



Auditing and Assurance Standards Council

Philippine Auditing Practice Statement 1003Ph

**GUIDANCE IN DEALING WITH REPORTS
REQUIRED BY THE SEC RELATING TO
INCREASE IN AUTHORIZED CAPITAL STOCK
OF A CORPORATION**

PHILIPPINE AUDITING PRACTICE STATEMENT 1003Ph
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BY THE SEC RELATING TO INCREASE IN AUTHORIZED
CAPITAL STOCK OF A CORPORATION

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Philippine Auditing Practice Statements (PAPS or Statements) are issued by the Auditing Standards and Assurance Council (AASC) to provide practical assistance to auditors in implementing the Philippine Standards on Auditing (PSAs) or to promote good practice. Statements do not have the authority of PSAs.

This Statement does not establish any new basic principles or essential procedures; its purpose is to assist auditors, and to develop good practice, by providing guidance on the application of the PSAs when conducting an audit of financial statements. The auditor exercises professional judgment to determine the extent to which any of the audit procedures described in this Statement may be appropriate in the light of the requirements of the PSAs and the entity's particular circumstances.

This PAPS of the AASC is not based on a specific International Auditing Practice Statements (IAPS) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants but was issued to address a specific situation in the Philippines.

Introduction

1. The Securities and Exchange Commission (SEC) laid down certain basic reporting requirements for request for approval of application by a corporation for increase in its authorized capital stock involving cash payments for stock subscriptions and conversion of advances or liabilities to equity. In these cases, the submission of audited financial statements of the entity as of the last fiscal year is a basic requirement.
2. Oftentimes, the SEC requires a report¹ from an auditor in connection with a corporation's application for increase in its authorized capital stock. The type of this report will depend upon:
 - the kind of payments made for the subscriptions, which may be in the form of cash, conversion of advances/ liabilities to equity, or both;
 - the timing of the approval of the proposed increase in authorized capital stock; or
 - whether or not the applicable information shown in the latest audited financial statements of the entity is considered by the SEC to be still sufficient.

Objective

3. The purpose of this PAPS is to provide guidance to auditors in accepting and performing engagements in connection with a corporation's application for an increase in its authorized capital stock.

Types of Engagements that May be Performed

4. Based on past experience by auditors in dealing with the relevant SEC requirements, the engagement that the auditor may undertake in this connection may fall into one of the three types of engagements listed below, depending upon the particular circumstances.
 - a. an engagement to perform agreed-upon procedures regarding financial information;
 - b. an engagement to report on supplementary information in connection with an audit of financial statements; or

¹ Additional reports may also be required by the SEC particularly if such reports have not been previously submitted to the SEC in connection with the regular filing of reports by listed entities, such as SEC Form 12-1 (Amended Registration Statement – List of Disclosure Requirements on Registration Statements Prospectus). While the required information may not be directly related to the increase in capital stock, the SEC may require such information as part of the exercise of its regulatory authority. This PAPS does not cover such additional information.

- c. an engagement to report on a specific element, account or item of a financial statement.

Engagements to perform agreed-upon procedures regarding financial information

5. In most cases, engagements relating to applications for increase in authorized capital stock fall into an agreed-upon procedures type of engagement², particularly if:
 - the application for increase in authorized capital stock is filed long after (e.g., more than 120 days³) the date of the most recent audited financial statements submitted to the SEC; and
 - even if the application is close (e.g., 120 days or less) to the date of the most recent audited financial statements submitted, the corresponding information in such financial statements is considered by the SEC to be insufficient.
6. The standard that applies to this type of engagement is PSRS 4400 (originally PSA 920), “Engagement to Perform Agreed-Upon Procedures Regarding Financial Information.” An engagement to perform agreed-upon procedures regarding financial information is not an assurance engagement as contemplated under PSAE 3000 (Revised), “Assurance Engagements Other than Audits or Reviews of Historical Financial Information.”
7. This PAPS covers mainly matters relating to the acceptance and performance of agreed-upon procedures engagement relating to a corporation’s application for increase in its authorized capital stock.

Engagements to report on supplementary information relating to audited financial statements

8. If the application for increase in authorized capital stock is made on a date close (e.g., 120 days or less) to the date of the most recent audited financial statements submitted to the SEC and the applicable information in the audited financial statements is considered sufficient by the SEC, the auditor may issue a report on supplementary information.
9. If a report is issued on supplementary information relating to submitted audited financial statements, the supplementary information, by implication, has been covered by the applicable auditing procedures performed in the audit of the financial statements as a whole.

² These procedures are stated in SEC Memorandum Circular No. 6, Series of 2008, entitled “Guidelines on On-Site Verification of Financial Records Relative to Certain Applications Filed with the Commission”. See Appendix 1 for a list of the required SEC procedures.

³ This is the threshold presently adopted by the SEC.

10. The report on the supplementary information presented in connection with audited financial statements shall comply with the reporting requirements of PSA 700 (Redrafted), "Forming an Opinion and Reporting on Financial Statements."

Engagements to report on a specific element, account or item of a financial statement

11. In some cases, the requirements of the SEC may be covered by a report on an audit of specific elements, accounts or items of financial statements. One such example is the reporting on a schedule of advances or liabilities to be used as payment for subscriptions or converted to equity in connection with the proposed increase in authorized capital stock.
12. An engagement to report on a specific element, account or item of a financial statement is an assurance engagement and may be undertaken in conjunction with an engagement to audit the entity's financial statements. In this case, a separate opinion for each of these two engagements is expressed. These two engagements, of course, will entail more cost and the client shall be fully informed about such cost.
13. The applicable auditing standard when reporting on an audit of specific elements, accounts or items of financial statements is PSA 805 (Revised and Redrafted), "Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement." Because the issuance of an opinion is intended, the report for this type of engagement is written in the context of an audit. Thus, the auditor is required to comply with the relevant ethical requirements relating to an audit engagement and all PSAs relevant to the audit, even if only one element is the subject of the audit.
14. As provided under PSA 805 (Revised and Redrafted), when an auditor is not engaged to audit the entity's financial statements, compliance with the relevant requirements to report on a specific element, account or item of a financial statement may not be practicable. In such cases, the auditor does not often have the same understanding of the entity and its environment, including its internal control, as in the case of an auditor who also audits the entity's financial statements. The auditor also may not have adequate knowledge about the general quality of the accounting records or other accounting information which knowledge is required in the audit of the entity's financial statements. In some cases, the PSAs require audit work that may be disproportionate to the element being audited. PSA 805 (Revised and Redrafted) also provides that when the auditor is not also engaged to audit the entity's financial statements, the auditor shall determine whether an audit of the element in accordance with PSAs is practicable.

Acceptance of an Engagement Relating to Increase in Authorized Capital Stock

15. Before accepting the engagement, the auditor shall discuss first with the client the type of engagement that will be performed. In determining the type of engagement to be performed, the auditor shall make reference to paragraphs 4

to 14 of this PAPS and to the applicable standards as identified in paragraphs 6, 10 and 13 of this PAPS. In addition, if the engagement is an agreed-upon procedures engagement, the auditor shall make reference to paragraphs 19 and 20 of this PAPS with respect to specific required SEC procedures that may not be performed or may have to be modified.

16. As required by PSA 210, “Terms of Engagement,” the auditor shall prepare an appropriate engagement letter setting forth the scope and other terms of the engagement, and if the engagement is an agreed-upon procedures engagement, highlighting the required SEC procedures that may not be performed or may have to be modified as discussed in paragraphs 19 and 20 of this PAPS. The auditor shall request the client to discuss with the SEC the scope of work and the type of report that the auditor expects to issue and obtain their acceptance by the SEC, especially if the engagement is an agreed-upon procedures engagement and there are omissions or modifications of certain required SEC procedures.

Defining the Terms of an Engagement to Perform Agreed-Upon Procedures

17. Matters to be agreed upon with the client in an agreed-upon procedures engagement, and which shall be specified clearly in the engagement letter, are:
 - a. Nature of the engagement including the fact that the procedures performed will not constitute an audit or a review and that accordingly no assurance will be expressed.
 - b. Stated purpose of the engagement.
 - c. Identification of the financial information to which the agreed-upon procedures will be applied.
 - d. Nature, timing and extent of the specific procedures to be applied.
 - e. If applicable, any specific required SEC procedures that the auditor will be unable to perform or has to be modified, and the reason for their omission or modification.
 - f. Anticipated form of the report of factual findings.
 - g. Limitations on distribution of the report of factual findings.
18. An agreed-upon procedures engagement is not an assertion engagement. Accordingly, the auditor shall exercise care in describing the procedures to be performed.
 - Describing procedures in terms that result in factual findings, such as “compare,” “trace,” “compute,” “inquire from,” “obtain” and other similar terms, shall be used.

- Describing procedures that result in some form of assurance or judgment, such as “verify,” shall be avoided since these are inconsistent with the report that will be issued by the auditor under PSRS 4400.
19. The auditor may be unable to perform certain required SEC procedures because these are not practicable to do. These include;
- For an engagement involving cash payment for stock subscriptions, cash count of the company’s funds. This procedure may no longer be practicable to do if the cash paid for the stock subscription had already been deposited. In any case, the SEC also specifies that the auditor trace the amounts received to the bank-validated deposit slips and to the bank statements.
 - For an engagement involving application of advances/liabilities as payment for stock subscriptions,⁴ or their conversion to equity, “verification” of the utilization of the proceeds of the cash previously received. This procedure may no longer be practicable to do when the advances had been made in prior years and the supporting documents are no longer available. Moreover, the identification of the subsequent utilization of the cash previously received as advances/liabilities may no longer be possible as such cash received, in most cases, might have been commingled by an entity with funds it received from other sources.
20. In some cases, the auditor may have to modify the required SEC procedures to be able to perform the procedures under practicable terms. For example, in an engagement involving cash payment for stock subscriptions, the SEC specifies that the auditor inspect all entries in the cash disbursements book before and after the date when the cash payment was received from the subscriber to identify any payment that the entity being audited might have made to the subscriber during these periods.⁵ However, the SEC does not specify any definite period for this inspection; as a practical matter, in this case, the auditor may limit the period to three months before the date the cash payment was received, and three months thereafter or the date of the auditor’s report, whichever comes earlier.

If such a modification is made to any required SEC procedures, it is preferable for the client to obtain the acceptance by the SEC of the periods that have been specified.

Reporting on Agreed-Upon Procedures Engagements

21. The report for an agreed-upon procedures engagement, as required under.... PSRS 4400 is a “factual findings” report. In a “factual findings” report, no assurance is

⁴ This guidance also applies to deposits for subscriptions, which are usually presented in the equity section in the balance sheet, received in periods prior to the filing with the SEC of the application for increase in capital stock. Such transactions are considered by the SEC as conversion of advances to equity.

⁵ This requirement applies only to cash payment for subscription made simultaneous with or on or about the same time the increase in capital is approved by the Board of Directors of the issuer and application for increase in capital is filed with the SEC.

expressed and the users of the report assess for themselves the findings resulting from the procedures performed by the auditor and they draw their own conclusions from the reported findings.

22. When some required SEC procedures were not performed or were modified as discussed in paragraphs 19 and 20, the auditor's report shall contain the following:
- the required SEC procedures that were not performed or were modified; and
 - the reasons for their omission and modification.

23. The following illustrative reports on agreed-upon procedures engagements are shown in Appendix 2:

Example A Illustrative report on an agreed-upon procedures engagement in connection with an entity's application for an increase in its authorized capital stock, with no omission or modification of any required SEC procedures

Example B Illustrative report on agreed-upon procedures engagement in connection with an entity's application for an increase in its authorized capital stock involving cash payment for subscriptions, with omission and modification of some required SEC procedures

Example C Illustrative report on agreed-upon procedures engagement in connection with an entity's application for an increase in its authorized capital involving application of previously-recorded advances as payment for subscriptions or conversion of previously-recorded advances to equity, with omission of required SEC procedure

Wording of the Auditor's Representation Letter to the SEC Accompanying the Agreed-Upon Procedures Report

24. In addition to the auditor's report referred to in paragraphs 21 to 23, the SEC also requires the auditor to submit a specifically-worded representation letter to accompany the auditor's report. This auditor's representation letter shall contain a reference to any omission or modification of any required SEC procedures included in the auditor's report.

25. The following illustrative auditor's representation letters are shown in Appendix 3:

Illustration A Illustrative representation letter to the SEC of an independent certified public accountant in connection with an entity's application for an increase in its authorized capital stock, with no omission and modification of any required SEC procedures

Illustration B Illustrative representation letter to the SEC of an independent certified public accountant in connection with an entity's application for an increase in its authorized capital stock involving cash payment for subscriptions, with omission and modification of some required SEC procedures

Illustration C Illustrative representation letter to the SEC of an independent certified public accountant in connection with an entity's application for an increase in its authorized capital stock involving application of previously recorded advances as payment for subscription or their conversion to equity, with omission of a required SEC procedure

Effective Date

26. This PAPS shall be effective for periods ending on or after December 15, 2009. Earlier application is allowed.

Appendix 1

Required SEC Procedures Relating to an Application for Increase in Authorized Capital Stock as Contained in SEC Memorandum Circular No. 6, Series of 2008

The following are the procedures enumerated in SEC Memorandum Circular No. 6, Series of 2008, pertaining to applications for increase in capital stock:

2.1.(a) Cash payment for subscriptions

- i. Obtain from the company a schedule of cash received as deposits for subscription on the proposed increase in capital, which shows the following information:
 - Date recorded in the books
 - Official receipt number
 - Name of subscriber
 - Amount of cash received
 - Form of payment (cash or check)

Attach a copy of the official receipts to the schedule.

- ii. Check mathematical accuracy of the company's schedule.
- iii. Compare the balance of the deposits for subscription to the general ledger.
- iv. Trace the cash received as deposits for subscription to the cash receipts book.
- v. Obtain a copy of the minutes of the meetings of the Board of Directors and Stockholders approving the increase in authorized capital stock of the company.
- vi. Compare the amounts received from the subscribers to the duplicate copy of the official receipts.
- vii. Trace the amounts received to the bank-validated deposit slips and, for check payments, trace amounts to bank statement. (Note: Attach a copy of the deposit slip, passbook, and/or bank statement to the client's schedule.)
- viii. Inspect all entries in the cash disbursement books of the company for any prior disbursements made by the company to the subscribers that could be linked or associated with the subscriber's payment for subscriptions.

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- ix. Inspect all entries in the cash disbursements book of the company for any subsequent disbursement, advances or loans granted to the subscriber.
- x. Conduct a cash count of the funds of the company as of the date of examination and work back up to the month immediately preceding the date of the meeting when the stockholders approved the increase of capital of the company.
- xi. Obtain a summary of the cash in bank account of the company and the bank reconciliation statements as of the end of the month immediately preceding the submission of the application.
- xii. Check the mathematical accuracy of the summary and bank reconciliation statements; trace receipts and disbursements and other transactions in the summary and bank reconciliation statements to entries in the general ledger; and compare the balances shown in the summary and bank reconciliation statements with the balances per books and bank statements.

2.1(b). Conversion of advances/liabilities as payment on subscription for proposed increase in capital stock

- i. Obtain a schedule of advances/ liabilities (or other account title used by the company) as payment on the subscription for the proposed increase in capital, that shows the following information:
 - Date recorded in the books
 - Name of creditor/subscriber
 - Amount of advance/liability
 - Nature of advance/liabilities (e.g., cash, equipment, other asset)
 - Balance as of (*date*)
- ii. Check mathematical accuracy of the company's schedule.
- iii. Compare the balance of the advances/ liabilities in the schedule to the general ledger.
- iv. Trace the advances/liabilities to the cash receipts book (if received in cash) or to the journal book (if received as a non-cash asset).
- v. Obtain a copy of the minutes of the meetings of the board of directors and stockholders approving the increase in capital stock of the company and the conversion of the advances/ liabilities to equity.

Appendix 1

- vi. Compare the amount approved for conversion to that shown in the schedule of advances/liabilities.
- vii. Compare the information shown in the schedule (e.g., date of entry, creditor/subscriber, amount of advance/ liability, etc.) to that shown in supporting documents (e.g., duplicate copy of official receipt for cash advances, journal voucher for non-cash advances).
- viii. Obtain confirmation of the advances/ liabilities. Compare amount confirmed with that shown in the schedule.
- ix. “Verify” further the utilization of the proceeds from advances (if in cash) and state result of the “verification” in the report.

Submit as part of the documents:

- i. Management’s representation signed under oath by the President/ Chief Executive Officer and Treasurer/ Chief Financial Officer stating the following:
 - (1) That all information and representations contained in the submitted application and its supporting documents and true and correct;
 - (2) That the “verification” procedures required by the Commission were conducted by an independent auditor who issued a report thereon in accordance with the standards in force;
 - (3) That the items/accounts subject of the application are authorized, valid and legal; and
 - (4) That the shares of stock to be issued are not watered (if the subject application pertains to an increase in capital stock).

The management hereby authorizes the Commission to examine any time, even after the approval of the application, the company’s books of accounts and records to determine the validity and accuracy of the transaction.

- ii. Auditor’s Representation Letter to the SEC Accompanying the Agreed-Upon Procedures Report.

Appendix 2

Example Auditor's Reports on Agreed-Upon Procedures Engagements

- Example A: Illustrative report on an agreed-upon procedures engagement in connection with an entity's application for an increase in its authorized capital stock, with no omission or modification of any required SEC procedures
- Example B Illustrative report on agreed-upon procedures engagement in connection with an entity's application for an increase in its authorized capital stock involving cash payment for subscriptions, with omission and modification of some required SEC procedures
- Example C Illustrative report on agreed-upon procedures engagement in connection with an entity's application for an increase in its authorized capital involving application of previously-recorded advances as payment for subscriptions or conversion of previously-recorded advances to equity, with omission of required SEC procedure

Appendix 2

Example A:

Illustrative report on an agreed-upon procedures engagement in connection with an entity's application for an increase in its authorized capital stock, with no omission or modification of any required SEC procedures

Report of Factual Findings

[Appropriate Addressee]

We have performed the procedures agreed upon with you and enumerated below with respect to the cash payment for subscriptions by XYZ Company to ABC Corporation [or advances from XYZ Company to ABC Corporation to be applied as payment for stock subscriptions and/or converted to equity of XYZ Company] as of [date], set forth in the accompanying schedule of [state title]. Our engagement was undertaken in accordance with Philippine Standards on Related Services (PSRS) 4400, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information." The procedures we performed were in accordance with the procedures required by the Securities and Exchange Commission (SEC) in connection with the application of ABC Corporation with the SEC for an increase in its authorized capital stock.

We report our findings below⁶:

1. Obtained from the company a schedule of cash received as deposits for subscription on the proposed increase in capital for the period from January 1, 2007 (incorporation date) to December 31, 2007, which showed the following information:
 - Date recorded in the books
 - Official receipt number
 - Name of subscriber
 - Amount of cash received
 - Form of payment (cash or check) with copies of the official receipts attached to the schedule.

We found no exceptions.

⁶ These are just examples of findings that are provided for illustrative purposes.

Appendix 2

2. Checked the mathematical accuracy of the schedule of cash received.

We found the addition to be correct and the amounts to be in agreement with the covering bank deposit slips and with the corresponding entries in the covering bank statements.

3. Compared the balance of the deposits for subscription to the balance in the general ledger.

We found that the amount in the general ledger was not the same. However, we were provided with a reconciliation statement which indicated that an amount of ₱ xxx still had to be recorded in the general ledger.

4. *[to provide other findings]*

Because the above procedures do not constitute either an audit or a review made in accordance with Philippine Standards on Auditing, we do not express any assurance on the cash payment for subscriptions by XYZ Company *[or advances from XYZ Company]* as at *[state date]*.

Had we performed additional procedures or performed an audit or review of the financial statements in accordance with Philippines Standards on Auditing, other matters might have come to our attention that would have been reported to you.

Our report is intended solely for submission to the Securities and Exchange Commission in connection with the application of ABC Corporation for an increase in its authorized capital stock and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the cash payment for subscriptions by XYZ Company *[or advances from XYZ Company]* as specified above and do not extend to the financial statements of ABC Corporation, taken as a whole.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Appendix 2

Example B:

Illustrative report on an agreed-upon procedures engagement in connection with an entity's application for an increase in its authorized capital stock involving cash payment for subscriptions, with omission and modification of some required SEC procedures

Report of Factual Findings

[Appropriate Addressee]

We have performed the procedures agreed upon with you and enumerated below with respect to the cash payment for subscriptions by XYZ Company to ABC Corporation as of [date], set forth in the accompanying schedule of [state title]. Our engagement was undertaken in accordance with Philippine Standards on Related Services (PSRS) 4400, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information." The procedures we performed were in accordance with the procedures required by the Securities and Exchange Commission (SEC) in connection with the application of ABC Corporation with the SEC for an increase in its authorized capital stock, except for a procedure that was not performed and a procedure that was modified, as agreed upon with you and as explained in the following paragraphs.

A cash count was not performed as the cash payment for stock subscriptions was already deposited in the bank account of ABC Corporation. However, as provided in the required SEC procedures, we traced the amount received to the corresponding bank validated slips and to the bank statement.

The SEC requires that all entries in the cash disbursements book of ABC Corporation be inspected for any prior disbursements to XYZ Company that could be linked or associated with its payment for subscription, as well as for any subsequent disbursement, advances or loans granted to it by ABC Corporation without specifying the periods to be covered by the inspection. In this regard, we have agreed with the management of ABC Corporation to limit the periods to be covered by the inspection to three months before

Appendix 2

and three months after *[date]*, the date ABC Corporation received the cash payment for subscription from XYZ Company (*alternative wording when the date of the auditor's report comes earlier than three months after the date the cash payment was received:.. "three months before [date], the date ABC Corporation received the cash payment for subscription from XYZ Corporation, and the period after that date up to [date], the date of the auditor's report"*).

•

We report our findings below:

[To provide details of factual findings or the absence thereof]

Because the above procedures do not constitute either an audit or a review made in accordance with Philippine Standards on Auditing, we do not express any assurance on the cash payment for stock subscriptions made by XYZ Company as at *[state date]*.

Had we performed additional procedures or performed an audit or review of the financial statements in accordance with Philippine Standards on Auditing, other matters might have come to our attention that would have been reported to you.

Our report is intended solely for submission to the Securities and Exchange Commission in connection with the application of ABC Corporation for an increase in its authorized capital stock and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the cash payment for subscriptions by XYZ Company to ABC Corporation, as specified above and do not extend to the financial statements of ABC Corporation, taken as a whole.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Appendix 2

Example C:

Illustrative report on an agreed-upon procedures engagement in connection with an entity’s application for an increase in its authorized capital stock involving application of previously-recorded advances as payment for subscriptions, or conversion of previously-recorded advances to equity, with omission of required SEC procedure

Report of Factual Findings

[Appropriate Addressee]

We have performed the procedures agreed upon with you and enumerated below with respect to the advances from XYZ Company to ABC Corporation to be applied as payment for subscriptions by [*or to be converted to equity of*] XYZ Company as of [*date*], set forth in the accompanying schedule of [*state title*]. Our engagement was undertaken in accordance with Philippine Standards on Related Services (PSRS) 4400, “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information.” The procedures we performed were in accordance with the procedures required by the Securities and Exchange Commission (SEC) in connection with the application of ABC Corporation with the SEC for an increase in its authorized capital stock, except for a procedure that was not performed as agreed upon with you and as explained in the following paragraph.

We were unable to perform the identification of the subsequent utilization of the proceeds from advances from the dates the advances were received to [*date of report*]. The advances represent an accumulation of amounts received over a period of approximately 15 years and records and documents that will indicate the actual subsequent utilization of the said advances were no longer available. Moreover, based on our observation about the Company’s practices, cash coming from several sources are commingled in the Company’s bank accounts and it would not be practicable to try to identify the subsequent specific utilization of the advances from XYZ Company.

We report our findings below:

[*To provide details of the factual findings or the absence thereof*]

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Because the above procedures do not constitute either an audit or a review made in accordance with Philippine Standards on Auditing, we do not express any assurance on the advances from XYZ Company as at *[state date]*.

Had we performed additional procedures or performed an audit or review of the financial statements in accordance with Philippines Standards on Auditing, other matters might have come to our attention that would have been reported to you.

Our report is intended solely for submission to the Securities and Exchange Commission in connection with the application of ABC Corporation for an increase in its authorized capital stock and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the advances from XYZ Company to be applied as payment for subscriptions by *[or to be converted into equity of]* XYZ Company, as specified above and do not extend to the financial statements of ABC Corporation, taken as a whole.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Appendix 3

Illustrative Auditor's Representation Letters

- Illustration A Illustrative representation letter to the SEC of an independent certified public accountant in connection with an entity's application for an increase in its authorized capital stock, with no omission and modification of any required SEC procedures
- Illustration B Illustrative representation letter to the SEC of an independent certified public accountant in connection with an entity's application for an increase in its authorized capital stock involving cash payment for subscriptions, with omission and modification of some required SEC procedures
- Illustration C Illustrative representation letter to the SEC of an independent certified public accountant in connection with an entity's application for an increase in its authorized capital stock involving application of previously recorded advances as payment for subscription or their conversion to equity, with omission of a required SEC procedure

Appendix 3

Illustration A:

Illustrative representation letter to the SEC of an independent certified public accountant in connection with an entity’s application for an increase in its authorized capital stock, with no omission or modification of any required SEC procedures

To the Securities and Exchange Commission

In connection with the application of ABC Corporation for increase in its authorized capital stock, the undersigned declares:

- (1) That, as an external auditor engaged by ABC Corporation we have performed the procedures for conversion of advances into equity [*and/or for cash payment for subscriptions*] set forth in SEC Memorandum Circular No. 6, Series of 2008, and as agreed upon with the Company, relating to ABC Corporation’s application with the Securities and Exchange Commission for an increase in its authorized capital stock as of [*date*] and in accordance with Philippine Standards on Related Services (PSRS) 4400, “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information.”
- (2) That since the foregoing engagement does not involve an audit or review of the company’s financial statements but only the conduct of a set of agreed-upon procedures and issuance of a report on the factual findings thereon, we gave a “no assurance” statement in our [*date*] report attached to this letter. We understand, however, that the “no assurance” statement in our said report does not exempt us from responsibility over the conduct of the said procedures and the factual findings stated therein as provided in PSRS 4400.

[Name and signature of the auditor]

[Auditor’s BOA Registration No.]

[Auditor’s SEC Accreditation No.]

Appendix 3

Illustration B:

Illustrative representation letter to the SEC of an independent certified public accountant in connection with an entity's application for an increase in its authorized capital stock involving cash payment for subscriptions, with omission and modification of some required SEC procedures

To the Securities and Exchange Commission

In connection with the application of ABC Corporation for an increase in its authorized capital stock, the undersigned declares:

- (1) That, as an external auditor engaged by ABC Corporation, we have performed the procedures for cash payment for subscriptions set forth in SEC Memorandum Circular No. 6, Series of 2008, relating to ABC Corporation's application with the Securities and Exchange Commission for an increase in its authorized capital stock as of [date] and in accordance with Philippine Standards on Related Services (PSRS) 4400, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information," except, as agreed upon with the Company, for a procedure that was not performed and another procedure that was modified as fully explained in our accompanying report dated [state date].
- (2) That since the foregoing engagement does not involve an audit or review of the company's financial statements but only the conduct of a set of agreed-upon procedures and issuance of a report on the factual findings thereon, and because we were not able to perform certain SEC-required procedures as mentioned above, we gave a "no assurance" statement in our [date] report attached to this letter. We understand, however, that the "no assurance" statement in or said report does not exempt us from responsibility over the conduct of the said procedures and the factual findings stated therein as provided in PSRS 4400, except for a procedure that was not performed and another procedure that was modified as stated above and fully explained in our report.

[Name and signature of the auditor]

[Auditor's BOA Registration No.]

[Auditor's SEC Accreditation No.]

Appendix 3

Illustrative C:

Illustrative representation letter to the SEC of an independent certified public accountant in connection with an entity's application for an increase in its authorized capital stock involving application of advances as payment for subscriptions or conversion of advances into equity, with omission of a required SEC procedure

To the Securities and Exchange Commission

In connection with the application of ABC Corporation for an increase in its authorized capital stock, the undersigned declares:

- (1) That, as an external auditor engaged by ABC Corporation, we have performed the procedures for application of advances as payment for subscriptions [*or conversion of advances into equity*] set forth in SEC Memorandum Circular No. 6, Series of 2008, relating to ABC Corporation's application with the Securities and Exchange Commission for an increase in its authorized capital stock as of [*date*] and in accordance with Philippine Standards on Related Services (PSRS) 4400, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information," except, as agreed upon with the Company, for a procedure that was not performed as it was not practicable to do and as fully explained in our accompanying report dated [*state date*].
- (2) That since the foregoing engagement does not involve an audit or review of the company's financial statements but only the conduct of a set of agreed-upon procedures and issuance of a report on the factual findings thereon, and because we were not able to perform certain SEC-required procedures as mentioned above, we gave a "no assurance" statement in our [*date*] report attached to this letter. We understand, however, that the "no assurance" statement in our said report does not exempt us from responsibility over the conduct of the said procedures and the factual findings stated therein as provided in PSRS 4400, except for a procedure that was not performed as stated above and fully explained in our report.

[Name and signature of the auditor]

[Auditor's BOA Registration No.]

[Auditor's SEC Accreditation No.]

This PAPS 1003Ph, “Guidance in Dealing with Reports Required by the SEC Relating to Increase in Capital Stock of a Corporation,” was unanimously approved for adoption on June 29, 2009 by the members of the Auditing and Assurance Standards Council.

Benjamin R. Punongbayan, *Chairman*

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