1) partner; and
- e. Certification that at least one (1) partner complied with the required training as prescribed in Section 2.A.1.v for the Individual CPAs, duly supported by certified true copies of certificates of completion or attendance.

Thank you for your favorable consideration.

Very truly yours,

Authorized Representative
of Partnership/Audit Firm

(Annex 3)

PRO-FORMA APPLICATION FOR RENEWAL OF ACCREDITATION

(Individual CPA)

Cooperative Development Authority

Extension Office

Dear Sir/Madam:

I have the honor to apply for accreditation as a Cooperative External Auditor pursuant to CDA Memorandum Circular _____ dated _____.

In compliance to the said Memorandum, I am attaching herewith duly certified true copies of the following documents:

- Professional Regulation Commission (PRC) ID;
- Individual's current Certificate of Registration with the PRC-BOA;
- Current PTR issued by the local government;
- Certificate of Membership in Good Standing with PICPA Chapter;
- Certificate of Training equivalent to 24 hours of training attended on cooperative updates and issuances and other related courses provided by CDA/CDA-accredited institutions;
- Expired Certificate of Accreditation issued by the CDA;
- List of cooperatives audited;
- Sworn statement that the cooperative external auditor has engaged in at least one activity for cooperatives that is free of charge (e.g. installation of books of accounts, consultancy, etc) as part of his/her social responsibility; and
- Sworn statement by the Cooperative External Auditor that he has observed the conditions prescribed under Sec. 5 of these guidelines;

Thank you for your favorable consideration.

Very truly yours,

Name

((Annex 4))

PRO-FORMA APPLICATION FOR RENEWAL OF ACCREDITATION
(Partnership/Audit Firm)

Cooperative Development Authority

Extension Office

Dear Sir/Madam:

Our Partnership/Audit Firm has the honor to apply for accreditation as a Cooperative External Auditor pursuant to CDA Memorandum Circular _____ dated _____.

In compliance to the said Memorandum and in behalf of our firm, I am attaching herewith duly certified true copies of the following documents:

- SEC Registration;
- Partnership's Current Certificate of Registration with the BOA;
- Business Permit/Municipal License;
- Certificate of Membership in Good Standing with PICPA chapter of at least one (1) partner;
- Certificate of Training equivalent to 24 hours of training attended on cooperative updates and issuances and other related courses provided by the CDA or CDA-accredited institutions;
- Expired Certificate of Accreditation issued by the CDA;
- List of cooperatives audited;
- Sworn statement that the cooperative external auditor has engaged in at least one activity for cooperatives that is free of charge (e.g. installation of books of accounts, consultancy, etc) as part of his/her social responsibility; and
- Sworn statement that the partnership/firm has observed the conditions prescribed under Section 5 of these guidelines.

Thank you for your favorable consideration.

Very truly yours,

Authorized Representative
of Partnership/Audit Firm