



AASC Alert

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Reporting on Information Required by RR 15-2010

1. What is RR 15-2010?

The Bureau of Internal Revenue (BIR) issued on November 25, 2010 Revenue Regulation (RR) 15-2010, Amending Certain Provisions of Revenue Regulations No. 21-2002, as Amended, Implementing Section 6 (H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements Accompanying Income Tax Returns.

RR 15-2010 required that in addition to the disclosures mandated under the Philippine Financial Reporting Standards and/or Conventions, specific information regarding various taxes (RR 15-2010 Tax Information - see RR 15-2010, Section 2, items 1 to 9) should be included in the Notes to Financial Statements, that will accompany the income tax returns that will be submitted to the BIR.

2. Are RR 15-2010 disclosures required under Philippine Financial Reporting Standards (PFRS)?

The tax information disclosure requirements under RR 15-2010 do not form part of the disclosure requirements under Philippine Financial Reporting Standards (PFRS). In the same manner, the RR 15-2010 disclosure requirements do not form part of the disclosure requirements for other Philippine financial reporting frameworks, e.g. PFRS for SMEs. RR 15-2010 acknowledges this, and clearly indicated that the disclosure requirements for the tax information under RR 15-2010 are “In addition to the disclosures mandated under the Philippine Financial Reporting Standards, and such other standards and/or conventions as may heretofore be adopted,....”.

As such, the information required by RR 15-2010, even though presented as part of the notes, is considered “supplementary information” which is defined in the glossary of the Philippine Standards on Auditing as:

“Information that is presented together with the financial statements that is not required by the applicable financial reporting framework used to prepare the financial statements, normally presented in either supplementary schedules or as additional notes.”

3. How should the disclosures required by RR 15-2010 be presented in the financial statements?

If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether such supplementary information is clearly differentiated from the audited financial statements. If such supplementary information is not clearly differentiated from the audited financial statements, the auditor shall ask management to change how the supplementary information is presented. (Par. 46, PSA 700, *Forming an Opinion and Reporting on Financial Statements*)

Management may differentiate the supplementary information from the financial statements by:

- Disclosing the supplementary information in a separate note at the end of the required notes to the financial statements and clearly label them as “supplementary information”.
- Removing any cross-references from the financial statements to the separate note on supplementary information so that the demarcation between the financial statements and the supplementary information is sufficiently clear.

Where the supplementary information required by RR 15-2010 is not clearly differentiated from the audited financial statements due to its nature and how it is presented (e.g., the information is included in the other related notes to financial statements), such supplementary information shall be covered by the auditor’s opinion on the financial statements. (Par 47, PSA 700, *Forming an Opinion and Reporting on Financial Statements*)

4. Are the RR 15-2010 disclosures required to be presented in the consolidated financial statements?

No. The supplementary information is required to be presented only in the separate financial statements of the parent company and the individual/separate financial statements of the subsidiary/ies.

RR 15-2010 was issued to amend certain provision of RR 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements accompanying the income tax returns. Since the consolidated financial statements are not the financial statements accompanying the income tax returns, and are not required to be submitted to the Bureau of Internal Revenue, the RR 15-2010 disclosures are not required to be presented in the consolidated financial statements,

Where a bank presents side by side both the parent and consolidated financial statements in accordance with BSP rules, the supplementary information to be presented shall only relate to the parent financial statements.

5. How should the auditor report on the RR 15-2010 disclosures?

If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under the PSAs to report on the financial statements, these other reporting responsibilities shall be addressed in a separate section in the auditor's report that shall be sub-titled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section (e.g., "Report on the Supplementary Information required under RR 15-2010"). Such section is placed after the "Report on the Financial Statements".

PSA 700 does not specify the wording of the report on supplementary information. Accordingly, such report may be patterned after the SEC report on SEC supplementary information. The separate section in the auditor's report includes the following elements:

- a. A statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole;
- b. A statement that the supplementary information is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the financial statements;
- c. A statement that the supplementary information is the responsibility of management;
- d. A statement that the supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements; and
- e. If the auditor has issued an unqualified opinion on the financial statements and the auditor has concluded that the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, a statement that, in the auditor's opinion the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole.

See Appendix for Illustrative Auditor's Reports.

6. How would the “Report on the Supplementary Information required under RR 15-2010” be affected if the “Report on the Financial Statements” contains a qualified opinion?

If the auditor issues a qualified opinion on the financial statements, the auditor should evaluate whether the qualification has an effect on the supplementary information. If the qualification has an effect on the supplementary information, the “Report on Supplementary Information required under RR 15-2010” should include a statement that, “in the auditor’s opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, such information is fairly stated, in all material respects in relation to the financial statements taken as a whole.”

See Appendix for Illustrative Auditor’s Reports.

7. How would the “Report on the Supplementary Information required under RR 15-2010” be affected if the “Report on the Financial Statements” contains an adverse opinion or a disclaimer of opinion?

When the “Report on the Financial Statements” contains either an adverse opinion or a disclaimer of opinion, the auditor is precluded from expressing an opinion on the supplementary information. The auditor’s report on the supplementary information should state that “because of the significance of the matter disclosed in the auditor’s report, it is inappropriate to, and the auditor does not, express an opinion on the supplementary information.”

See Appendix for Illustrative Auditor’s Reports.

8. Would the “Report on the Financial Statements” be affected if the supplementary information required under RR 15-2010 is not presented?

No, because the required supplementary information is not part of the basic financial statements. The fairness of presentation of such financial statements in accordance with the applicable financial reporting framework is not affected if the entity did not present some or all of the required supplementary information. Furthermore, if the required supplementary information is not presented by the entity, the auditor does not have a responsibility to present such information.

Because the required supplementary information accompanies the basic financial statements, the auditor’s report includes a separate section on the supplementary information stating that the information was not presented.

Appendix. Illustrative Auditor's Reports

Illustration 1.

- The required supplementary information is included and is clearly differentiated from the audited financial statements.
- The auditor issues an **unqualified opinion on the financial statements**:

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders

Name of Company

Address

Report on the Financial Statements

We have audited the accompanying financial statements of **[name of company]**, which comprise the statements of financial position as at December 31, 2010 and 2009, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of [name of company] as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note X to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Date of the Auditor's Report

Auditor's address

Illustration 2.

- The required supplementary information is included and is clearly differentiated from the audited financial statements.
- The auditor issues a **qualified opinion on the financial statements which affects the supplementary information.** *Note: Please refer to PSA 705 for the contents of the Report on the Financial Statements.*

INDEPENDENT AUDITOR’S REPORT

The Board of Directors and Stockholders
Name of Company
Address

Report on the Financial Statements

Introductory or Opening Paragraph

.....

Management’s Responsibility for the Financial Statements

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Auditor’s Responsibility

.....

Basis for Qualified Opinion

.....

Qualified Opinion

.....

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note X to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statement. In our opinion, except for the effect on the information of the matter described in the Basis for Qualified Opinion paragraph, the information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Date of the Auditor’s Report

Auditor’s address

Illustration 3.

- The required supplementary information is included and is clearly differentiated from the audited financial statements.
- The auditor issues an **adverse opinion on the audited financial statements.**
Note: Please refer to PSA 705 for the contents of the Report on the Financial Statements.

INDEPENDENT AUDITOR’S REPORT

The Board of Directors and Stockholders
Name of Company
Address

Report on the Financial Statements

Introductory or Opening Paragraph

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Management’s Responsibility for the Financial Statements

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Auditor’s Responsibility

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Basis for Adverse Opinion

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Adverse Opinion

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Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note X to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. Because of the significance of the matter described in the Basis for Adverse Opinion paragraph, it is inappropriate to and we do not express an opinion on the information referred to above.

Date of the Auditors’ Report

Auditor’s address

Illustration 4.

- The required supplementary information is included and is clearly differentiated from the audited financial statements.
- The auditor issues a **disclaimer of opinion on the audited financial statements.**
Note: Please refer to PSA 705 for the contents of the Report on the Financial Statements.

INDEPENDENT AUDITOR’S REPORT

The Board of Directors and Stockholders
Name of Company
Address

Report on the Financial Statements

Introductory or Opening Paragraph

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Management’s Responsibility for the Financial Statements

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Auditor’s Responsibility

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Basis for Disclaimer of Opinion

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Disclaimer of Opinion

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Report on the Supplementary Information Required Under Revenue Regulations 15-2010

We were engaged for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information on taxes, duties and license fees in Note X to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the financial statements. Such information is the responsibility of management. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, it is inappropriate to and we do not express an opinion on the information referred to above.

Date of the Auditor’s Report

Auditor’s address

Illustration 5.

- The auditor issues an unqualified opinion on the financial statements.
- The entity **did not disclose all the required supplementary information.**

INDEPENDENT AUDITOR’S REPORT

The Board of Directors and Stockholders
Name of Company
Address

Report on the Financial Statements

We have audited the accompanying financial statements..... *(Same as Illustration 1)*

Management’s Responsibility for the Financial Statements

Management is responsible for..... *(Same as Illustration 1)*

Auditor’s Responsibility

Our responsibility is to express an opinion *(Same as Illustration 1)*

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Management of X Company has not presented the supplementary information on taxes, duties and license fees required for purposes of filing with the Bureau of Internal Revenue. Such information is not a required part of the basic financial statements. Our opinion on the basic financial statements is not affected by the non-presentation of the information.

Date of the Auditor’s Report

Auditor’s address

Illustration 6.

- The auditor issues an unqualified opinion on the financial statements.
- **Some required supplementary information is not presented.**

INDEPENDENT AUDITOR’S REPORT

The Board of Directors and Stockholders
Name of Company
Address

Report on the Financial Statements

We have audited the accompanying financial statements..... (*Same as Illustration 1*)

Management’s Responsibility for the Financial Statements

Management is responsible for..... (*Same as Illustration 1*)

Auditor’s Responsibility

Our responsibility is to express an opinion (*Same as Illustration 1*)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on (identify or describe the information disclosed) in Note X to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statement. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

X Company has not presented the supplementary information on (describe the information not presented) required for purposes of filing with the Bureau of Internal Revenue. The information is not a required part of the basic financial statements. Our opinion on the basic financial statements is not affected by the non-presentation of the information .

Date of the Auditor's Report

Auditor's address

Illustration 7.

- The auditor issues an unqualified opinion on the financial statements.
- The required supplementary information is presented and clearly differentiated from the audited financial statements but was **not audited**.

Note: The supplementary information should be clearly labeled as unaudited. The fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read that information to identify material inconsistencies with the audited financial statements. The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in PSA 720.

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Name of Company
Address

Report on the Financial Statements

We have audited the accompanying financial statements..... *(Same as Illustration 1)*

Management's Responsibility for the Financial Statements

Management is responsible for..... *(Same as Illustration 1)*

Auditor's Responsibility

Our responsibility is to express an opinion *(Same as Illustration 1)*

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

**Report on the Supplementary Information Required Under Revenue Regulations
15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note X to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. We were not able to apply auditing procedures on such information because [state the reason/s]. Accordingly, it is inappropriate to and we do not express an opinion on the information referred to above.

Date of the Auditor's Report

Auditor's address