

**PREFACE TO PHILIPPINE STANDARDS ON QUALITY CONTROL,
AUDITING, REVIEW, OTHER ASSURANCE AND RELATED SERVICES**

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INTRODUCTION

1. This Preface to Philippine Standards on Quality Control, Auditing, Other Assurance and Related Services is issued to facilitate understanding of the objectives and operating procedures of the Auditing and Assurance Standards Council (hereinafter referred to as “AASC” or “Council”) and the scope and authority of the documents issued by the Council.
2. The mission of the AASC as set out in its **Rules of Procedures** is “the promulgation of auditing standards, practices and procedures which shall be generally accepted by the accounting profession in the Philippines.”
3. It is the stated policy of the AASC to make the International Standards and Practice Statements issued by the IAASB the applicable standards and practice statements in the Philippines. In this connection, to facilitate their implementation in the Philippines, the International Standards and Practice Statements are made Philippine-specific and are described as “Philippine standards and practice statements” as presented in paragraph 4 below. This process involves making Philippine-specific those paragraphs or sections in International Standards and Practice Statements that are addressed in broad terms to the international community as a whole to make them clearly applicable in the Philippines. It also involves providing additional information in certain paragraphs or sections, whenever necessary, to facilitate and clearly establish the application in the Philippines of the International Standards and Practice Statements. There are currently no fundamental differences between the IAASB International pronouncements and the equivalent AASC Philippine pronouncements and no such differences are expected in the future.
4. The pronouncements of the ASPC shall be in the form of:
 - Philippine Standards on Quality Control (PSQCs)
 - Philippine Standards on Auditing (PSAs)
 - Philippine Standards on Review Engagements (PSREs)
 - Philippine Standards on Assurance Engagements (PSAEs)
 - Philippine Standards on Related Services (PSRSs)
 - Philippine Auditing Practice Statements (PAPs)
 - Philippine Review Engagement Practice Statements (PREPSs)
 - Philippine Assurance Engagement Practice Statements (PAEPSs)
 - Philippine Related Services Practice Statements (PRSPSs)

THE AUDITING AND ASSURANCE STANDARDS COUNCIL

5. The AASC was created by the Professional Regulation Commission upon the recommendation of the Board of Accountancy (BOA) to assist the BOA in the establishment and promulgation of auditing standards in the Philippines. The AASC replaced the Auditing Standards and Practices Council (ASPC) which was established by the Philippine Institute of Certified Public Accountants and the Association of

CPAs in Public Practice and previously set generally accepted auditing standards in the Philippines, also based on International Standards and Practice Statements.

6. The AASC has 15 regular members coming from the following:

	<u>No. of Members</u>
Chairman	1
Board of Accountancy	1
Securities and Exchange Commission	1
Commission on Audit	1
Association of CPAs in Public Practice	1
Philippine Institute of CPAs:	
Public Practice	7
Commerce and Industry	1
Academe/Education	1
Government	<u>1</u>
Total	<u><u>15</u></u>

7. The Chairman and the members of the AASC shall have a term of three years renewable for another term.

THE AUTHORITY ATTACHING TO PHILIPPINE STANDARDS ISSUED BY THE AASC

8. As set forth in the AASC’s **Rules of Procedures**, “pronouncements on generally accepted auditing standards, interpretations, and opinions issued by the AASC apply whenever an independent examination of financial statements of any entity, whether profit-oriented or not, and irrespective of size or legal form, when such examination is conducted for the purpose of expressing an opinion thereon. They may also have application, as appropriate, to other related activities of auditors.”
9. Philippine Standards on Auditing (PSAs) are to be applied, as appropriate, in the audit of historical financial information.
10. Philippine Standards on Review Engagements (PSREs) are to be applied in the review of historical financial information.
11. Philippine Standards on Assurance Engagements (PSAEs) are to be applied in assurance engagements dealing with subject matters other than historical financial information.
12. Philippine Standards on Related Services (PSRSs) are to be applied to compilation engagements, engagements to apply agreed-upon procedures to information and other related services engagements as specified by the ASPC.

13. PSAs, PSREs, PSAEs and PSRSs are collectively referred to as the ASPC's Engagement Standards.
14. Philippine Standards on Quality Control (PSQCs) are to be applied for all services falling under the AASC's Engagement Standards.
15. The AASC's Standards contain basic principles and essential procedures (identified in bold type lettering) together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other materials that provide guidance for their application. It is therefore necessary to consider the whole text of a Standard to understand and apply the basic principles and essential procedures.
16. The nature of the Philippine Standards issued by the AASC requires professional accountants to exercise professional judgment in applying them. In exceptional circumstances, a professional accountant may judge it necessary to depart from a basic principle or essential procedure of an Engagement Standard to achieve more effectively the objective of the engagement. When such a situation arises, the professional accountant should be prepared to justify the departure.
17. Any limitation of the applicability of a specific Philippine Standard is made clear in the standard.
18. With respect to International Standards, in circumstances where specific International Standards or guidance contained in an International Standard are not applicable in a public sector environment, or when additional guidance is appropriate in such an environment, IFAC's Public Sector Committee so states in a Public Sector Perspective (PSP). When no PSP is added, the International Standard is to be applied as written to engagements in the public sector. With respect to Philippine Standards, this guidance is also applicable. Hence, Philippine Standards are to be applied as written to engagements in public sector, unless so stated that they do not apply in a public sector environment or they are not appropriate in such an environment.

THE AUTHORITY ATTACHING TO PRACTICE STATEMENTS ISSUED BY THE AASC

19. Philippine Auditing Practice Statements (PAPSs) are issued to provide interpretive guidance and practical assistance to professional accountants in implementing PSAs and to promote good practice. Philippine Review Engagement Practice Statements (PREPSs), Philippine Assurance Engagement Practice Statements (PAEPSs), and Philippine Related Services Practice Statements (PRSPSs) are issued to serve the same purpose for implementation of PSREs, PSAEs and PSRSs, respectively.
20. Professional accountants should be aware of and consider Practice Statements applicable to the engagement. A professional accountant who does not consider and apply the guidance included in a relevant Practice Statement should be prepared to

explain how the basic principles and essential procedures in the Engagement Standard(s) addressed by the Practice Statement have been complied with.

OTHER PAPERS PUBLISHED BY THE AASC

21. Other papers, for example Discussion Papers, are published to promote discussion or debate on auditing, assurance and related services and quality control issues affecting the accounting profession, present findings, or describe matters of interest relating to auditing, assurance, related services and quality control issues affecting the accounting profession. They do not establish any basic principles or essential procedures to be followed in audit, assurance or related services engagements.

ADOPTION OF PHILIPPINE STANDARDS AND PRACTICE STATEMENTS BY THE AASC

Approach

22. To facilitate the implementation in the Philippines of International Standards and Practice Statements, the AASC undertakes a review of the existing International pronouncements and those that may be issued in the future to make them Philippine-specific as stated in paragraph 3 of this Preface. When changes are made to the original International pronouncements to make them Philippine-specific, these changes are shown clearly in the AASC exposure drafts referred to in paragraph 26 of this Preface, such that deletions are stricken through with one line and additions are italicized and underlined. In addition, any significant changes to the International pronouncements are explained both in the AASC exposure drafts and final Philippine Standards or Practice Statements. The markings for the changes in the exposure drafts are cleaned after the exposure drafts are finally adopted as Philippine Standards or Practice Statements.
23. To keep in step with the pace of the IAASB's issuance of pronouncements, the AASC shall endeavor to review IAASB's exposure drafts once released and will issue the same, after appropriate review in accordance with the AASC's working procedures, as AASC's EDs. However, to ensure that the changes made in the finalization of the IAASB's EDs are reflected in the final AASC pronouncements, finalization of the AASC's EDs shall be made only after the IAASB shall have issued the related final pronouncements.
24. Once adopted, a Philippine Standard or Practice Statement will replace or amend the specified AASC Standards and Practice Statements previously adopted by the Council. An effective date is set for the application of each Philippine Standard and Practice Statement adopted and any amendments to AASC pronouncements, and until such effective date, the pronouncement being replaced or amended continues to be applicable.
25. Other Philippine Standards or Practice Statements may be issued when deemed necessary by the AASC to address any unique requirements imposed by Philippine

law or practice. The reason for the issuance of such pronouncements shall be clearly indicated in the Philippine Standards or Practice Statements.

Working Procedures

26. To facilitate the initial work in adopting the existing International Standards and Practice Statements, the AASC members have been assigned to workgroups, each with a designated group leader. Each workgroup is assigned specific International Standards and Practice Statements, or IAASB's exposure drafts, to review and has the initial responsibility for the preparation and drafting of the exposure draft on the proposed Philippine Standard or Practice Statement for consideration by the AASC en banc. If approved by the AASC, the exposure draft is widely distributed to interested organizations and persons for comment. The exposure draft shall also be published in the PICPA Accounting Times and ACPAPP Bulletin to give it further exposure. Adequate time is allowed (generally not shorter than 90 days) for each exposure draft to be considered by the organizations and persons to whom it is sent for comment. Interested parties may send their comments direct to IAASB, with a copy to AASC, on exposure drafts which are still under exposure by the IAASB. Interpretations, if issued by the AASC, need not be exposed for comment, except when it is deemed desirable, in which case the exposure period will normally be the same as that of a proposed Philippine Standard or Practice Statement.
27. The development of additional auditing standards or statements to address the unique requirements of Philippine law or practice shall likewise undergo the same process and procedures described above.
28. The comments and suggestions received as a result of the exposure of proposed auditing standards or statements are then considered by AASC and the exposure draft is revised as appropriate. If necessary and under applicable circumstances, the comments and suggestions may also be passed on to IAASB for its consideration. When the revised draft is approved by the AASC, it is issued as a final Philippine Standard or Practice Statement.
29. Issuance of exposure drafts requires approval by a majority of the members of the Council; issuance of final Philippine Standards and Practice Statements, as well as interpretations, requires approval of at least ten members.
30. Each final Philippine Standard and Practice Statement, as well as interpretations, if deemed appropriate, shall be submitted to the Professional Regulation Commission through the Board of Accountancy for approval after which the pronouncements shall be published in the Official Gazette. After publication, the AASC pronouncement becomes operative from the effective date stated therein.

NUMBERING OF PHILIPPINE STANDARDS AND PRACTICE STATEMENTS

31. Philippine Standards and Practice Statements adopted from International pronouncements will use the same numbers as their counterpart International

pronouncements. Philippine Standards and Practice Statements that are Philippine specific and are not adopted from International pronouncements will be numbered consecutively with suffix “Ph” as follows:

- a. For Philippine Standards – starting from 100Ph
- b. For Philippine Practice Statements – starting from 1000Ph