



18 March 2015

MEMORANDUM No. 2015-004

**TO : ALL ELECTRIC COOPERATIVES (ECs)
EXTERNAL AUDITORS FOR ECs
ALL CONCERNED DEPARTMENTS, THIS OFFICE**

**SUBJECT : GUIDELINES ON NEA ACCREDITATION OF EXTERNAL
AUDITORS FOR ELECTRIC COOPERATIVES**

RATIONALE

As provided in the Contract of Loan with the National Electrification Administration (NEA), the Electric Cooperatives (ECs) are required to be audited by External Auditors. Hence, Memorandum No. 2012-014 dated 22 May 2012 was issued which superseded Memorandum dated 04 June 1998 and Memorandum dated 18 May 2005 setting the Guidelines on the Accreditation and Engagement of External Auditors for ECs.

Likewise, under Chapter III, Sec. 12 of Republic Act (R.A.) No. 10531 otherwise known as the National Electrification Administration Reform Act of 2013 and its IRR, the ECs are mandated for the timely submission of the reportorial requirements enumerated therein relative to their operations. One of these reports is the audited financial statements of the ECs.

Pursuant to the foregoing and the observations noted in the evaluation of the applications for accreditation and review of the Audit Reports, there is a need to amend the Guidelines on the Accreditation of External Auditors for ECs.

A consultative conference with the External Auditors, Presidents/Officers of the ECs' Internal Auditors and Finance Managers associations was held on 23 July 2014 to discuss the observations on Audit Reports, proposed amendments to the Guidelines on Accreditation and inform/update the External Auditors on the ECs present environment relative to R.A. No. 10531. The proposed guidelines were also discussed in the consultative session with Leadership Associations of ECs held at the NEA-HESA on 12 January 2015.

Attached is the approved Guidelines on NEA Accreditation of External Auditors for Electric Cooperatives and below are the major highlights.

POLICY STATEMENTS

1. The ECs shall be audited only by External Auditor with accreditation approved by the NEA Administrator as recommended by the Committee on the Accreditation of External Auditors for Electric Cooperatives.
2. To enhance the independence of the External Auditor, the audit services of External Auditor shall not be more than five (5) consecutive years.

GENERAL REQUIREMENTS/PROCEDURES

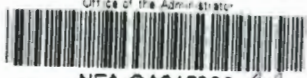
1. The accreditation of the External Auditor shall expire or be automatically cancelled after its validity period as indicated in the Certificate of Accreditation, unless an application for its renewal is filed not later than thirty (30) working days before its expiration.
2. A non-refundable fee of Php 15,000.00 shall be collected upon filing to cover the administrative costs in the evaluation of application for accreditation by the Committee on Accreditation.
3. The NEA's copy of Audit Report and Management Letter shall be submitted by the External Auditor on or before 15 April of the following year of the audit period covered.
4. The External Auditor with cancelled accreditation, based on the grounds enumerated in the guidelines, may re-apply for accreditation after one (1) year. If the accreditation has been cancelled more than twice, the re-accreditation shall not be granted.
5. The External Auditor shall be assessed a penalty of Php 15,000.00 for each electric cooperative for failure to submit on or before due date (15 April) the required Audit Report and Management Letter.
6. The EC shall be assessed a penalty of Php 15,000.00 for its annual financial statements audited by external auditor not accredited by the NEA or with expired accreditation.

The guidelines were published for general circulation in The Philippine Star on 20 February 2015 and took effect on 7 March 2015. This supersedes Memorandum No. 2012-014 dated 22 May 2012.

For your guidance and compliance.


EDITA S. BUENO
Administrator

NATIONAL ELECTRIFICATION ADMINISTRATION
Office of the Administrator



NEA-OA216299

3/20/15



GUIDELINES ON NEA ACCREDITATION OF EXTERNAL AUDITORS FOR ELECTRIC COOPERATIVES

A. RATIONALE

As provided in the Contract of Loan with the National Electrification Administration (NEA), the Electric Cooperatives (ECs) are required to be audited by External Auditors. Hence, a Memorandum dated 04 June 1998, providing and setting the Guidelines on the Accreditation and Engagement of External Auditors for Electric Cooperatives has been issued which was superseded by Memorandum dated 18 May 2005 and was likewise superseded by Memorandum No. 2012-014 dated 22 May 2012 which to date still governs accreditation and engagement of external auditors.

Republic Act (R.A.) No. 10531 otherwise known as the National Electrification Administration Reform Act of 2013, which provides to establish a framework for introducing structural reforms in the NEA and the ECs, was approved on 7 May 2013 while its Implementing Rules and Regulations (IRR) became effective on 13 August 2013. Under Chapter III, Sec. 12 of the said R.A. No. 10531 and its IRR, the ECs are mandated for the timely submission of the reportorial requirements enumerated therein relative to their operations. One of these reports is the audited financial statements of the ECs.

Pursuant to the foregoing, the observations noted in the evaluation of the applications for accreditation and review of the Audit Reports, there is a need to amend the Guidelines on the Accreditation of External Auditors for Electric Cooperatives.

B. POLICY STATEMENTS

1. The electric cooperative shall be audited only by External Auditor with accreditation approved by the NEA Administrator as recommended by the Committee on the Accreditation of External Auditors for Electric Cooperatives.
2. To enhance the independence of the External Auditor, the audit services of External Auditor shall not be more than five (5) consecutive years.

C. OBJECTIVES

1. To ensure that ECs are audited only by External Auditor with valid NEA accreditation. ab

2. To ensure that accredited External Auditors conduct of audit involves EC compliance with EC accounting system/NEA policies and guidelines, Philippine Financial Reporting Standards (PFRS) and other applicable laws.
3. To encourage timely submission and enhance reliability of Audit Reports.
4. To guide the Committee in the evaluation of the application for accreditation of the External Auditors.

D. DEFINITION OF TERMS

1. Accreditation – shall mean the Certificate of Accreditation issued by NEA.
2. Audit staff – is a Certified Public Accountant (CPA) employed by an Individual CPA, Firm or Partnership engage in the practice of Public Accountancy below the rank of the Individual CPA, sole proprietor or partner as the case maybe.
3. Committee – when used herein shall mean the Committee on the Accreditation of External Auditors for Electric Cooperatives.
4. External Auditor – shall mean an auditing firm engage in practice of public accountancy as a partnership or single practitioner.
5. Practice of Public Accountancy – for this guidelines shall constitute in a person, be it his/her individual capacity, or as a partner or as an audit staff in an accounting or auditing firm, holding out himself/herself as one skilled in the knowledge, science and practice of accounting, and as a qualified person to render professional services as a Certified Public Accountant on the audit or verification of financial transaction and accounting records; the preparation, signing, or certification for clients of reports of audit, balance sheet, and other financial, accounting and related schedules.

E. LIMITATIONS OF ACCREDITATION

1. The accreditation of External Auditors does not relieve the reporting EC or the said auditors from their responsibilities. Financial statements submitted to the NEA shall be the responsibility of the reporting EC.
2. The NEA and/or the Committee shall not be liable for any liability, damage or loss that may arise from the selection of the said accredited External Auditor engaged by the EC for audit.
3. The accreditation of an External Auditor shall expire or be automatically cancelled after its validity period as indicated in the Certificate of Accreditation.

F. QUALIFICATION REQUIREMENTS FOR ACCREDITATION OF EXTERNAL AUDITOR

1. Must be duly registered with the Securities and Exchange Commission (SEC) or Department of Trade and Industry (DTI).
2. Must be accredited by the Bureau of Internal Revenue (BIR) and Board of Accountancy (BOA) as External Auditor.
3. The Audit Team must have at least a senior partner and five (5) key audit staff composed of manager and auditors who must be Certified Public Accountants (CPAs). Key audit staff must have been employed in the firm six (6) months prior to the firm's application for accreditation.
4. Must have been engaged in public accounting for at least three (3) years.

G. DOCUMENTARY REQUIREMENTS FOR ACCREDITATION

The External Auditor shall submit to NEA Accreditation Committee the following documents:

1. For initial/new accreditation:	2. For renewal of accreditation:
a) Application letter for accreditation duly signed by the Managing Partner or single practitioner;	a) Application letter for renewal of accreditation duly signed by the Managing Partner or single practitioner; application for renewal shall be filed not later than thirty (30) working days before its expiration;
b) Duly authenticated photocopy of SEC/DTI registration certificate;	b) Photocopy of NEA Certificate of Accreditation as external auditor;
c) Duly authenticated photocopy of valid BIR certificate of accreditation as external auditor;	c) Duly authenticated photocopy of valid BIR certificate of accreditation as external auditor;
d) Duly authenticated photocopy of valid Board of Accountancy certificate of accreditation as external auditor;	d) Duly authenticated photocopy of valid Board of Accountancy certificate of accreditation as external auditor;
e) Company organizational chart and audit organizational chart;	e) Audit organizational chart;

<p>f) Plantilla of <u>audit</u> personnel indicating therein the names of the audit personnel with the corresponding CPA license no./ registration no., validity period and date employed;</p> <p>g) Duly authenticated photocopy of audit personnel's CPA license/registration and valid Professional Regulation Commission (PRC) identification card;</p> <p>h) Professional qualifications of partners/single practitioner;</p> <p>i) List and addresses of clients, nature and period covered of previous and present engagement; and</p> <p>j) Sworn statement attesting to the genuineness of the documents submitted; and the correctness and truthfulness of the data/information provided therein.</p>	<p>f) Plantilla of <u>audit</u> personnel indicating therein the names of the audit personnel with the corresponding CPA license no./ registration no., validity period and date employed;</p> <p>g) Duly authenticated photocopy of <u>new</u> audit personnel's CPA license/registration and valid PRC identification card;</p> <p>h) Professional qualifications of <u>new</u> partners;</p> <p>i) List of audited ECs during the accreditation period; and</p> <p>j) Sworn statement attesting to the genuineness of the documents submitted; and the correctness and truthfulness of the data/information provided therein.</p>
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H. PROCEDURES FOR ACCREDITATION

1. To cover administrative costs in the evaluation of application for new/renewal of accreditation, an accreditation fee shall be collected.
2. Applicant for accreditation will be charged an accreditation fee of Php15,000.00 upon filing. Said fee is non-refundable.
3. Accreditation fee shall be paid to the Cashier Unit of NEA.
4. The Committee shall conduct an evaluation of all the required documents for its completeness and veracity within four (4) working days from receipt of application; provided that majority of the members of the Committee are available.

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5. The Committee shall request in writing the applicant for the submission of incomplete/lacking documents within three (3) working days from the conduct of evaluation of the documents.
6. Additional documents not previously listed in Item G.1 and G.2 (Accreditation Documentary Requirements) hereof, but are deemed necessary, may be requested from the applicant within three (3) working days from the conduct of evaluation of the application.
7. Applicant, whenever necessary, may be required to present the original copies of the submitted documents for validation purposes.
8. The Committee shall recommend approval for accreditation of qualified External Auditor to the Administrator and the Certificate of Accreditation shall be issued.
9. The Certificate of Accreditation shall be approved/signed by the NEA Administrator.
10. Approved accreditation shall have a validity period of three (3) years which shall be specified in the Certificate of Accreditation.
11. The Committee shall send the External Auditor a written notification of the approval of accreditation together with the original copy of the Certificate of Accreditation. Likewise, the Committee shall notify in writing the External Auditor of the denial/deferment of its request for accreditation stating the reason(s) thereof.

I. REPORTORIAL REQUIREMENTS

To enable the NEA to make the integrated assessment and appropriate recommendations on the ECs' operating performance, Republic Act No. 10531 otherwise known as the National Electrification Administration Reform Act of 2013 mandates the ECs' timely submission of reportorial requirements. One of these reports is the audited financial statements.

1. NEA's copy of Audit Report shall be submitted by the External Auditor to the NEA Finance Services Department thru the Information Technology and Communication Services Department - Records Management Unit (ITCSD-RMU) on or before 15 April of the following year of the audit period covered.

The Audit Report shall refer to the opinion of the External Auditor and the audited financial statements (AFS) which shall include the Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement and Notes to Financial Statements which shall include information and disclosures required in the Philippine Financial Reporting Standards (PFRS).

2. The Audit Report to be submitted to NEA shall also include the Management Letter which shall cover audit observations/findings and comments. 

3. The External Auditor may opt to submit online the Audit Reports and Management Letter to the ITCSD-RMU's e-mail address, recordsunit@nea.gov.ph or to ITCSD e-mail address of itcsd.nea@gmail.com to comply with the timeline of 15 April submission to NEA. However, the hard copies of the said Audit Reports and Management Letter are still required to be submitted to NEA within one (1) week after the online submission.

J. ENGAGEMENT REQUIREMENTS

1. During the three (3) year period of accreditation, the External Auditor shall submit to the Committee the list of audit client ECs that it has contracted every quarter of the current year. The list shall be submitted on or before the seventh (7th) day of the month following the end of the quarter.
2. The conduct of audit shall also emphasize but not be limited on the following:
 - a) Analysis of cash accounts.
 - b) Analysis of Deferred Accounts.
 - c) Reconciliation and aging with schedules of Consumers' Account Receivables (GL vs SL)
 - d) Provision for Doubtful Accounts if in conformity with NEA Guidelines dated 6 January 1998.
 - e) Construction Work in Progress not yet closed out.
 - f) Accounting of Reinvestment Fund/Reinvestment Fund for Sustainable Capital Expenditures (RFSC); Universal Charge/Missionary Electrification Charge (UCMC); and Value Added Tax (Input/Output VAT) and Materials Inventory.
 - g) Remittance of VAT and Universal Charge (UC).
 - h) Accounting treatment and recording of VAT with regard to:
 - h.1) Costing of procured materials/equipment
 - h.2) Power cost
 - i) Computerization:
 - i.1) Evaluation of accounting system
 - i.2) Reliability and completeness of reports generated
 - i.3) Provision of internal control system
 - j) Analysis of Dormant Accounts.
 - k) Retirement of Assets.
 - l) Pension Liability/Retirement Benefits.
3. The Committee shall also undertake assessment meeting with the external auditors when necessary. *ub*

K. CANCELLATION OF ACCREDITATION

1. The following are the grounds for cancellation of the accreditation of External Auditor:
 - a) The accreditation of the External Auditor shall expire or be automatically cancelled after its validity period as indicated in the Certificate of Accreditation, unless an application for its renewal is filed not later than thirty (30) working days before its expiration.
 - b) Non-compliance to reportorial (paragraph I) and engagement (paragraph J) requirements.
 - c) Conduct of an audit despite the lack or loss of independence as provided for under the Code of Professional Ethics for CPAs.
 - d) The CPA license/registration of the sole practitioner or partner, in case of partnership, had been revoked or cancelled by the PRC/BOA for any reason.
 - e) Any material misrepresentation in the following information or documents:
 - i. Application letter for accreditation;
 - ii. Qualification requirements;
 - iii. Documents submitted with the application;
 - iv. Audited financial statements and Management Letter.
2. Any request for reconsideration or justification for non-compliance shall be subject to evaluation/recommendation of the Committee and approval of the Administrator.
3. The External Auditor with expired accreditation may re-apply for accreditation following the process.
4. The External Auditor with cancelled accreditation may re-apply for accreditation after one (1) year. If the accreditation has been cancelled more than twice, the re-accreditation shall not be granted.

L. IMPOSITION OF PENALTIES

1. For failure to submit on or before due date (15 April) the Audit Report and Management Letter required under Item I.1 and I.2 hereof, the External Auditor shall be assessed a penalty of Php 15,000.00 for each electric cooperative.
2. For EC's annual financial statements audited by external auditor not accredited by the NEA or with expired accreditation, the EC shall be assessed a penalty of Php 15,000.00.

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3. The penalty shall be paid to the Cashier Unit of the NEA which shall be used for administrative costs in the review and evaluation of audit reports.
4. Any request for reconsideration or justification for the violation shall be submitted to the Committee for evaluation/recommendation and approval of the Administrator.

M. EFFECTIVITY

These Guidelines shall immediately take effect fifteen (15) days following its publication in a newspaper of general circulation. Three (3) copies thereof shall be filed with the University of the Philippines Law Center, pursuant to Presidential Memorandum Circular No. 11, dated October 9, 1992.

Done in Quezon City, Metro Manila on **29th** day of **January 2015**.

CARLOS JERICO L. PETILLA
Chairman

JOSE RAYMUND A. ACOL
Alternate of the Chairman *et*

[Signature]
JOSE VICTOR E. LOBRIGO
Member

[Signature]
JOSEPH D. KHONGHUN
Member

[Signature]
EDITA S. BUENO
Member