

IFIAR 2020 Member Profile – PSEC

1. Jurisdiction	1.1 Insert the name of the jurisdiction in English: Philippines
2. Member¹	2.1 Insert the name of the Member, both in the local language and in English: English: Philippine Securities and Exchange Commission or PSEC Local Language (Filipino): Komisyon sa mga Panagot at Palitan
	2.2 Include relevant contact information, including postal address, telephone numbers, a link to the website and other relevant information: <u>Postal Address:</u> Secretariat Building, PICC Complex, Roxas Boulevard, 1307 Metro Manila, Philippines <u>Tel.:</u> (+632) 8818-0921 <u>Fax:</u> (+632) 8818-6120 <u>Website:</u> http://www.sec.gov.ph/
	2.3 Include the basis for establishment of the Member, as well as the legislation or regulations which provide the Member the authority/mandate with respect to audit regulation. Please describe with an appropriate level of detail the mission and responsibilities of the Member with respect to audit regulation: The following provisions empower the PSEC to oversee external audit firms and/or auditors of entities overseen by the PSEC: 1. Republic Act No. 8799, otherwise known as the Securities Regulation Code (SRC) which was approved on July 19, 2000 and its Implementing Rules and Regulations The SRC aims to protect investors and ensure full and fair disclosures about securities. Further, it grants PSEC the authority to make, amend and rescind accounting rules and regulations as may be necessary to carry out the SRC provisions. The SRC has its Implementing Rules and

¹ In the case where there are two or more regulators from the same jurisdiction that have been approved according to Section 2.3 of the IFIAR Charter, they together are considered as one Member. In that case, regulators are requested to include information for both organizations in the Member Profile.

Regulations (IRR), one of which is the Revised SRC Rule 68, which became effective on October 3, 2019.

The Revised SRC Rule 68 currently provides the following:

- a. SEC Oversight Assurance Review (SOAR) Inspection Program is defined as the on-site review of the quality control policies and procedures of the accredited auditing firms auditing companies with equity or debt securities listed in an Exchange and review of portions of the audit work of selected audit engagements from time to time.
- b. The PSEC shall subject to SOAR Inspection Program the PSEC-accredited auditing firms engaged by companies with equity or debt securities listed in an Exchange and review portions of these firms' audit work for the listed companies. The PSEC, however, is not precluded from subjecting the Independent Auditors of other companies for inspection as the circumstances would warrant.
- c. Auditing firms with listed company-clients shall allow the Commission through its reviewers who hold a written authority, to conduct an on-site examination in accordance with the SOAR Inspection Program.
- d. Results of the engagement level review under the SOAR Inspection Program shall be considered in an independent auditor's application for PSEC accreditation.
- e. The PSEC accreditation of an auditing firm, partner or sole practitioner shall be effective unless any of the following occurs:
 - (1) the auditing firm or auditor's request for withdrawal of accreditation is approved by the Commission;
 - (2) the accreditation is suspended or revoked by the Commission, after due notice and hearing, for failure to comply with SOAR requirements or for such other grounds as provided in this Rule; or
 - (3) the Philippine Board of Accountancy (BOA) registration and license have expired and no application for renewal has been filed with the BOA.

2. PSEC Memorandum Circular (MC) No. 9, Series of 2017

The MC No.9 series of 2017, which was approved by the Commission *En Banc* on August 18, 2017 and became effective on August 22, 2017,

	<p>provides the rules and regulations on the implementation of the SOAR Inspection Program.</p> <p>3. Republic Act No. 11232 or Revised Corporation Code of the Philippines (Revised Corporation Code), which was signed into law on February 23, 2019 and which replaces Batas Pambansa Blg. 68 (National Law No. 68) or the Corporation Code of the Philippines.</p> <p>The following provisions under the Revised Corporation Code relates to penalties that may be imposed to auditors:</p> <p>a. <i>Section 162.</i> Willful Certification of Incomplete, Inaccurate, False, or Misleading Statements or Reports; Penalties. – Any person who willfully certifies a report required under this Code, knowing that the same contains incomplete, inaccurate, false, or misleading information or statements, shall be punished with a fine ranging from Twenty thousand pesos (P20,000.00) to Two hundred thousand pesos (P200,000.00). When the wrongful certification is injurious or detrimental to the public, the auditor or the responsible person may also be punished with a fine ranging from Forty thousand pesos (P40,000.00) to Four hundred thousand pesos (P400,000.00).</p> <p>b. <i>Section 163:</i> An independent auditor who, in collusion with the corporation’s directors or representatives, certifies the corporation’s financial statements despite its incompleteness or inaccuracy, its failure to give a fair and accurate presentation of the corporation’s condition, or despite containing false or misleading statements, shall be punished with a fine ranging from Eighty Thousand Pesos (P80,000) to Five Hundred Thousand Pesos (P500,000). When the statement or report certified is fraudulent or has the effect of causing injury to the general public, the auditor or responsible officer may be punished with a fine ranging from One Hundred Thousand Pesos (P100,000) to Six Hundred Thousand Pesos (P600,000).</p>
	<p>2.4 Have there been any major changes to the Member’s organization or to the governing legislation since completing last year’s Member Profile?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If yes, please describe these changes with an appropriate level of detail:</p> <p>a. On February 23, 2019, President Rodrigo Roa Duterte signed into law Republic Act No. 11232 or the Revised Corporation Code. This</p>

replaces Batas Pambansa Blg. 68 or the Corporation Code of the Philippines which was approved on May 1, 1980.

The Revised Corporation Code did not significantly change the mandate of PSEC; however, it includes additional provisions (Section 162 and 163) that allows PSEC to penalize:

1. Auditors who willfully certifies a report required under the Revised Corporation Code, knowing that the same contains incomplete, inaccurate, false or misleading information or statements that is detrimental to the public; or
2. Auditors who, in collusion with the corporation's directors or representatives, certifies the corporation's financial statements despite its incompleteness or inaccuracy, its failure to give a fair and accurate presentation of the corporation's condition, or despite containing false or misleading information.

The Revised Corporation Code also instills a greater sense of accountability to corporations to deter abuses, fraud and corruption in the private sector. Section 154 of the Revised Corporation Code empowers the PSEC to investigate alleged violations of the Code, a rule or regulation, and its orders. Section 156 further enables the PSEC to issue cease and desist orders and pursue administrative actions and/or initiate criminal prosecution.

- b. On August 27, 2019, Commissioner Karlo S. Bello took his oath as the newly appointed PSEC Commissioner by President Rodrigo Roa Duterte. He replaced then-Commissioner Antonietta Fortuna-Ibe whose term expired in 2019. Commissioner Karlo S. Bello is the Supervising Commissioner of the Philippine SEC's Office of the General Accountant (OGA) who conducts the SOAR Inspection Program.
- c. On October 3, 2019, the Revised SRC Rule 68 became effective and replaced the SRC Rule 68, As Amended (2011). Below are the significant and relevant changes:
 1. The Revised SRC Rule 68 further solidified PSEC's authority to subject to the SOAR Inspection Program the PSEC-accredited auditing firms engaged by companies with equity or debt securities listed in an Exchange and review portions of these firms' audit work for the listed companies; and

	<p>2. The rotation policy for external auditors was revised to ensure consistency with the requirements of the Code of Ethics for Professional Accountants in the Philippines as adopted by the BOA and Philippine Professional Regulation Commission (PRC).</p>
<p>3. Governing Body Composition and members</p>	<p>3.1 Describe with an appropriate level of detail the current composition of the Member’s governing body, including the ratio between Board members who are independent from the audit profession and those who are not². The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</p> <p>The governing body of the PSEC is the Commission <i>En Banc</i>. It is a collegial body, composed of a Chairperson and four (4) Commissioners, appointed by the President of the Republic of the Philippines for a term of seven (7) years each. The Chairperson and the Commissioners shall serve as such until their successor have been appointed and qualified.</p> <p>In addition, all members of the Commission <i>En Banc</i> are independent from the audit profession. They are required to work full time with the PSEC and are required to have undivided loyalty to the PSEC in the execution of their duties. Thus, there may not be any instance where they will be connected in any capacity with the auditing firms, professional accountancy bodies and entities associated with the audit profession.</p> <p>The current composition of the Commission <i>En Banc</i> is as follows:</p> <ol style="list-style-type: none"> 1. Emilio Benito S. Aquino – Chairperson 2. Ephyro Luis B. Amatong – Commissioner 3. Javey Paul D. Francisco – Commissioner 4. Kelvin Lester K. Lee – Commissioner 5. Karlo S. Bello – Commissioner <p>3.2 What are the eligibility criteria / requirements and composition requirements for the members of the governing body?</p> <p>Chapter II, Section 4.2 and 4.3 of the SRC set out the eligibility criteria for the members of the PSEC’s Commission <i>En Banc</i>.</p> <p><i>“4.2. The Commissioners must be natural-born citizens of the Philippines, at least forty (40) years of age for the Chairperson and at least thirty-five (35) years of age for the Commissioners, of good moral character, of unquestionable integrity, of known probity and patriotism, and with recognized competence in social and economic</i></p>

² An individual is independent of the profession even if he is a CPA, Chartered Accountant, or holder of another equivalent qualification, as long as this individual is not employed by or affiliated to a registered audit firm, nor employed by or affiliated to a professional accountancy body, nor employed by or affiliated to bodies or entities associated with the audit profession.

	<p><i>disciplines: Provided, that the majority of Commissioners, including the Chairperson, shall be members of the Philippine Bar.</i></p> <p><i>4.3. The Chairperson is the Chief Executive Officer of the Commission. The Chairperson shall execute and administer the policies, decisions, orders and resolutions approved by the Commission and shall have general executive direction and supervision of the work and operation of the Commission and of its members, bodies, boards, offices, personnel and all its administrative business."</i></p>
	<p>3.3. Is each member of the governing body independent from the audit profession? The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
	<p>3.4 If the answer to question 3.3 is "No", is the majority of the members of the governing body non-practitioner?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p style="text-align: center;">Not applicable.</p>
	<p>3.5 If the answer to question 3.3 is "No", which safeguards are in place to provide for the Member's overall independence from the audit profession?</p> <p style="text-align: center;">Not applicable.</p>
	<p>3.6 Is there a restriction or recusal process that is applicable to members of the governing body of the Member who are current or former auditors/practitioners?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does this include a "cooling-off" period for former auditors?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If yes to either of the above, please describe:</p> <p>Although not mandatory and as applicable, members of the Commission <i>En Banc</i> inhibit themselves in any cases that the PSEC decides or rules which involve their former clients when they were practitioners. In addition, the Commission <i>En Banc</i> is a collegial body and all decisions carried out by the governing body require at least a majority vote.</p>

	<p>3.7 Other than the governing body, are members of the profession involved in the Member’s organization (including in any inspections, committee or panel role)?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If yes, please describe their role with an appropriate level of detail, including the ratio between those who are independent and those who are not in the relevant function and whether such role includes decisional or control authority:</p> <p style="text-align: center;">Not applicable.</p>
<p>4. Funding Arrangements</p>	<p>4.1 Describe the main funding arrangements of the Member, including the setting and approval of the budget and the fees, if any:</p> <p>In the previous years, the PSEC, as a national government agency, is funded through an Annual General Appropriations Act (GAA) passed by the Congress of the Philippines and approved by the President of the Philippines. The budget of the PSEC for Personal Services, Maintenance and Other Operating Expenses and Capital Outlay is provided in the GAA and should be disbursed in accordance therewith. PSEC prepares its budgetary requirements for the succeeding year. The prepared budget is then submitted to the Department of Budget and Management (DBM) for its consideration, with a copy furnished to the DOF for consolidation with its other attached agencies. Upon consideration by the DBM, the entire budget is submitted to both Houses of Congress for their approval. Once approved by both Houses of Congress, the proposed GAA is forwarded to the Office of the President for signature. Upon signing by the President, the GAA becomes a law and is effective within 15 days from publication.</p> <p>With the approval of the Revised Corporation Code, PSEC now has a certain fiscal autonomy. Section 175 of the Revised Corporation Code states that:</p> <p style="padding-left: 40px;"><i>“For a more effective implementation of this Code, the Commission is hereby authorized to collect, retain, and use fees, fines and other charges pursuant to this Code and its rules and regulations. The amount collected shall be deposited and maintained in a separate account which shall form a fund for its modernization and to augment its operational expenses such as, but not limited to, capital outlay, increase in compensation and benefits comparable with prevailing rates in the private sector, reasonable employee allowance, employee health care services, and other insurance, employee career advancement and professionalization, legal assistance, seminars and other professional fees.”</i></p> <p>Starting 2020, PSEC is no longer funded through the GAA but will utilize the retained income as provided for under the Revised Corporation Code for</p>

	<p>the budgetary requirements of the PSEC. In addition, under the SRC, the Commission is authorized to retain and utilize an amount equal to One Hundred Million Pesos (P100,000,000.00) from its income.</p> <p>4.2 Is the funding free from undue influence by the profession?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Please describe with an appropriate level of detail the safeguards in place to prevent undue influence by the profession:</p> <p>The funding is free from any undue influence by any members of the profession. As discussed in 4.1 above, the PSEC is funded through the GAA which is passed by the Congress of the Philippines and approved by the President of the Philippines. PSEC also now enjoys a certain fiscal autonomy as prescribed in Section 175 of the Revised Corporation Code (<i>kindly refer to answer 4.1</i>).</p>
<p>5. Inspection System</p>	<p>5.1 Does the Member have the responsibility for recurring inspections of audit firms undertaking audits of public interest entities (PIEs)?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>5.2 Is this responsibility undertaken directly or through oversight of inspection conducted by another organization?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>Below is a brief overview of PSEC’s direct responsibilities, through the SOAR Inspection Program, for auditor oversight under MC No.9, series of 2017:</p> <ol style="list-style-type: none"> a. Employ a risk-based approach in selecting the firm and the audit engagement that will be subjected to the SOAR Inspection; b. Conduct firm-level review which covers the appropriateness of the policies and procedures and the degree of the firm’s compliance with each of the six (6) elements of the quality control policies and procedures prescribed under Philippine Standard on Quality Control 1, <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements</i>; c. Conduct engagement-level review which covers an assessment of the audit engagement team’s compliance with the Philippine Standards on Auditing, professional standards, relevant regulatory requirements and the firm’s policies and procedures in connection with its

	<p>performance of audits, issuance of audit reports and related matters involving listed companies;</p> <ul style="list-style-type: none"> d. Maintain independence and keep the information obtained from the inspection confidential; e. Inform the firm and the audit engagement team that they are selected to undergo the SOAR Inspection at least 60 days before the planned on-site inspection; f. Issue Letter of Findings and Inspection Reports to the inspected firm and the audit engagement team which provide details of the Inspection Team’s findings on quality control policies and significant audit deficiencies; g. Require the inspected firm and audit engagement team to remediate the noted findings on quality control and the significant audit deficiencies; h. Evaluate if the remediation action of the firm and the audit engagement team sufficiently address the identified findings; and i. Enforce appropriate administrative sanctions, as applicable. <p>If through oversight of another organization, please describe with an appropriate level of detail the other organization, its relation to the Member, its role, and the arrangements for oversight:</p> <p style="text-align: center;">Not applicable.</p> <hr/> <p>5.3 Please describe with an appropriate level of detail the requirements and practices regarding the frequency of inspections:</p> <p>PSEC follows a risk-based approach in the selection of engagements and firms to be subjected to SOAR Inspection.</p> <p>Upon the full implementation of the SOAR Inspection Program, the frequency of the inspection shall be as follows:</p> <ul style="list-style-type: none"> a. For all covered audit firms, it shall be once every three (3) years. All audit firms of listed companies will be covered within the three-year period. PSEC, however, is not precluded from subjecting firms to an annual inspection, if circumstances would warrant the conduct thereof; and b. During the triennial review of an audit firm, at least one (1) engagement will be selected.
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6. Audit and Financial Market	<p>6.1 Provide the number of audit firms subject to inspections. Include an indication of the number of public interest audits (PIEs) and other audits that fall under the Member’s oversight or mandate.</p> <p>As of December 31, 2019, there were 23 PSEC-accredited auditing firms under Group A that are allowed to handle the audits of the 271 publicly listed companies (PLCs). Out of these 23 PSEC-accredited Group A firms, 17 are handling the audits of PLCs and companies listed in the PDEX and are therefore covered by the SOAR Inspection Program.</p> <p>6.2 What are the sizes and market shares of each of the largest audit firms in the Member’s jurisdiction?</p> <p>Below is the market share of the firms auditing PLCs and companies listed in the PDEX as of December 31, 2019:</p> <table border="1" data-bbox="544 922 1430 1473"> <thead> <tr> <th colspan="2">Auditing Firms</th> <th>No. of Clients</th> <th>% share</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Sycip Gorres Velayo & Co. (Ernst & Young Philippines)</td> <td>135</td> <td>50%</td> </tr> <tr> <td>2</td> <td>Punongbayan and Araullo (Grant Thornton Philippines)</td> <td>33</td> <td>12%</td> </tr> <tr> <td>3</td> <td>Reyes Tacandong and Company (RSM Philippines)</td> <td>26</td> <td>10%</td> </tr> <tr> <td>4</td> <td>R.G. Manabat and Co. (KPMG Philippines)</td> <td>24</td> <td>9%</td> </tr> <tr> <td>5</td> <td>Isla Lipana and Co. (PricewaterhouseCoopers Philippines)</td> <td>13</td> <td>5%</td> </tr> <tr> <td>6</td> <td>Valdes Abad & Company, CPAs</td> <td>5</td> <td>2%</td> </tr> <tr> <td>7</td> <td>Alas, Oplas & Co., CPAs</td> <td>5</td> <td>2%</td> </tr> <tr> <td>8</td> <td>Others – composed of small and medium sized Auditing Firms</td> <td>30</td> <td>11%</td> </tr> </tbody> </table>	Auditing Firms		No. of Clients	% share	1	Sycip Gorres Velayo & Co. (Ernst & Young Philippines)	135	50%	2	Punongbayan and Araullo (Grant Thornton Philippines)	33	12%	3	Reyes Tacandong and Company (RSM Philippines)	26	10%	4	R.G. Manabat and Co. (KPMG Philippines)	24	9%	5	Isla Lipana and Co. (PricewaterhouseCoopers Philippines)	13	5%	6	Valdes Abad & Company, CPAs	5	2%	7	Alas, Oplas & Co., CPAs	5	2%	8	Others – composed of small and medium sized Auditing Firms	30	11%
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7. Main Other Responsibilities of the Member <u>within</u> the area of Audit Oversight	<p>7.1 Please indicate whether the Member has responsibility for tasks other than Inspections within the area of Audit Oversight:</p> <p> <input checked="" type="checkbox"/> Registration/Licensing <input checked="" type="checkbox"/> Audit and/or Ethics Standard Setting <input type="checkbox"/> Permanent Education of Auditors <input checked="" type="checkbox"/> Enforcement <input type="checkbox"/> Other: _____ </p> <p>7.2 If the Member has the responsibility for <u>Registration/Licensing</u>, please indicate whether this responsibility is undertaken directly or through oversight of Registration/Licensing conducted by another organization?</p> <p> <input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight </p>																																				

	<p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedure applied, as well as the role of the Member in these procedures.</p> <p>PSEC requires external auditors to be accredited before they can audit issuers and regulated companies under Groups A, B or C. The PSEC issues accreditations to auditing firms and independent auditors which/who meet the required qualifications, trainings, and quality control policies and procedures.</p> <p>The accreditation process for external auditors and audit firms serves as the quality mechanism implemented by the PSEC to safeguard the integrity and ensure the reliability of the reports submitted to the PSEC in order to protect the investors. This process involves an evaluation of the capabilities of the applicant-external auditor and an evaluation of the AFS of the applicant’s selected audit clients.</p> <p>Under the present PSEC accreditation process, while accreditation is for a period of five (5) years, the PSEC has a review program where the financial statements audited by the accredited audit firms may also be reviewed. In addition, the OGA also conducts analysis of AFS of companies under PSEC investigation, upon request of the PSEC Operating Departments, the Congress and other government agencies, and issues opinions or clarifications on accounting and related matters.</p>
	<p>7.3 If the Member has the responsibility for <u>Audit and/or Ethics Standard Setting</u>, please indicate whether this responsibility is undertaken directly or through oversight of Audit and/or Ethics Standard Setting conducted by another organization?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <p>Under the Revised SRC Rule 68, PSEC issues financial reporting rules to PSEC-regulated companies. Further, PSEC issues MCs upon approval by the BOA and the PRC of the auditing standards promulgated by the Auditing and Assurance Standards Council (AASC) as well as the ethical standards promulgated by the Philippine Institute of Certified Public Accountants (PICPA). These MCs require PSEC-regulated entities to follow the adopted</p>

	<p>auditing and ethical standards. Under the Revised SRC Rule 68, external auditors accredited with the PSEC are required to:</p> <p>1) Comply with the rotation policies as prescribed in the Code of Ethics for Professional Accountants in the Philippines; and</p> <p>2) Conduct audits in accordance with the requirements of the Philippine Standards on Auditing (PSA).</p> <hr/> <p>7.4 If the Member has the responsibility for <u>Permanent Education of Auditors</u>, please indicate whether this responsibility is undertaken directly or through oversight of Permanent Education of Auditors conducted by another organization?</p> <p><input type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <p style="text-align: center;">Not applicable.</p> <hr/> <p>7.5 If the Member has the responsibility for <u>Enforcement</u>, please indicate whether this responsibility is undertaken directly or through referral to other organization(s)?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Referral</p> <p>If through referral, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the enforcement powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <p>Section 5(f) of the SRC and Section 179 of the Revised Corporation Code provide the PSEC’s powers to “impose sanctions for the violation of laws and rules, regulations and orders, and issued pursuant thereto”.</p> <p>Section 9.2 of PSEC MC No. 9, Series of 2017 notably provides the procedures and sanctions for violations identified during the inspection:</p> <p><i>“If the Inspection Team determines that information it obtained from the firm and the engagement team during the inspection indicates that the firm subject to such inspection, any member of the engagement team or any firm personnel may have engaged in any act or omission that may be in violation of professional standards or the firm's own quality control procedures, it shall:</i></p>
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1. *Report information concerning such act, practice or omission to the Commission En Banc; and*
2. *If deemed necessary, recommend an investigation of such act, practice or omission or a disciplinary proceeding in accordance with the Rule of the Commission.*

The following administrative sanctions may be imposed on auditing firms/auditors covered by the inspection:

1. *Censure;*
2. *Require additional professional education and training;*
3. *Require the firm to engage another consultant to design policies and to improve compliance with professional standards relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto;*
4. *Monetary fines; and*
5. *For egregious or repeat violations, suspension or revocation of PSEC accreditation.”*

If the SOAR Inspection Team would find, in the course of their inspection, violations by PLCs and other companies of securities law and other laws and regulations being implemented by the PSEC, the same will be reported also to the operating departments – [Market Securities and Regulation Department (MSRD), Corporate Governance and Finance Department (CGFD), and the Company Registration and Monitoring Department (CRMD)] – of the PSEC for further proceedings against the PLCs/companies concerned and for imposition of appropriate administrative sanctions. If the violations would constitute fraud or would warrant initiation of criminal action, the same shall be referred to the Enforcement and Investors Protection Department (EIPD) of the PSEC for further proceedings. The MSRD is responsible for the registration of securities and supervision of the PLCs, while the EIPD is the investigation and prosecution arm of the PSEC.

PSEC has an independent sanctioning authority to auditors in circumstances when audit failings are found as stated in the IRR of SOAR. The IRR of SOAR specifically provides administrative sanctions to audit firms/auditors covered by our inspection program.

The procedures and sanctions for violations as stated in Section 9.2 of MC No. 9, Series of 2017 for inspections on auditors and auditing firms are determined and enforced directly by the PSEC thru the OGA.

	<p>7.6 If the Member has the responsibility for other tasks within the area of Audit Oversight, please describe with an appropriate level of detail:</p> <p style="text-align: center;">Not applicable.</p>
<p>8. Main Other Responsibilities of the Member <u>outside</u> the area of Audit Oversight</p>	<p>8.1 Please describe with an appropriate level of detail whether the Member has responsibility for tasks outside the area of audit oversight such as Supervision of Financial Reporting or Securities Regulation:</p> <p>The PSEC is the national government regulatory agency charged with supervision and protection over the corporate sector, the capital market participants, the securities and investment instruments market, and the investing public. Created on October 26, 1936 by Commonwealth Act 83 also known as The Securities Act, the Commission was tasked to regulate the sale and registration of securities, exchanges, brokers, dealers and salesmen. Subsequent laws were enacted to encourage investments and more active public participation in the affairs of private corporations and enterprises, and to broaden the Commission’s mandates. Recently enacted laws gave greater focus on the Commission’s role to develop and regulate the corporate and capital market toward good corporate governance, protection of investors, widest participation of ownership and democratization of wealth.</p> <p>The PSEC is the registrar and overseer of the Philippine corporate sector; it supervises more than 600,000 active corporations and evaluates the financial statements filed by all corporations registered with it. The PSEC also develops and regulates the capital market, a crucial component of the Philippine financial system and economy. As it carries out its mandate, the PSEC contributes significantly to government revenues.</p>
<p>9. Major Events and Activities</p>	<p>9.1 Describe any recent major events and activities:</p> <ul style="list-style-type: none"> ▪ In April 2019, PSEC joined the ASEAN Audit Regulators Group upon invitation from the Group. The AARG, composed of regulatory agencies from Singapore, Indonesia, Malaysia and Thailand, is an informal grouping formed in 2011 that aims to foster closer collaboration amongst audit regulators to promote audit quality in the ASEAN Region while complementing IFIAR’s effort to uphold the standards of audit quality globally. ▪ In May and July 2019, the Final Inspection Reports for the first two (2) inspections conducted in 2018 were issued. Pursuant to the SOAR Guidelines, the firms are currently remediating the identified inspection findings. ▪ From July to October 2019, the SOAR Inspection Team conducted the inspection of additional four (4) audit firms, covering the audits of seven (7) PLCs. Pursuant to the SOAR Guidelines, the Letter of Findings

	<p>and Preliminary Inspection Reports were subsequently issued to the inspected firms.</p> <ul style="list-style-type: none">▪ In December 2019, select members of the SOAR Inspection Team, through the invitation of the US Public Company Accounting Oversight Board (PCAOB), observed the PCAOB's 2019 inspection of a Philippine Audit Firm.
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