



Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
1071 United Nations Avenue
Manila



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CIRCULAR LETTER

**TO : ALL HEALTH MAINTENANCE ORGANIZATIONS (HMOs)
DOING BUSINESS IN THE PHILIPPINES**

**SUBJECT : ADOPTION AND IMPLEMENTATION OF THE MANUAL
OF EXAMINATION OF HMOs**

WHEREAS, the Insurance Commission shall have the authority to exercise the following functions¹, among others:

- a. Issue rules and guidelines, with respect to the establishment of HMO minimum capitalization, net worth, reserve funds and security deposit requirements, as well as the criteria for qualification and disqualification of directors, officers and marketing personnel, and the procedure for the submission of reportorial and/or examination requirements, registration of contracts and plans, adjudication of claims, and other relevant matters, as necessary;
- b. Regulate, supervise, and monitor the operations and management of HMOs to ensure compliance with EO No. 192, s. 2015, existing laws, rules, regulations and such other directives and circulars issued by the Insurance Commissioner;
- c. Prepare, approve or amend, rules, regulations, orders, and circulars, and issue opinions, provide guidance on and supervise compliance with such rules, regulations, orders, and circulars;
- d. Exercise such other powers as may be provided by law as well as those which may be implied from, or which are necessary or incidental to carry out the express powers granted to the IC to achieve the objectives and purposes of EO No. 192; and

¹ Section 4, Executive Order (EO) No. 192, s. 2015

- e. Order the examination of documents, papers, files, tax returns, books of accounts and other records, in whatever form, of any entity, person, or any HMO under investigation, including persons, entities and/or corporations with related interests;

WHEREAS, Section 2 of IC Circular Letter No. 2016-41 requires all HMOs to submit Audited Financial Statements and other documents on or before May 31 of each year, and quarterly reportorial requirements for Acid Test Ratio and Net Worth on or before the 15th day of the month following the end of each quarter;

WHEREAS, incidental to effective regulation and supervision of the operations and management of HMOs, establishment of guidelines shall be made as to the manner of examination of the book and accounts and records of all HMOs;

NOW THEREFORE, pursuant to the authority granted to the Insurance Commission by Section 4 of Executive Order 192, s. 2015 dated 12 November 2015, a Manual of Examination of HMOs is hereby adopted by the Commission for the guidance of all its examiners in conducting examination/verification of the financial condition of HMOs.

ATTACHED HERETO is the Manual in the Examination / Verification of HMOs.



DENNIS B. FUNA
Insurance Commissioner



**MANUAL ON
EXAMINATION OF
HEALTH MAINTENANCE ORGANIZATIONS
(HMOs)**

**BANNER PROGRAM
OF THE
INSURANCE COMMISSION**

2017 Edition

FOREWORD

By the virtue of EO 192 "Transferring the Regulation and Supervision over Health Maintenance Organizations (HMOs) from Department of Health to Insurance Commission" one of the primary function of the Insurance Commission is to assure that HMOs are financially sound and stable. Financial examination is one of the most valuable tool which done through off-site and on-site examination.

Realizing the need to facilitate financial examinations, this manual has been prepared by the IC's Ad Hoc Group on HMOs. Through this manual, pertinent regulatory policies have been made transparent. It is hoped that this will result in greater cooperation between the regulators and the HMOs.

This manual is intended as a guide not only for IC examiners but also for company officials especially those who are concerned with the examination of accounts. Likewise, this could serve as a reference material for all those interested-executives, professionals or student alike-in knowing the intricacies in the HMO business and the attendant regulatory control procedures.

It is not claimed that this manual is entirely without flaws, hence its periodic review is earnestly recommended to keep pace with the rapid changing business environment. Neither is it claimed to be complete and absolute, as examination requirements may depend on the circumstances at the time of examination. Nonetheless, it is hoped that with this manual has contributed -modest though it may seem-towards achieving greater efficiency for the protection of the HMO members and ultimately for the growth and development of the HMO industry.

But whatever ends this manual serve its completion would not have been possible without the initiative of Commissioner Dennis B. Funa who is a strong advocate of transparency in public service.

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II.

CHART OF ACCOUNTS FOR HEALTH MAINTENANCE ORGANIZATIONS (HMOs)

A. ASSETS

CASH AND CASH EQUIVALENTS

Cash includes money and any other negotiable instruments that is receivable in money and accepted by bank for deposit and immediate credit. Cash comprises cash on hand and demand deposits (PAS 7, paragraph 6).

Cash on Hand

This represents the total amount of undeposited collections in the custody of the cashier. This includes any acceptable currency notes and coins, checks, bank drafts, Postal Money Orders, and other cash items in favor of the HMO that is awaiting deposit within the day or the following banking day. This does not include postdated checks (PDCs) and returned checks which have been dishonored by the bank due to insufficient funds.

Petty Cash Fund

This represents the fund established to defray immediate minimal disbursements which are evidenced by duly accomplished and approved petty cash vouchers with the corresponding supporting receipts and/or other supporting documents. This fund shall be maintained under an imprest system.

Revolving Fund

Fund established to finance a continuing cycle of operations through amounts received, such as a working capital fund. This fund shall be maintained under an imprest system.

Commission Fund

This represents fund that is established for the purpose of paying commissions to agents where the amounts are less than the minimum amount prescribed for check payments. This fund shall be maintained under an imprest system.

Cash in Banks

This account refers to money deposited in the bank under the name of HMO i.e. savings, current and combo account which are unrestricted and available for use in the current operations.

Cash Equivalents

This accounts refers to short-term, high liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of changes in value (PAS 7, paragraph 6). An investment normally qualifies as a cash equivalent only when it has short maturity if three (3) months or less from the date of acquisition (PAS 7, paragraph 7) (e.g. three-month debt securities, debt securities purchased three (3) months before maturity). Time deposits and investments maturing beyond 3 months are presented under **Short-term Financial Assets**.

Short-term Cash Investments

This account represents investments not held for the purpose of meeting short-term cash commitments and restricted margin accounts with maturity of more than 90 days but less than one year.

FINANCIAL ASSETS AT FAIR VALUE THOROUGH PROFIT OR LOSS

This represents financial assets which are carried at fair value through profit or loss.

Securities Held for Trading – This represents debt and equity securities that are:

- a. acquired principally for the purpose of selling or repurchasing in the near term; or
- b. part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

This shall comprise of the following sub-accounts based on the types of securities held:

- **Trading Debt Securities (Government)** – this represent debt instruments issued by the government and its instrumentalities (government agencies, local governments, government owned and controlled corporations). This includes treasury bills, treasury notes and ROP bonds.
- **Trading Debt Securities (Private)** – this represent debt instruments issued by the private corporations, whether domestic or foreign, such as commercial papers, notes and bonds.
- **Trading Equity Securities** – this represent common and preferred shares of stock of companies other than those of subsidiaries, associates and joint ventures (see definition below).
- **Mutual, Unit Investment Trust and Other Funds** – this represents units held in mutual funds and such other similar types

are generally redeemable anytime and where the values are determined on the daily net asset value per share or unit (NAV/unit).

FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVPL)

This represents financial assets which the company, upon initial recognition, has designated at fair value through profit or loss.

This shall comprise of the following sub-accounts based on the types of securities held:

- Debt Securities – Government
- Debt Securities – Private
- Equity Securities
- Mutual Funds, Unit Investment Trusts and Other Funds

AVAILABLE FOR SALE FINANCIAL ASSETS (AFS)

This represents financial assets that are designated as available-for-sale or are not classified as loans and receivables, held to maturity or financial assets at fair value through profit or loss.

- AFS Debt Securities – Government
 - Unamortized Discount/Premium – This represents the unamortized discount/premium on AFS government debt securities which shall be debited/credited monthly to this account. Amortization of discount/premium is based on effective interest rate method.
- AFS Debt Securities – Private
 - Unamortized Discount/Premium
- AFS Equity Securities
- Allowance for Impairment Losses – This represents the amount of impairment loss incurred on the AFS securities.

HELD-TO-MATURITY INVESTMENTS (HTM)

This represents quoted debt securities with fixed or determinable payments and fixed maturity that the company has the positive intention and ability to hold the maturity other than:

- a. those that the company upon initial recognition designates as at fair value through profit or loss;
- b. those that the company designates as available for sale;
- c. those that meet the definition of loans and receivables.

Investments intended to be held for an unidentified period shall be included in this classification.

- HTM Debt Securities – Government
 - Unamortized Discount/Premium – This represents the unamortized discount/premium on the HTM debt securities which shall be debited/credited monthly to this account. Amortization of discount/premium is based on effective interest rate method.

- HTM Debt Securities – Private
 - Unamortized Discount/Premium
- Allowance for Impairment Losses – This represents the amount of impairment loss incurred on the HTM securities.

LOANS AND RECEIVABLES

This refers to financial assets that represents a contractual right to receive cash or another financial asset.

This represents non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- a. those that the company intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the company upon initial recognition designates as at fair value through profit or loss;
- b. those that the company upon initial recognition designates as available for sale; or.
- c. those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.
- d. Loans and Receivables shall be comprised of the following sub-accounts:

Membership Fee Receivable

This account pertains to the fixed amount that the company charges its clients for healthcare services that have accrued as of the balance sheet date.

Advances to Members

This account pertains to billings by accredited hospitals and health centers for services provided to the Company's members that are not covered by their plan but have been advanced by the Company on their behalf.

Advances to Officers and Employees

This account refers to duly approved cash advances for official business to officers and employees, subject to liquidation in accordance with the policy of the HMO.

Due From Officers and Employees

This account refers to total collectibles due from officers and employees arising from credit accommodations, shortages, losses and unliquidated cash advances beyond the prescribed period that are subject to immediate settlement.

Subscription Receivable

This represents amounts receivable from stockholders who signified their intention to subscribe to the capital stock of the company and duly covered by subscription agreement.

Operating Lease Receivable

This represents the amount of rent receivables arising from operating lease contracts. Lease income should be recognized on a straight-line basis.

Other Receivables

This represents all other Receivables which cannot be classified under any of the foregoing receivables.

Allowance for Impairment Losses

This represents the total amount set up to provide for losses that may arise from non-collection of receivables.

INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

This shall comprise of the following accounts:

Investment in Subsidiaries

This represents the amount of HMOs investments in shares of stock of its subsidiaries. A subsidiary is an entity that is controlled by another entity (known as parent). An HMO controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investment in Associates

This represents the cost of the company's investments in the shares of stock of its associates. An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Investment in Joint Ventures

This represents the cost of the company's investments in joint ventures. A joint venture is a contractual arrangement whereby the company and one or more other parties undertake an economic activity which is

subject to joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

PROPERTY AND EQUIPMENT

This account represents tangible items that:

- a. Are held for use in the company's business operations or for administrative purposes; and
- b. Are expected to be used more than one period

This account shall have sub-accounts based on the nature of the fixed assets, to wit:

Land – At Cost

This represents the acquisition cost of the land. Acquisition cost shall consist of the purchase price and all expenditures incurred directly attributable to acquisition.

Building and Building Improvements - At Cost

This represents the acquisition/construction cost of the building and improvements, including cost incurred subsequent to initial recognition which meet the recognition criteria.

Leasehold Improvements - At Cost

This represents the cost of additions, improvements and/or alterations on the company's leased office premises which are incurred in making the property ready for use and occupancy. This should include the initial estimate of the costs of dismantling and removing the improvements and restoring the site, the obligation for which the company incurs when the property is leased.

I.T. Equipment - At Cost

This represents the cost of the information processing system of the company including the computer hardware, customized software, and peripherals.

Transportation Equipment - At Cost

This represents the cost of motor vehicle and other transportation equipment owned, operated, used, or to be used by the company in carrying out its business and/ or as a service vehicle of its officers and employees.

Office Furniture, Fixtures and Equipment - At Cost

This represents the cost of office machines, equipments, furniture and fixtures.

Accumulated Depreciation

- Building and Building Improvements
- Leasehold Improvements
- I.T. Equipment
- Transportation Equipment
- Office Furniture, Fixtures and Equipment

This represents the aggregate of the depreciation on the above Property and Equipment sub-accounts charged by the company against its current operation.

Property and Equipment Under Finance Lease

This represents the cost of property and equipment leased by the company under a lease agreement which qualifies as a finance lease under PAS 17 which shall comprise of the following sub-accounts:

- a. Land;
- b. Building and Building Improvements;
- c. Leasehold Improvements;
- d. IT Equipment;
- e. Transportation Equipment;
- f. Office Furniture, Fixtures and Equipment

Revaluation Increment

This represents the revaluation increase in the carrying amount of the company's property and equipment under the revaluation model.

Accumulated Depreciation - Revaluation Increment

- Building and Building Improvements
- Leasehold Improvements
- IT Equipment
- Transportation Equipment
- Office Furniture, Fixtures and Equipment

INVESTMENT PROPERTY (IES)

This represents property (land or building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both rather than:

- a. Use in the company's business operations or for administrative purposes, or
- b. Sale in the ordinary course of business

This accounts shall be classified as follows:

- Land – At Cost
- Building and Building Improvements – At Cost
- Accumulated Depreciation - Building and Building Improvements
- Accumulated Impairment Loss
- Land – At Fair Value
- Building and Building Improvements – At Fair Value
- Foreclosed Properties – this represents real and other properties acquired by the company in settlement of loans through foreclosure of mortgage loan arrangements.

DEFERRED ACQUISITION COST

This account refers to commissions and other costs incurred which are related to securing new and/or renewing of existing healthcare plan contracts are deferred over the duration of the contract.

Amortization of this account is presented as part of commission and other costs expense in the statement of total comprehensive income.

DEFERRED TAX ASSET

This account refers to the amounts of income taxes recoverable in the future periods in respect of:

- a. deductible temporary differences;
- b. the carry forward of unused tax losses; and
- c. the carry forward of unused tax credits. (PAS 12 paragraph 5)

PREPAYMENTS

This represents prepayment of expenses which may include but not limited to the following accounts:

Prepaid Commissions

This represents commissions paid in advance to the agents/health counselors.

Prepaid Rent

This represents advance payment on leased properties.

Input VAT

This represents the excess of the company's input VAT not yet claimed against the output VAT payable.

Prepaid Tax

This represents income taxes which have been withheld from payments made by the company.

OTHER ASSETS

This represents other assets which cannot be classified in any of the foregoing accounts.

B. LIABILITIES

UNEARNED MEMBERSHIP FEES

The portion of membership fees attributable to subsequent periods are deferred as unearned fees. The change to this account is credited or charged against income over the period of coverage.

HEALTH PLAN LIABILITIES

Medical Claims including Incurred But Not Reported (IBNR) claims are based on the estimate ultimate cost of all claims incurred but not settled at the balance sheet date whether reported or not together with related claims handling costs.

These costs include estimates of the Company's obligation for medical care services that have been rendered on behalf of the members but for which the Company has either not yet received or processed claims and for liabilities to physician, medical and other cost disputes.

The Company develops estimates for medical costs incurred but not reported using an actuarial process. The actuarial model considers factors such as time from the date of service to claim receipt, claim backlogs and other factors affecting claims amount such as provider contract rate changes, medical care consumption and other medical cost trends.

ASO (Administrative Services Only) FUND(S)

This account pertains to the corporate funds which hold/managed by the Company for medical and hospitalization expenses.

HEALTH FUND

This account represents a cost plus account for members who cannot afford regular health plans. As required by health agreement, members of cost plus plans should maintain a health fund as a security deposits which will be returned to members upon termination of the agreement.

ACCOUNTS PAYABLE

This represents obligations of the company as a result of indebtedness due to any corporations, individuals or suppliers which are non-insurance/reinsurance related. This may include the following accounts:

SSS PREMIUMS PAYABLE

This represents the unremitted SSS premiums/contributions withheld from the salaries of officers and employees.

SSS LOANS PAYABLE

This represents the unremitted SSS salary loan amortizations deducted from the salaries of officers and employees.

PAG-IBIG PREMIUMS PAYABLE

This represents the unremitted contributions to the Home Development Mutual Fund (HDMF Pag-ibig) deducted from the salaries of officers and employees.

PAG-IBIG LOANS PAYABLE

This represents the unremitted Pag-ibig loan amortizations deducted from the salaries of officers and employees.

PHILHEALTH PREMIUMS PAYABLE

This represents the unremitted Philhealth premiums/contributions withheld from the salaries of officers and employees.

OPERATING LEASE LIABILITY

This represents the amounts payable arising from lease contract which is classified as an operating lease. Lease payments shall be recognized as an expense on a straight-line basis over the term of the lease.

OTHER ACCOUNTS PAYABLE

This represents all other unpaid non-insurance/reinsurance related obligations.

NOTES PAYABLE

This represents long-term and short-term notes payable or any kind of indebtedness duly covered by promissory notes and which are interest-bearing. Payment of interest and principal is based on predetermined amortization schedule on due dates duly agreed upon in the loan agreement.

TAXES PAYABLE

This shall be comprised of the following sub-accounts:

VALUE-ADDED TAX (VAT) PAYABLE

This represents the tax due on sale of insurance policies and other goods or services based on cash received, net of input VAT paid by the company in the course of the company's purchases of goods or services.

DEFERRED OUTPUT VAT

This represents the tax due on sale of insurance policies and other goods or services based on amounts still to be collected from counterparties. Such amount is still not due for remittance to the BIR until the receivables are collected.

INCOME TAX PAYABLE

This represents income taxes due and payable to the government net of creditable taxes.

WITHHOLDING TAX PAYABLE

This represents income taxes withheld from the salaries of employees and creditable taxes withheld from source under the expanded withholding tax system from the remunerations of agents, brokers, general agents, medical examiners and other agencies/corporations for services rendered.

OTHER TAXES & LICENSES PAYABLE

This represents all unpaid taxes and licenses other than the taxes enumerated above due to the government.

DIVIDENDS PAYABLE

This represents cash and other dividends, except stock dividends, already declared but still unpaid and due to the stockholders of the company.

PENSION OBLIGATION

This represents the company's obligation with respect to the retirement and other post-employment benefits granted to employees. This is calculated as the net total of the following amounts:

- (A) the present value of the defined benefit obligation at the reporting date;
- (B) minus the fair value of the plan assets at the reporting date.

ACCRUAL FOR OTHER LONG-TERM EMPLOYEE BENEFITS

This represents accruals for the obligation for other types of long-term benefits provided to its employees other than those arising from post-employment benefits.

DEFERRED TAX LIABILITY

This represents the total amount of deferred tax on taxable temporary differences.

C. STOCKHOLDERS' EQUITY

CAPITAL STOCK

This represents ownership of the stockholders in the company composed of capital stocks issued and outstanding as at report date. This shall be further subdivided as follows:

Preferred Stock

This represents shares which provide the shareholders preference as to dividends and upon liquidation. The features of the preferred shares are varying and should be carefully analyzed whether these qualify as capital stock or creates an obligation on the part of the company. In the latter case, the preferred shares issued should be classified as part of liabilities.

Common Stock

This represents shares of stocks issued to shareholders which have the residual equity interest in the company.

DEPOSIT FOR FUTURE SUBSCRIPTION

This account represents payments made on subscription of shares which cannot be directly credited to Preferred or Common Stock pending registration which the Securities and Exchange Commission of the amendment to the Articles of Incorporation increasing capital stock. The paid-up subscription can be classified under equity if the nature of the transaction give rise to a contractual obligation of the Company to deliver its own shares to the subscriber in exchange of the subscription amount. In addition, this account shall be classified under "equity" if all of the following elements are present as at statement of financial position date:

- a. The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- b. There is Board of Directors' approval on the proposed increase in the authorized capital stock (for which a deposit was received by the corporation)
- c. There is stockholders' approval of said proposed increase; and
- d. The application for the approval of the proposed increase has been filed with SEC.

CAPITAL PAID IN EXCESS OF PAR (ADDITIONAL PAID-UP CAPITAL)

This represents payment for the shares of stock of the company bought or paid for in excess of its par value.

RETAINED EARNINGS (DEFICIT)

This represents the accumulated earnings (deficit) of the company reduced by any losses the company may incur during a certain accounting period or by dividend declarations.

RESERVE ACCOUNTS

- **RESERVE FOR AFS SECURITIES**

This represents gains or losses arising from fair value changes of available for sale securities.

- **CUMULATIVE FOREIGN CURRENCY TRANSLATION**

This represents gains or losses arising from foreign currency translations on the following:

- foreign currency denominated non-monetary items, where such gains or losses are recognized directly in equity, and,
- translation of foreign operations with different functional currency.

- **RESERVE FOR APPRAISAL INCREMENT – PROPERTY AND EQUIPMENT**

This represents the appraisal increment on property and equipment when the company applies the revaluation model. This is calculated as a difference between the property and equipment's carrying amount and its revalued amount.

- **REMEASUREMENT GAINS (LOSSES) ON RETIREMENT PENSION ASSET (OBLIGATION)**

This represents the accumulated balance of remeasurement gains or losses of a net define benefit liability or asset.

- **TREASURY STOCK**

This represents stocks already issued but reacquired by the company. This account shall be measured at cost.

D. REVENUES

MEMBERSHIP/ENROLEES' FEES

Fees arising from healthcare agreements which are usually for one year period and where the Company assumes the risk of funding the member's health care services and related administrative costs, are recognized as revenue on a straight-line basis over the period of enrollment subject to cancellation by the members upon written notice within the period specified in the contract. It is recognized as revenue when collected or paid, except for some corporate accounts that are treated as revenue when earned regardless of when it is paid by the corporate client.

ASO (Administrative Services Only), NETWORK ACCESS/PROCESSING FEES

ASO fees are mainly a percentage of ASO fund utilization which is recognized as revenue from the accounts under ASO program for the management of medical funds. This fee is recognized upon billing or when it is probable that the economic benefits with transaction will flow whichever comes first. One-time access fees are recognized once incurred.

INTEREST INCOME

This represents interest income due and accrued which is earned by the Company from its various investments. This shall be comprised of the following sub-accounts:

INTEREST INCOME - CASH IN BANKS

This represents interest income earned from savings accounts and time deposits.

INTEREST INCOME - FINANCIAL ASSETS AT FVPL

SECURITIES HELD FOR TRADING

Debt Securities – Government

Debt Securities - Private

FINANCIAL ASSETS DESIGNATED AT FVPL

Debt Securities – Government

Debt Securities – Private

INTEREST INCOME - AVAILABLE FOR SALE FINANCIAL ASSETS

AFS DEBT SECURITIES – GOVERNMENT

This account represents interest received and/or accrued arising from investments in government securities (such as Treasury Bills, Treasury Notes, government bonds). These shall be classified into two: Non-taxable (NT) and those subject to Final tax (FT).

AFS DEBT SECURITIES – PRIVATE

This represents interest income received and/or accrued arising from investments in debt instruments issued by the private sector such as commercial papers, corporate notes and bonds.

INTEREST INCOME - HELD-TO-MATURITY INVESTMENTS

HTM Debt Securities – Government

HTM Debt Securities – Private

OTHERS

This represents interest income earned which are not otherwise classified under any of the other accounts.

DIVIDEND INCOME

This is an income derived from cash dividend declaration on stock investments, whether collected, accrued, or earned but not yet received.

GAIN/LOSS ON SALE OF INVESTMENTS This represents gains/losses realized on sale of the company's investments. This shall be composed of the following sub-accounts:

- **FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING**
- **FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS**
- **AVAILABLE FOR SALE FINANCIAL ASSETS**
- **INVESTMENT PROPERTY**
- **OTHERS**
This represents gains derived from the disposal or sale of assets other than those classified above.

GAIN ON SALE OF PROPERTY AND EQUIPMENT

This represents gain realized on sale of property and equipment.

UNREALIZED GAIN ON INVESTMENTS

This represents unrealized gains or losses arising from fair value changes of assets which are carried at fair values.

This shall be comprised of the following sub-accounts:

- **FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING**
- **FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS**

- INVESTMENT PROPERTY

RENTAL INCOME

This represents income generated from the rental of investment property. Rent income shall be recognized on a straight-line basis over the lease term.

MISCELLANEOUS INCOME

This represents income received or earned from various sources which cannot be properly classified under any of the income accounts. It includes, among other things, income derived from SSS collection fee, proceeds from sale of old newspapers, recoveries from accounts receivables, and other collections.

E. EXPENSE ACCOUNTS

DIRECT COSTS

HEALTHCARE BENEFITS AND CLAIMS (COST OF AVAILMENTS)

This account pertains to the costs including estimates of the obligation for medical care services that have been rendered on behalf of the members but for which the HMO has neither received nor processed claims, and for liabilities for physician, medical and other cost disputes. This shall be comprised of but not limited to the following accounts:

MEDICAL SERVICES

Included in the medical services are laboratory fees, supplies and diagnostic procedures for out-patient expense and others which are recognized generally upon reimbursement by the members.

HOSPITALIZATION

Included in the hospitalization expense are in-patient expenses, confinement, consultation (doctors' fee) and dental services.

COMMISSION

This account represents commission paid to HMOs' agents/health counselors which recognized as expense over the period of collection of membership fees which range from one month to one year. This is also pertains to the amortization of deferred acquisition cost.

GENERAL AND ADMINISTRATIVE EXPENSES

SALARIES - Basic Salaries and Allowances, including bonuses and 13th month pay of all company officers and staff.

PHILHEALTH CONTRIBUTIONS - Employer's/Company's share in the contribution for PhilHealth benefits of officers and staff.

SSS CONTRIBUTION - Employer's/Company's share in the contribution to the SSS for the benefit of officers and staff of the company.

PAG-IBIG CONTRIBUTIONS – Company's / Employer's share in the contribution to the Pag-ibig Fund of the Home Development Mutual Fund for the benefit of the employees of the company.

EMPLOYEES COMPENSATION AND MATERNITY CONTRIBUTIONS - Company's / Employer's share in the contributions to the SSS for the maternity, sickness and disability benefits of all the employees of the company.

RETIREMENT FUND - Company's / Employer's contribution to the Retirement Fund computed on the basis of a certain percentage of the annual salary of the employees, the actuarial computation of which is in accordance with the company retirement plan.

HOSPITALIZATION - Employer's contribution for the employee's hospitalization benefits under a group insurance coverage.

TRANSPORTATION EXPENSES - Transportation expenses of the directors, officers, and employees and messenger costs in connection with the business operations.

REPRESENTATION EXPENSES - Representation and entertainment expenses of the officers and staff for the promotion of the business of the company.

MISCELLANEOUS LOSSES - Losses and other charges that are not classifiable under any of the expense accounts such as shortages, losses on uncollected accounts, charges, etc.

INVESTMENT MANAGEMENT FEES - Fees paid to investment managers for the handling of the company's portfolio.

MEDICAL SUPPLIES - Expenses incurred by the company for the purchase of medicines and other medical supplies for the use or issuance to the employees.

PRINTED FORMS - Expenses incurred by the company for printed forms/materials which may be used in the conduct of the company's business.

STATIONERIES AND SUPPLIES - Cost of various office supplies used in the business operations.

DIRECTOR'S FEES - Fees paid to the members of the Board of Directors for their attendance in the monthly and annual meetings or whatever special meetings that the Board of Directors may have.

CORPORATE SECRETARY'S FEES - Fees granted to the corporate secretary for services rendered during the monthly board of directors' meetings and during the annual stockholders' meetings or any other special meetings that the Board of Directors or stockholders may hold.

AUDITOR'S FEES - Professional fees paid to the external auditors for the year end audit examination of the company's book of accounts. It also includes the monthly retainer fee, charges for the auditor's out of pocket expenses and fees for any special audit examination or consultations, including any audit and tax consultations, which may be required by the company from time to time.

ACTUARIAL FEES - Professional fees paid to the external actuaries for whatever actuarial services that they may render for the benefit of the company.

SERVICE FEES - Fees paid to certain authorized individuals for services rendered to the company on a contractual or temporary basis.

LEGAL FEES - Retainer Fees and other professional fees paid to external lawyers and the company's legal counsel for whatever legal service that they may render. It includes fees for the legal assistance that they may extend in handling court cases, court settlements, notarial fees, consultancy fees, and other legal matters.

ADVERTISING EXPENSES - Cost of advertising and promotion of the company, introduction of new plans, publication of the synopsis of the company's annual report, placement ads, etc.

BANK CHARGES - Cost of checkbooks and charges imposed by the banks for overdrafts and bounced checks, payment of safety deposit box (if any), charges for the regional clearing of provincial checks and other such charges.

TELEPHONE AND TELEGRAM - Cost of telephone services, both local and long distance toll charges, and telegrams.

LIGHT AND WATER - Cost of power and water consumption.

TAXES AND LICENCES – NON DEDUCTIBLE TAXES - Taxes which are not deductible for income tax purposed such as income tax assessments and penalty charges and renewal of the agents' certificates of authority.

TAXES AND LICENCES – DEDUCTIBLE TAXES - Taxes which are allowable deductions or expenses for income tax computation such as payment for business license, mayor's permit, etc.

INTEREST EXPENSE - The cost incurred by an entity for borrowed funds. Interest expense is a non-operating expense shown on the income statement. It represents interest payable on any borrowings – bonds, loans, convertible debt or lines of credit. It is essentially calculated as the interest rate times the outstanding principal amount of the debt. Interest expense on the income statement represents interest accrued during the period covered by the financial statements, and not the amount of interest paid over that period.

REPAIRS AND MAINTENANCE - The costs incurred to bring an asset back to an earlier condition or to keep the asset operating at its present condition (as opposed to improving the asset).

BAD DEBTS / PROVISION FOR DOUBTFUL ACCOUNTS - Any uncollectible accounts receivables, advances to agents and other such receivables which need to be written off shall be charged to this account.

DEPRECIATION EXPENSES - Periodic amortization of the asset cost of the company's depreciable fixed assets. It represents an estimate of the decline in service potential of the asset occurring during the period.

SUSPENSE ACCOUNT - This is a temporary classification of accounts pending clarification of certain aspects of the transaction or compliance of certain requirements, documentation or otherwise. This account could be either a debit or a credit and need to be reclassified subsequently as to their proper accounts. All transactions under this classification must be properly cleared out and reclassified every end of the accounting period.

MISCELLANEOUS EXPENSE - Operating and administrative expenses which cannot be specifically classified under any of the other expense accounts are recognized as miscellaneous expense.

PROVISION FOR TAXES - A provision for income taxes is the estimated amount that a business or individual taxpayer expects to pay in income taxes for the current year.

III.

EXAMINATION CYCLE

A. Administrative Guidelines

“Section 4d and f of the E.O. 192 provides that the Insurance Commission (IC) shall have the authority to:

d. Regulate, supervise and monitor the operations and management of HMOs to ensure compliance with this Order, existing laws, rules and regulations and such other directives and circulars issued by the Insurance Commission.

f. Order the examination of documents, papers, files, tax returns, books of accounts and other records, in whatever form, of any entity, person, or any HMO under investigation, including persons, entities and/or corporations with related interest.

B. Submission and Verification of HMO's Quarterly Interim Financial Statements

Section 2.2 of CL 2016-41 requires all HMOs to submit reportorial requirements on or before the 15th day of the month following the end of each quarter starting 15 October 2016, to wit:

- a. Interim Financial Statements (IFS)
- b. Computation of Acid-Test Ratio and Net Worth

Starting 2017, the submission for each quarter are due on or before the following dates:

Quarter Ending (as of)	Due Date
March 31	April 15
June 30	July 15
September 30	October 15
December 31	January 15

Upon receipt of the above submission, verify and prepare the schedule of Computation of Compliances with the following requirements of CL 2016-41:

- a. Section 1.2 Deposit Requirements
- b. Section 1.3 Risk-Based Capitalization
- c. Section 1.4 Net Worth Requirement
- d. Section 1.4 Liquidity Requirement

C. Annual Filing of Audited Financial Statements

Section 2.1 of CL 2016-41 and CL 2017-32 requires all HMOs to submit their respective Audited Financial Statements as of 31 December 20__ together with other requirements on or before 31 May of each year.

The above submitted reportorial requirements will be subject to the annual examination of the Insurance Commission either on-site or off-site examination.

D. On-site Examination

1. Preparations

On the first day of on-site examination, the examiners present the designation letter to the President of the HMO company authorizing them to conduct the said examination. (sample designation letter in Exhibit "A") The examiners are then endorsed by the President to the Chief Accountant who will be responsible in bringing them to the department where they will be working and in introducing them to the respective officers of said department. The examiners then expect that they will be given a permanent area where they can work and leave in place the records/documents they are using throughout their audit.

The team leader gives the listing of requirements, i.e., the books/records/documents, etc. that they will be using in the examination to the officer/employee in charge. (sample of listing of requirements (Exhibit "B")).

E. Concluding the Examination

One week before terminating the examination, the supervisor should write a letter advising the company of the conclusion of the examination and reminding them of any record/document not yet submitted/presented to the examiner.

On the last day of examination, the examiner with the supervisor will inform the company of the termination of the examination and thank the management for the help and cooperation extended to them during the examination.

A final report of the examination will be prepared and transmitted to the HMO company.

F. Off-site Examination (Verification)

Guided by the examination/verification procedure, the Insurance Specialist verifies and analyses the accounts in the Audited Financial Statements together with the supporting schedules and documents.

The results of the verification are reviewed by the Supervising Insurance Specialist and passed upon by Chief Insurance Specialist. Upon verification and review, there are items considered as unaccounted assets and/or non-ledger liabilities which may be resulted to a networth deficiency and/or compliance with liquidity requirement.

A transmittal letter shall be transmitted to the company addressed to the company's president advising them the results of the verification together with a schedule of non-ledger assets, unaccounted assets, non-ledger liabilities, and computation of compliances.

The company is given ten (10) days from the receipt of the said transmittal letter to comply with the requirements, if any.

Minimum Verification Procedures (for IC examiners)

1. Check the figures in the audited FS against the figures in the adjusted trial balance. Any difference should be reconciled.
2. Read Auditor's Report for possible audit exceptions which may affect the company's financial statements. Read also the notes to financial statements for disclosures made by the auditors regarding the assets, liabilities and net worth accounts. These may necessitate adjustments. Example: assets pledged to secure.
3. a. Company Obligations –
 1. If obligation is shown as a liability, then there is no need for adjustment.
 2. If not, take it up as additional liability.
- b. Sister/Affiliated or Third-Party Obligations
- c. Significant Disclosures in Company's Operation.
4. Prepare a comparative balance sheet of current and previous years per Audited FS, before unaccounted assets. Indicated sources of increase or decrease in assets, liabilities and net worth accounts. Get ratios for each and every investment over total assets, particularly those granted to sister/affiliated companies.
5. Refer to the latest examination/verification report for requirements not complied. Always compare treatment of accounts and any variations must be explained.

Know the basis of considering an asset as unaccounted or accounted. It's being accounted or unaccounted in previous years without knowing why, is not the enough basis. Make it a point to analyze documents submitted by the company.

6. Verify all the accounts together with supporting documents, paying particular attention to Investment, Cash accounts and other accounts which may be considered as material item in the company's financial statements.

7. Prepare a worksheet of for Working Balance Sheet together with the summary of unaccounted assets and non-ledger liabilities. Indicate the reason for such treatment.

8. Prepare the schedule of Computation of Compliances with the following requirements of CL 2016-41, to wit:

- a. Section 1.2 Deposit Requirements
- b. Section 1.3 Risk-Based Capitalization
- c. Section 1.4 Net Worth Requirement
- d. Section 1.4 Liquidity Requirement

9. Consolidate the results of the verification and prepare transmittal letter to the company. In case of compliance requirements, follow through until such requirements are complied.

10. Arrange the verification folder together with the following:

- a. Copy of transmittal letter and other correspondences between IC and the company.
- b. Working Balance Sheet, Summary of Unaccounted Assets Non-Ledger Liabilities (if any), Schedule of Computation of Compliances and Summary of adjustments/reconsiderations made, also included the documents submitted during the Filing of 20__ Audited Financial Statements of HMOs.
- c. Supporting documents of Asset, Liability and Net Worth accounts and other submitted requirements.

G. Audit Guidelines

I. Physical Inventory

I.1 Why : To prove the existence, ownership and amount of the items being examined and to verify its status and/or condition (not pledged, restricted, free from lien or any encumbrance).

I.2 When : Physical count of assets being examined shall be conducted as needed by the examiner/s assigned

to handle the examination. As a matter of practice, the unscheduled count are done soon after the end of the year to minimize after-date transactions, and at the same time giving the company reasonable time to complete pertinent supporting schedules.

- I.3 How : a. On the day of the count/inventory, the examiner-in-charge informs the company of the physical count to be done for the year under examination. The company is given reasonable time, when appropriate to put the required documents together.
- b. At the time of inventory, the company provides the examiners with the following: (1) schedules and working papers relative to the asset being examined, (2) items to be counted preferably arranged in a manner listed in the schedules.
- c. A company representative should be available at all times to answer any queries relative to the asset being counted. Any findings(s)/exception (s) is immediately communicated to the company representative for appropriate action. The company representative is given reasonable time to reply and/or submit the required/appropriate documents.
- I.4 Coverage : Generally, all assets are subject to physical count. However, focus shall be on the following:
- a. Cash on Hands and in Banks
 - b. Investment in Bonds, Stocks, Mutual Funds, UITF and Other Funds, Other Investments, etc.
 - d. Real Estate Held for Business Operation (under Property and Equipment) and Investment Property(ies)

1.5 AUDIT PROCEDURES ON PHYSICAL INVENTORY

Cash on Hand:

1. Funds should be presented for actual physical count such as: Petty Cash Fund, Commission Fund, Revolving Fund, Un-deposited Collections, etc.
2. Funds held by branches should be supported by a certificate of the custodian as to the existence and amount.
3. Confirmed amount of funds should reconcile with the general ledger.
4. The schedule of Cash on Hand should be presented to IC containing the following information:
 - a. Nature of cash

- b. Encumbrance
- c. Balance as of the 31 December 20____.
- 5. Differences and/or unaccounted items should be adequately explained.

Cash in Banks:

- 1. The schedule of Cash in Banks should be presented to IC containing the following information:
 - a. Name and location of Bank(s)
 - b. Nature of the Bank Account(s) e.g. Savings, Current, and/or Time Deposits
 - c. Balance as of the 31 December 20____.
- 2. Bank statements/ passbooks, deposit slips, debit/credit memos and certificates should be available for inspection.
- 3. If available at the time of count, reconciliation of each bank account should be presented.
- 4. Specialized/new products should be supported by Certification from Banko Sentral ng Pilipinas (BSP) that the same is allowable or approved for sale through banks and other authorized dealers.
- 5. Cash in rural banks, stock savings and loan associations and other non-commercial banks are accounted up to the amount of the PDIC coverage (maximum of ₱ 500,000.00 per depositor).

Investment in Bonds/Treasury Bills Government/Corporate (FVPL, AFS & HTM)

- 1. The schedule of Bonds/Treasury Bills should be consists of the following information:
 - a. Description (domestic, foreign/government, private)
 - b. Date acquired/issued
 - c. Maturity Date
 - d. Serial number
 - e. Face Amount
 - f. Acquisition Cost
 - g. Interest Rate
 - h. Premium/Discount
- 2. Documents supporting bonds should be presented for actual physical count such as:
 - a. Original bond certificate, confirmation of sales/purchase,
 - b. Statement of RoSS (Registry of Scriptless Securities) for government bonds/treasury bills
 - c. Statement of Account from PDTC, Statement of IMA accounts and/or Trust accounts, whichever is applicable for both government and corporate bonds.

- d. If sold/mature/rollover, official receipts, bank validated deposit slips bank statement/passbook and rollover documents.
3. Any difference resulting from physical count against schedule presented should be reconciled and adequately explained.

Investment in Stocks (Equity Investment) (FVPL & AFS)

1. The schedule of Investment in Stocks should be consists of the following information:
- a. Description of securities
 - b. Certificate Number
 - c. Date acquired
 - d. How acquired
 - e. Number of Shares
 - f. Par Value
 - g. Acquisition Cost
 - h. Rate used to obtain Market/Book Value
 - i. Market/Book Value
 - j. Dividend
2. Documents supporting stocks should be presented for actual physical count such as:
- a. Stock Certificates
 - b. Statement of Account from PDTC, statement of IMA and/or Trust accounts whichever is applicable.
 - c. If unissued, confirmation/proof of purchase, paid checks and OR issued by the issuer.
 - d. If sold/rollover, official receipts, bank validated deposit slips bank statement/passbook and rollover documents.
3. Any difference resulting from physical count against schedule presented should be reconciled and adequately explained.

Investment in Mutual, Unit Investment Trust and Other Funds (FVPL and AFS)

4. The schedule of Investment in Mutual, Unit Investment Trust and Other Funds should be consists of the following:
- a. Description of securities
 - b. Number of Units
 - c. Acquisition Cost
 - d. Net Asset Value per Unit (NAV/pu)
 - e. Market Value

5. Documents supporting stocks should be presented for actual physical count such as:
 - e. Statement of Holdings from the Fund Manager.
 - f. Statement of Account/Holdings from PDTC, statement of IMA and/or Trust accounts whichever is applicable.
 - g. If unissued, confirmation/proof of purchase, paid checks and OR issued by the issuer.
 - h. If sold/rollover, official receipts, bank validated deposit slips bank statement/passbook and rollover documents.
6. Any difference resulting from physical count against schedule presented should be reconciled and adequately explained.

Investment in Real Estate (Real Estate Held for Business Operation-under Property and Equipment and Investment Property (ies))

1. The schedule of Investment in Real Estate should be consists of the following information:
 - a. Location and description of the land/building
 - b. Title Number (TCT, CCT No.)
 - c. Lot no. and lot area
 - d. Date Acquired, Name of Vendor
 - e. Actual cost
 - f. Book Value
 - g. Appraised Value, if any
 - h. Accrued Rent Income, if any
 - i. Amount of Insurance of Building
2. Documents supporting ownership by the company should be presented for actual physical count such as:
 - f. Original transfer certificate of title duly annotated, mortgage agreements, appraisal reports, etc.
 - g. For newly acquired property – deed of sale, proof of payment (official receipts, cash vouchers, cancelled checks)
 - h. For installment sales – installment receivable (purchase, money mortgages) collateralized asset
 - i. In case of condominium – Condominium Certificate of Title (CCT). If none is available, the pertinent/contract agreement.
 - j. In case of foreclosed properties – court receipt, loan balance including capitalized interest and penalties.
 - k. If title is with the Registered of Deeds – application for registration
Duly acknowledged by the Office of the Register of Deeds and the official receipt for filing fee.

3. Discrepancies/exceptions should be reconciled and adequately explained.

H. Audit Procedures

The asset accounts (but not limited to the enumerated below) shall be considered as accounted assets as long as its valuation is determinable and properly supported. Hence, assets of doubtful economic value and/or unsupported shall not be considered in the determination of HMOs' financial condition per section 1.4 b of CL 2016-41.

Cash on Hand and in Banks

Objectives:

To prove existence and ownership of cash on hand and in banks and to establish proper valuation thereof.

Procedures:

Prove Existence and Ownership:

- Conduct physical count. Refer to Guidelines on Physical Inventory.
- Check the detailed schedule of Cash on Hand and in Banks (Cash and Cash Equivalents) if the total amount is same in the audited fs.
- Verify the supporting documents of the following:
 1. Cash on Hand – custodian's certificate
 2. Cash in Banks – bank statement and bank reconciliation,
 - For reconciling items verify the following:
 - a. Deposit Slip - OR and validated deposit slips
 - b. Outstanding Checks – bank statement of the succeeding month
 3. Time Deposit – certificate of Time Deposit
- If there is a difference between balance per company and balance per bank reconciliation, you may consider the balance per bank reconciliation as accounted assets if the items are fully supported.
- If some or all items under cash on hand and in banks are not supported treat it as unaccounted assets.

Valuation:

1. Cash on Hand and in Banks shall be valued at Book Value. For foreign denominated accounts it must be valued at the prevailing exchange rate as of 31 December 20____.
(Please refer to **BSP exchange rates**
<http://www.bsp.gov.ph/statistics/sdds/ExchRate.htm>)

Receivables

Objectives:

To prove that the recorded receivables represents valid amounts due to the company and the amount of the allowance for doubtful accounts is adequately set-up.

Procedures:

1. Refer to the detailed schedule of receivables provided by the company.
2. Prepare a list of samples to be taken for verification and focus more on huge amounts and long/overdue outstanding balances.
3. Verify collection of the balances on the succeeding year by requesting proof of collection such as ORs, validated deposit slips and passbook/bank statements.
4. For collection of Advances to Officers and Employees, you may request proof of payroll deduction.
5. For verification of Due from Affiliated Companies, request for a copy of the latest audited financial statement of an affiliate which must reflect an amount payable to the company.
6. If the amount of Due from Affiliated Companies is greater than the amount payable to the company, treat the excess amount as an unaccounted asset.

Valuation:

Receivables shall be valued at gross amount due less any allowance for doubtful accounts.

Investment in Bonds (FVPL, AFS and/or HTM)

Objectives:

To prove existence and company's ownership of investment in bonds and the proper valuation thereof.

Procedures:

Prove Existence:

- Conduct physical count. Refer to Guidelines on Physical Inventory.

Ownership:

- If certificates, statement of Ross, Statement of IMA/Trust Accounts etc. are not available during the physical count, verify transactions and supporting documents and confirm with the issuing company.

Valuation:

Investment in Bonds shall be valued at Fair Market Value.

Investment in Stocks (FVPL and/or AFS)

Objectives:

To prove existence and company's ownership of investment in stocks and to establish proper valuation thereof.

Procedures:

Prove Existence:

- Conduct physical count. Refer to Guidelines on Physical Inventory.

Ownership:

- 1 Agree on the details of the stocks counted/verified.
Ensure that all stocks are in the name of the company or if registered in the name of the nominee (qualifying shares), they are properly endorsed in favor of the company, or accompanied by a power of attorney.
- 2 For stock certificates which are not available or not presented during the physical count, present confirmation of purchase or confirm with the stock transfer agent.

If sold between count date and review date, verify transactions and supporting documents.

If partially sold, verify transactions, supporting documents and confirm on the balance retained with the stock broker or stock transfer agent.

- 3 For stock dividends, verify documents evidencing that the stock dividends was received and accounted for. Documents may take the form of actual certificates itself, notice of dividend declaration, certification of corporate secretary and board resolution.

Valuation:

- 1 Investment in Stocks shall be valued at Fair Market Value if quoted or traded in Philippine Stock Exchange (PSE).
- 2 For unquoted or untraded stocks, it shall be valued at cost. If the company wishes, to value the stocks at Book Value (BV), the following documents must be submitted:
 - a. Audited Financial Statements of the Issuing Company for the last three (3) years and
 - b. Proof of receipts of dividends for the last three (3) years
 - c.

Investment in Real Estate (Property and Equipment/Investment Property)

Objectives:

To prove existence and company's ownership of real estate property (ies) and to establish proper valuation thereof.

Procedures:

Prove Existence:

- Conduct physical count. Refer to Guidelines on Physical Inventory.
- In case of additions or capital improvements, verify all supporting documents.

Ownership:

1. If acquired through purchase, check purchase contract or deed of sale, evidence of payment, Transfer of Certificates (TCTs) and/or Condominium Certificate of Title (CCT).
2. Verify certificate Authorizing Registration (CAR) or application with the Register of Deeds in the absence of TCT or CCT.
3. If acquired through foreclosures, examine records and documents and verify if foreclosures has been consummated.

Valuation:

- 3 Real Estate shall be valued at Net Book Value or IC accepted Appraised Value whichever is higher (refer to Section 1.6 of CL 2016-41).
- 4 Net Book Value shall refer to cost including capitalized and incidental costs less allowance for depreciation.

Property and Equipment**Objectives:**

To prove existence and company's ownership of property and equipment and to establish proper valuation thereof which include but not limited to the following:

- b. Furniture and Fixtures
- c. Office Equipment
- d. Transportation Equipment
- e. Leasehold Improvement
- f. IT Equipment and Software

Procedures:

1. Examine documents evidencing the acquisitions of assets such as purchase orders, sales invoice, check vouchers, delivery receipts, etc. during the year under examination. For development cost, trace the costs capitalized to source documents.
2. Verify the OR and CR if the transportation equipment is under company's name.

3. Verify propriety of charges to the asset account.
4. Ascertain the consistency in the application of the company's capitalization and depreciation policy.
5. Test check the computation of depreciation expenses during the year under examination.

Valuation:

- The assets shall be valued at Net Book Value (NBV) or acquisition cost plus incidental costs and/or development cost as applicable less allowance for depreciation and amortized cost of leasehold improvement, software and/or development costs.

Other Assets

Objectives:

To prove existence of other assets which include but not limited to the following:

- a. Prepaid Expense
- b. Creditable Withholding Tax
- c. Security/Refundable Deposit
- d. Cash/Hospital Bond
- e. Deferred Tax Asset

Procedures:

1. Refer to the detailed schedule of other assets provided by the company.
2. Prepare a list of samples to be taken for verification and focus more on huge amounts.
3. Verify supporting documents such as contract of lease for prepaid rent/lease, proof of hospital deposits such as written agreement between an HMO and a hospital and OR issued by hospitals.
4. For deferred tax assets, refer to the computation of the external as shown in the notes to financial statements/disclosures of the audited financial statements

IV.

EXHIBIT

EXHIBIT A

(DATE)

President & CEO
Company
Address

Sir:

This will be presented to you by **IC employee, designation** of this Commission, whom I have designated as my representatives to conduct an examination as of period into the affairs, financial condition and methods of doing business of **HMO Company** pursuant to Authority of the Commission over HMOs under Section 4 of Executive Order 192 s. 2015.

Please extend to them your assistance and cooperation for the early completion of the examination.

Very truly yours,

DENNIS B. FUNA
Insurance Commissioner

OFFICE ORDER – _____
_____ 2017

Subject: Examination of HMO company as of 31 December 201x

IC employee, Designation, of this Commission, is/are hereby designated to conduct an examination as of 31 December 201x, into the affairs, financial condition and methods of doing business of **HMO company** pursuant to Authority of the Commission over HMOs under Section 4 of Executive Order 192 s. 2015.

A report thereon should be submitted immediately upon completion of the examination.

The examiners shall be entitled to travel allowance subject to existing government rules and regulations.

DENNIS B. FUNA
Insurance Commissioner

EXHIBIT B

Republic of the Philippines
Department of Finance
Insurance Commission

Date _____

The Chief Accountant and Other
Officials Concerned:

In connection with the examination made into the affairs, financial condition and methods of doing business of **HMO company** as of 31 December ____, please present and/or submit to the examiners the following:

I. Non-Financial Records/Documents

For review and verification

- a. Stock and Transfer Book
- b. Stock Certificate Booklets (Stubs, certificates, etc.)
- c. Minutes of Stockholders' and Board Meetings
- d. Articles of Incorporation, By-Laws and Amendments
- e. Manual Operating Procedures

For submission

- a. List of Books and Accounts currently being used
- b. Latest General Information Sheet (GIS)
- c. List of Current Members of the Board, Officers

II. Financial Records/Documents

1. Adjusted Trial Balance as of 31 December ____
2. Audited Financial Statement as of 31 December ____ with auditor's adjustments
3. Detailed Schedule of
 - a. All Asset Accounts
 - b. All Liabilities Account
4. All books of accounts currently being used
 - a. General Ledger
 - b. Journal Book
 - c. Cash Receipts Book
 - d. Cash Disbursement Book
5. Other records:
 - a. Disbursement Vouchers
 - b. Official Receipts
 - c. Journal Vouchers
 - d. Passbook/Bank statement/Bank reconciliation of all cash account

III. Other documents that may be needed from time to time

Very truly yours,

Ad Hoc Group on HMOs