

IFIAR 2022 Member Profile – PSEC

<p>1. Jurisdiction</p>	<p>1.1 Insert the name of the jurisdiction in English:</p> <p>Philippines</p>
<p>2. Member¹</p>	<p>2.1 Insert the name of the Member, both in the local language and in English:</p> <p>English: Philippine Securities and Exchange Commission or PSEC</p> <p>Local Language (Filipino): Komisyon sa mga Panagot at Palitan</p> <hr/> <p>2.2 Include relevant contact information, including postal address, telephone numbers, a link to the website and other relevant information:</p> <p><u>Postal Address:</u> Secretariat Building, PICC Complex, Roxas Boulevard, 1307 Metro Manila, Philippines</p> <p><u>Tel.:</u> (+632) 8818-0921 <u>Fax:</u> (+632) 8818-6120 <u>Website:</u> http://www.sec.gov.ph/</p> <hr/> <p>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:</p> <p>The following provisions empower the PSEC to oversee external audit firms and/or auditors of entities overseen by the PSEC:</p> <p>1. Republic Act (RA) No. 8799, otherwise known as the Securities Regulation Code (SRC) which was approved on July 19, 2000 and its Implementing Rules and Regulations</p> <p>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 Regulations (IRR), one of which is the Revised SRC Rule 68, which became effective on October 3, 2019.</p>

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.

The Revised SRC Rule 68 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. Memorandum Circular (MC) No. 12, Series of 2021 or the Revised SOAR Rules (amended the PSEC MC No. 09, Series of 2017)

The MC No. 12 series of 2021, which was approved by the Commission *en banc* on December 09, 2021, provides the revised rules and regulations on the implementation of the SOAR Inspection Program.

3. RA No. 11232 or Revised Corporation Code of the Philippines (Revised Corporation Code), which was signed into law on February 20, 2019 and became effective on February 23, 2019, and which replaced the Batas Pambansa Blg. 68 (National Law No. 68) or the Corporation Code of the Philippines.

The following provisions under the Revised Corporation Code relate to penalties that may be imposed to auditors:

- a. *Section 162.* “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) to Two hundred thousand pesos (P200,000). 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) to Four hundred thousand pesos (P400,000)”.

- b. *Section 163:* “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).”

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?

Yes **No**

If yes, please describe these changes with an appropriate level of detail:

On December 09, 2021, the Commission *en banc* approved MC No. 12, series of 2021 on the Revised Rules and Regulations on the Implementation of the SOAR Inspection Program. Below are the significant and relevant changes:

- a. Frequency of inspection was updated from once every three (3) years to either once every two (2) years or once every three (3) years, depending on the relative size of the firm's client portfolio in terms of the market capitalization of all publicly-listed companies (PLCs). This aims to address the disparity in the market share of audit firms in the Philippines for the audits of PLCs; hence, firms with client portfolio that comprise a significant percentage (10% or more) of the total market capitalization of PLCs would be subjected to a more frequent inspection.
- b. The Revised SOAR Rules explicitly included the conduct of remote or virtual inspection as an alternative mode to on-site inspection in cases of extraordinary events which necessitate the flexibility on the manner of inspection or in cases when it is impracticable to render on-site inspections.
- c. The notification period (i.e. identification of specific audit engagement subject for inspection or review) was shortened from 60 days to 30 days before the start of the inspection to prevent the risk of potential alterations or modifications of audit work papers by the firm prior to commencement of inspection.
- d. Inspection findings are now categorized as either opportunities for improvements or enhancements or significant audit deficiencies. This aims to address common concerns raised by audit firms in terms of the determination of inspection findings and to ensure consistency of the Inspection Team's evaluation of findings, across all inspections.
- e. The issuance of the Preliminary Inspection Report (PIR) was removed in the inspection process as this report appears redundant to the Final Inspection Report (FIR). The report to be issued is now known as "SOAR Inspection Report". Accordingly, deadlines for the completion of Letter of Findings (LOF) and the SOAR Inspection Report were also changed.
- f. The Revised SOAR Rules included an overview of the consultation process with resource person/s, which is a mechanism to resolve contested significant findings.
- g. Remediation period was shortened to 12 months instead of 12-18 months. Based from concluded inspections, a 12-month remediation period has been sufficient for firms to remediate all noted findings. Firms, however, may request for an extension of time, subject to the approval of the SEC Office of the General Accountant (OGA).
- h. The process on the issuance of the Evaluation Report of Firm's Remediation as the last stage was clarified. This report summarizes the firm's remedial actions for each of the noted findings on the systems

	<p>of quality control and significant audit deficiencies and the Inspection Team’s assessment if such remedial actions satisfactorily addressed the findings or not.</p> <p>i. The Revised SOAR Rules emphasized that the following shall be published on the SEC website:</p> <ul style="list-style-type: none"> ▪ inspection findings that are unresolved within the allowed period of remediation; ▪ inspection findings whose remedial actions are deemed not satisfactory as determined by the Inspection Team; and/or ▪ contested inspection findings that has attained finality in favor of the Inspection Team’s position and where the firm refuses to remediate. <p>j. The Revised SOAR Rules now include the planned publication of an Annual Inspection Report and the Audit Quality Indicators (AQI) Framework. These future publications support the SOAR’s objective to continuously improve audit quality in the Philippines. The SOAR Annual Inspection Report is intended to raise awareness on areas where common audit deficiencies are noted and to highlight good practices of inspected firms. AQIs, on the other hand, is a useful tool for Audit Committees and those charged with governance to exercise their oversight responsibilities and prompt important dialogue between all relevant stakeholders on matters affecting audit quality.</p> <p>k. Upon the request of the Audit Committee, audit firms are now required to communicate inspection findings and their actions to address these findings. This is to encourage audit firms to further engage with the Audit Committees or those charged with governance through communication of findings from external inspections.</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 successors have been appointed and qualified.</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>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 B. 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 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>
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	<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> <hr/> <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> <hr/> <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>PSEC has a certain fiscal autonomy and hence, utilizes the retained income, as provided for under the Revised Corporation Code, for its budgetary requirements.</p> <p>Section 175 of the Revised Corporation Code states that:</p>

	<p><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>In addition, under the SRC, the Commission is authorized to retain and utilize an amount equal to One Hundred Million Pesos (P100,000,000) from its income.</p> <hr/> <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, PSEC utilizes the retained income, as provided for under the Revised Corporation Code, for its budgetary requirements.</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> <hr/> <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> <ul style="list-style-type: none"> • If directly, kindly provide a brief description or summary of the responsibility, including the regulatory reporting process after inspections i.e. recommendations issued, follow-up, etc.). • 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>Below is a brief overview of PSEC’s direct responsibilities, through the SOAR Inspection Program, for auditor oversight as prescribed in MC No. 12, series of 2021:</p>

- 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 firm's policies and procedures, the degree of the firm's compliance with the elements of a system of quality control, and the sufficiency of the firm's documentation, as prescribed under the Philippine Standards on Quality Control (PSQC) 1 (Redrafted), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and other Assurance Related Services Engagements*, or any of its subsequent amendments;
- c. Conduct engagement-level review which covers an assessment of the audit team's compliance with professional standards, relevant regulatory requirements and firm policies and procedures in connection with its performance of audits, issuance of audit reports and related matters involving publicly-listed companies;
- d. Maintain independence and keep the information obtained from the inspection confidential;
- e. Notify the firm at least 60 calendar days before the start of the inspection detailing the inspection's plan, purpose, timing and requirements;
- f. Notify the firm of the selected audit engagement at least 30 calendar days before the start of the inspection;
- g. Issue LOF and SOAR Inspection Report 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;
- h. Require the inspected firm and audit engagement team to remediate the noted findings on quality control and the significant audit deficiencies;
- i. Evaluate if the remediation actions of the firm and the audit engagement team sufficiently address the identified findings and issue an Evaluation Report of the Firm's Remediation; and
- j. Enforce appropriate administrative sanctions, as applicable.

5.3 Please describe with an appropriate level of detail the requirements and practices regarding the frequency of inspections:

PSEC follows a risk-based approach in the selection of engagements and firms to be subjected to SOAR Inspection.

	<p>For all covered firms, the frequency of inspection shall be based on the relative size of the audited PLCs, in terms of market capitalization as of every 31st of March. The frequency shall be determined by the Inspection Team and shall be updated on a regular basis based on these guidelines:</p> <ul style="list-style-type: none"> ▪ Once every two (2) years <p style="margin-left: 40px;">Firms with a client portfolio that collectively comprise 10% or more of the total market capitalization of PLCs; and</p> ▪ Once every three (3) years <p style="margin-left: 40px;">Firms with a client portfolio that collectively comprise less than 10% of the total market capitalization of PLCs.</p> <p>If there is a change or breach in the threshold during the year, such change shall be considered in the following year’s assessment of the frequency of inspection of covered audit firms, as determined by the Inspection Team.</p> <p>The Commission, however, is not precluded from subjecting firms to a more frequent inspection as circumstances would warrant.</p>																
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, 2021, there were 29 PSEC-accredited auditing firms under Group A that are allowed to handle the audits of the 292 PLCs. Out of these 29 PSEC-accredited Group A firms, 17 are handling the audits of PLCs listed in the Philippine Stock Exchange (PSE) and are therefore covered under 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 as of December 31, 2021:</p> <table border="1" data-bbox="544 1751 1428 2020"> <thead> <tr> <th colspan="2">Auditing Firms</th> <th>No. of Clients</th> <th>% share</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td>Sycip Gorres Velayo & Co. (Member Firm of Ernst & Young Global)</td> <td style="text-align: center;">144</td> <td style="text-align: center;">50%</td> </tr> <tr> <td style="text-align: center;">2</td> <td>Punongbayan and Araullo (Member Firm of Grant Thornton International)</td> <td style="text-align: center;">37</td> <td style="text-align: center;">13%</td> </tr> <tr> <td style="text-align: center;">3</td> <td>Reyes Tacandong and Company (Member Firm of RSM International)</td> <td style="text-align: center;">28</td> <td style="text-align: center;">9%</td> </tr> </tbody> </table>	Auditing Firms		No. of Clients	% share	1	Sycip Gorres Velayo & Co. (Member Firm of Ernst & Young Global)	144	50%	2	Punongbayan and Araullo (Member Firm of Grant Thornton International)	37	13%	3	Reyes Tacandong and Company (Member Firm of RSM International)	28	9%
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	4 R.G. Manabat and Co. (Member Firm of KPMG International)	26	8%
	5 Isla Lipana and Co. (Member Firm of PricewaterhouseCoopers)	14	4%
	6 Alas, Oplas & Co., CPAs (Member Firm of BKR International)	3	1%
	7 Others – composed of small and medium sized Auditing Firms	39	15%
<i>* Included under "Others" are: Navarro, Amper & Co. (Member Firm of Deloitte Global) and BDO Roxas Cruz Tagle and Co. (Member Firm of BDO International)</i>			
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> <ul style="list-style-type: none"> • 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>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 Audited Financial Statements (AFS) of the applicant’s selected audit clients.</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, 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.

7.3 If the Member has the responsibility for Audit and/or Ethics Standard Setting, please indicate whether this responsibility is undertaken directly or through oversight of Audit and/or Ethics Standard Setting conducted by another organization?

Directly Through Oversight

- 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.

Under the Revised SRC Rule 68, PSEC issues financial reporting rules to PSEC-regulated companies. Further, PSEC issues MCs upon approval by the Philippine Professional Regulation Commission (PRC) thru the BOA, 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. These MCs require PSEC-regulated entities to follow the adopted auditing and ethical standards. Under the Revised SRC Rule 68, external auditors accredited with the PSEC are required to:

- a. Comply with the rotation policies as prescribed in the Code of Ethics for Professional Accountants in the Philippines; and
- b. Conduct audits in accordance with the requirements of the Philippine Standards on Auditing (PSAs).

7.4 If the Member has the responsibility for Permanent Education of Auditors, please indicate whether this responsibility is undertaken directly or through oversight of Permanent Education of Auditors conducted by another organization?

Directly Through Oversight

- If directly, please describe the responsibility with an appropriate level of detail.

	<ul style="list-style-type: none"> • 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 style="text-align: center;">Not applicable.</p>
	<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> <ul style="list-style-type: none"> • If directly, kindly provide a brief description or summary of the enforcement responsibility, the procedure and process involved, including the regulatory reporting process that led to disciplinary action. • 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>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 10.3 of PSEC MC No. 12, Series of 2021 or the Revised SOAR Rules notably provides the procedures and sanctions for violations identified during the inspection:</p> <p style="text-align: center;"><i>“If the Inspection Team determines that the information obtained from the firm during the inspection indicates that the inspected firm, any member of the audit team or any firm personnel may have engaged in any act or omission that may violate regulatory requirements, ethical, quality control and auditing standards or any applicable professional standards, the Inspection Team shall:</i></p> <ol style="list-style-type: none"> <i>a. Report information concerning such act, practice or omission to the Commission en banc; and</i> <i>b. If deemed necessary, recommend an investigation of such act, practice or omission or a disciplinary proceeding in accordance with the Rule of the Commission.</i>

	<p><i>The following administrative sanctions may be imposed on auditing firms/auditors covered by the inspection:</i></p> <ul style="list-style-type: none"> <i>a. Censure;</i> <i>b. Require additional professional education and training;</i> <i>c. 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;</i> <i>d. Monetary fines;</i> <i>e. Downgrading of the PSEC accreditation level;</i> <i>f. For egregious or repeat violations, suspension or revocation of PSEC accreditation; and/or</i> <i>g. Other sanctions that will be subsequently determined and issued by the Commission.”</i> <p>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, and the Company Registration and Monitoring Department] – 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.</p> <p>The procedures and sanctions for violations as stated in Section 10.3 of MC No. 12, Series of 2021 or the Revised SOAR Rules for inspections on auditors and auditing firms are determined and enforced directly by the PSEC thru the OGA.</p>
	<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</p>

	<p>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>Based on the Revised SRC Rule 68, PSEC also has the authority, subject to prior consultation with concerned parties, to prescribe the most appropriate requirement that shall form part of the applicable financial reporting frameworks of corporations. In prescribing the applicable financial reporting framework for a particular class or sub-class of entities covered by the Revised SRC Rule 68, PSEC shall consider the pronouncements and interpretations of the Philippine Financial Reporting Standards Council. Financial reporting frameworks pertain to set of accounting principles, standards, interpretations and pronouncements that must be adopted in the preparation and submission of the annual financial statements.</p>
9. Major Events and Activities	<p>9.1 Describe any recent major events and activities:</p> <ul style="list-style-type: none"> ▪ On December 15, 2020, the PSEC issued SEC MC No. 34, Series of 2020, which provides reliefs to the real estate industry by deferring for another three years or until 2023 the application of the provisions of the Philippine Interpretations Committee (PIC) Q&A No. 2018-12 with respect to the accounting for significant financing component and the exclusion of land in the calculation of the percentage of completion and IFRIC Agenda Decision on Over Time Transfers of Constructed Goods under Philippine Accounting Standard (PAS) 23, Borrowing Cost. Accordingly, the real estate companies may opt to avail any of the financial reporting reliefs provided by the PSEC and prepare their annual financial statements using Philippine Financial Reporting Standards (PFRS), as modified by the application of financial reporting reliefs issued and approved by the SEC in response to the COVID-19 pandemic, for the duration and terms allowed by the SEC.

	<p>In October 2021, relative to the MC above, the AASC issued Alert No.003, to provide guidance to external auditors who have been engaged to audit, in accordance with Philippine Standards on Auditing (PSA), the annual financial statements of real estate companies that have been prepared using PFRS, as modified by the application of the said financial reporting reliefs issued and approved by the PSEC.</p> <ul style="list-style-type: none"> ▪ In May 2021, the PSEC conducted dialogues with the local member firms of Big 4 and a medium-sized firm regarding their preparations for the implementation of the new quality management standards. ▪ In October 2021, the AASC issued Philippine Auditing Practice Note 001, a guidance on the tasks and activities of student interns in an audit engagement, which provides guidance to host audit firms/practitioners, students and other parties concerned on the extent of tasks and activities that can be assigned or delegated to student-interns, as well as other related matters regarding their on-the-job-trainings. This PAPN specifies what duties may be assigned to student-interns, and outlines certain limitations as to the nature of tasks and scope of a student-intern's role in an audit engagement. Also, the PAPN obliges host audit firms to comply with certain documentary requirements for its internship program. ▪ In October 2021, the PSEC issued MC No. 08, series of 2021, to clarify transitory provisions for the application of the following pronouncements: <ul style="list-style-type: none"> ○ PIC Q&A No. 2018-12 on accounting for significant financing component and the exclusion of land in the determination of the percentage of completion; ○ PIC Q&A 2018-12(H) on accounting for common usage service area charges and PIC Q&A 2018-14 on accounting for cancellation of real estate sales; ○ PIC Q&A 2018-12 and IFRIC Agenda Decision on Over Time Transfers of Constructed Goods under PAS 23, Borrowing Cost. <p>This MC provide real estate companies the accounting policy option of applying either the full retrospective approach or modified retrospective approach when they apply the provisions of the PIC and IFRIC announcements.</p> ▪ From February to May 2021, the SOAR Inspection Team issued three (3) FIRs to audit firms inspected in 2020. Pursuant to the SOAR Guidelines, the firms are currently remediating the identified inspection findings.
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| | <ul style="list-style-type: none">▪ From February to November 2021, the SOAR Inspection Team issued four (4) Evaluation Reports of the remediation performed by audit firms that were inspected in 2019.▪ From July to December 2021, the SOAR Inspection Team conducted remote inspections of eight (8) audit firms, covering the audits of eight (8) PLCs. Pursuant to the SOAR Guidelines, the LOFs and PIRs were subsequently issued to the inspected firms. |
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With the completion of the 2021 inspections, the SOAR Inspection Team has completed the first cycle of inspections for all audit firms engaged in the audits of PLCs in the Philippines.