

IFIAR 2023 Member Profile – PSEC

1. Jurisdiction	<p>1.1 Insert the name of the jurisdiction in English:</p> <p>Philippines</p>
2. Member¹	<p>2.1 Insert the name of the Member, both in the local language and in English:</p> <p>Komisyon sa mga Panagot at Palitan</p> <p>Philippine Securities and Exchange Commission (PSEC)</p> <hr/> <p>2.2 Include relevant contact information, including postal address, telephone number(s), a general email address (if any) and a link to the Member’s website:</p> <p><u>Postal Address:</u> The SEC Headquarters 7907 Makati Avenue Salcedo Village, Bel-air Makati City, 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</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.

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

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 Please indicate whether the Member has responsibility for the following tasks within the area of Audit Oversight:

- Licensing
- Registration
- Audit and/or Ethics Standard Setting
- Permanent Education / Continuous Training of Auditors
- Inspection
- Enforcement
- Other: _____

<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, where possible, the names, the organization they represent (if any) and brief backgrounds of the governing body members, or provide a link to a page on your website where this information is provided.</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> <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. McJill Bryant T. Fernandez – 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? E.g. Does national legislation require representatives on the governing body from certain organizations, or with specific experience, etc.</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</i></p>

	<p><i>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 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>4. Independence safeguards</p>	<p>4.1 Please describe the national independence requirements for the governing body and its members, and legal or regulatory requirements/provisions in place that safeguard their independence from the audit profession.</p> <p>The PSEC’s ethical requirements (including independence) for its Officers is provided under the Implementing Rules and Regulations (IRR) of SRC Section 6.2 which states that:</p> <p><i>“The Commissioners, including the Chairperson, officers and employees of the Commission (hereinafter collectively referred to as officers or officer), in the execution of their duties owe their undivided loyalty to the Commission. They shall observe the highest standards of honesty, integrity and good faith in the performance of their duties.</i></p> <p><i>Officers shall not pursue private activities in any manner which may conflict with their duties. They shall subordinate those activities which, although not in conflict with their duties, will require time and effort to the prejudice of their duties at the Commission. Every officer who has discretionary authority shall be free from any conflicting interest or influence of such nature and importance which would make it difficult for him to provide his best efforts and loyalty to the Commission.</i></p>

The interest of officers shall include the interest of his or her spouse, children under the age of eighteen (18) and trusts for the benefit of himself, his or her spouse or children.”

Are employees of the Member covered by the same or separate set of independence requirements?

Same set of requirements Different set of requirements

If there are separate independence requirements for employees, please describe:

4.2 Are there any additional safeguards in place that provide for the Member’s overall independence from the audit profession? E.g. through the appointment process, specific Board actions, etc.

Yes No

If yes, please describe:

In addition to Section 6.2 of SRC and its IRR, the SOAR Inspection Manual contains policy on Independence specific to the SOAR inspection team, as follows:

Appointment as members of the SOAR Inspection Team of the Commission is a high honor and requires that the conduct of a member, not only in the performance of the duties of his or her office but also in his or her everyday life, should be beyond reproach. Members of the SOAR Inspection Team should be guided by the general principles listed below. These principles seek to promote effective independent audit oversight in the Philippines, thereby, contributing to the overall objective of the SOAR Inspection to improve the confidence in the audited financial statements of public interest entities, such as publicly listed companies, and in the process, achieve high quality and more transparent financial reporting to protect the interest of the investors and other users of the financial statements.

A. Members should be mindful of their obligation.

Members should recognize that their obligation to preserve the sanctity of the laws, rules or regulations administered by them requires that they pursue all matters, vigorously and diligently but at the same time fairly and impartially and with dignity. Members should, at all times, be mindful of their responsibilities to the Commission, the sensitivity of their positions and the need for public confidence in the objectivity and deliberative due process of the SOAR Inspection.

B. Members should be independent.

This requires independence of mind and independence in appearance. Independence is the ability to undertake regulatory activities and to take and enforce decisions without being affected by partisan demands, public clamor or considerations of personal popularity or notoriety.

Members of the team must also be independent of the profession. Indicators of independence from the profession include the following:

- a. All members of the SOAR Inspection Team should not be practicing auditors or employed by or affiliated with an accredited audit firm. Members who are former auditors must have an appropriate cooling off period of one (1) year before they may participate in the inspection of the firm they were previously associated with as an employee or partner (refer to Section 6 for further details).*
- b. Funding of the SOAR Inspection Team is free of undue influence by the audit profession.*

C. Members should be transparent and accountable.

Members of the SOAR Inspection Team should have public accountability in the use of its powers and resources to ensure that the Team maintains its integrity and credibility. The decisions and actions of the SOAR Inspection Team should be subject to appropriate scrutiny and review.

D. Members should be competent.

Members of the SOAR Inspection Team must have the appropriate professional training and relevant experience in auditing and financial reporting and training in regulatory quality assurance reviews.

This also requires that adequate arrangements for consultation amongst the members of the SOAR Inspection Team, the General Accountant, the Supervising Commissioner and the Resource Persons should also be in place.

E. Members should be objective, free from conflicts of interest and maintain appropriate confidentiality agreements.

The principle of objectivity, under the Code of Ethics for Professional Accountants in the Philippines, imposes the obligation on all professional accountants to be fair, intellectually honest and free of conflict of interest. The SOAR Inspection Team should establish prohibitions against conflict of interest by its governing body and members and ensure that appropriate arrangements are in place to protect confidential information from public dissemination.

F. Members should promote solidarity.

Each member of the SOAR Inspection Team should recognize that his or her conscience and those of the other members of the team are distinct and that differing shades of opinion should be anticipated. A member, however, should never permit his or her personal opinion to conflict with the opinion of other members as to develop animosity or unfriendliness in the Commission. Every effort should be made to promote solidarity of conclusion.

G. No member shall act in a manner, regardless of whether specifically prohibited by this Independence Policy, which might reasonably result in or reasonably create the appearance that the member is:

- i. Using his or her official position as a member of the SOAR Inspection Team, or confidential information obtained through his or her service, for the private gain of any person;*
- ii. Giving preferential treatment to any person with respect to the other members of the SOAR Inspection Team or the member's work during the SOAR Inspection;*
- iii. Losing independence or objectivity with respect to his or her work;*
- iv. Adversely affecting the public confidence in, or the integrity, independence or objectivity of the SOAR Inspection Team and of the Commission;*
- v. Otherwise hindering the interests or reputation of the SOAR Inspection and of the Commission.*

5. Funding Arrangements	<p>5.1 Describe the main funding arrangements of the Member, including the setting and approval of the budget:</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>
	<p>5.2 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 5.1 above, PSEC utilizes the retained income, as provided for under the Revised Corporation Code, for its budgetary requirements.</p>
6. Audit 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, 2022, there were 28 PSEC-accredited auditing firms under Group A that are allowed to handle the audits of the 300 PLCs. Out of these 28 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 Please describe the sizes (in terms of revenue / number of listed entity clients / number of partners and audit staff / etc. – whichever measure is commonly used and available in your jurisdiction) and market shares of each of the largest audit firms in the Member’s jurisdiction.</p> <p>Below is the market share (based on market capitalization) of the firms auditing PLCs as of December 31, 2022:</p> <table border="1" data-bbox="544 651 1428 1173"> <thead> <tr> <th colspan="2">Auditing Firms</th> <th>No. of Clients</th> <th>% to market share</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Sycip Gorres Velayo & Co. (Member Firm of Ernst & Young Global)</td> <td>136</td> <td>68%</td> </tr> <tr> <td>2</td> <td>Punongbayan and Araullo (Member Firm of Grant Thornton International)</td> <td>36</td> <td>13%</td> </tr> <tr> <td>3</td> <td>Isla Lipana and Co. (Member Firm of PricewaterhouseCoopers)</td> <td>16</td> <td>8%</td> </tr> <tr> <td>4</td> <td>R.G. Manabat and Co. (Member Firm of KPMG International)</td> <td>25</td> <td>7%</td> </tr> <tr> <td>5</td> <td>Reyes Tacandong and Company (Member Firm of RSM International)</td> <td>28</td> <td>3%</td> </tr> <tr> <td>6</td> <td>Others* – composed of small and medium sized Auditing Firms</td> <td>59</td> <td>1%</td> </tr> </tbody> </table> <p><i>* Included under “Others” are: Navarro, Amper & Co. (Member Firm of Deloitte Global) and Roxas Cruz Tagle and Co. (Member Firm of Moore Global)</i></p>	Auditing Firms		No. of Clients	% to market share	1	Sycip Gorres Velayo & Co. (Member Firm of Ernst & Young Global)	136	68%	2	Punongbayan and Araullo (Member Firm of Grant Thornton International)	36	13%	3	Isla Lipana and Co. (Member Firm of PricewaterhouseCoopers)	16	8%	4	R.G. Manabat and Co. (Member Firm of KPMG International)	25	7%	5	Reyes Tacandong and Company (Member Firm of RSM International)	28	3%	6	Others* – composed of small and medium sized Auditing Firms	59	1%
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<p>7. Inspection System</p>	<p>7.1 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>7.2 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>If directly, please describe the responsibility, including the follow-up and reporting process, and the regulatory measures available to be taken as a result of inspections (if described in Question 11 Enforcement, please reference that section for details on such measures).</p> <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 by the Member:</p> <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>																												

	<ul 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 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), <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements and other Assurance Related Services Engagements</i>, 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; j. Enforce appropriate administrative sanctions, as applicable; and k. Require the inspected firm to communicate with Audit Committee, upon request, the identified inspection findings and the actions taken by the firm to address such findings.
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	<p>7.3 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>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> <p>7.4 Does the Member have its own inspection staff, use reviewers from the professional body or sub-contract to third parties, independent contractors, etc. for the conduct of inspections? Please tick the boxes that apply: (multiple responses allowed) Note that there is no need to tick a box if non-employee reviewers are used very occasionally and are not a core staffing approach.</p> <p><input checked="" type="checkbox"/> Employees of the Member <input type="checkbox"/> Professional body</p> <p><input type="checkbox"/> Third Parties <input type="checkbox"/> Other</p> <p>Please explain below:</p> <p>SOAR Inspection team members are employees of the PSEC and are independent from the audit profession.</p>
8. Licensing	<p>8.1 If the Member has the responsibility for <u>Licensing</u>, please indicate whether this responsibility is undertaken directly or through oversight of Licensing conducted by another organization?</p>

	<p> <input type="checkbox"/> Directly <input type="checkbox"/> Through Oversight </p> <p> If directly, please describe the responsibility, including any changes, with an appropriate level of detail. </p> <p> If through oversight, please indicate the name of the other organization and its composition. 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 style="text-align: center;">N/A</p>
9. Registration	<p> 9.1 If the Member has the responsibility for <u>Registration</u>, please indicate whether this responsibility is undertaken directly or through oversight of Registration conducted by another organization? </p> <p> <input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight </p> <p> If directly, please describe the responsibility, including any changes, with an appropriate level of detail. </p> <p> 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 Audited Financial Statements (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, 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>Please note that the accreditation of external auditors was previously considered as a Licensing act under item No.8 above, with a view that such responsibility pertained to licensing of auditors before they can audit regulated companies under the provisions of the SRC Rule 68. The said accreditation has been reassessed and changed to a Registration act under item No. 9, considering the underlying purpose and nature of accreditation. To clarify, the organization that is responsible for granting licenses to CPAs to practice the accountancy profession in the Philippines is undertaken directly by another organization (i.e., the Philippine Professional Regulation Commission-Board of Accountancy).</p>
<p>10. Audits and/or Ethics Standard Setting</p>	<p>10.1 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, including any changes, with an appropriate level of detail.</p> <p>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 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:</p> <ol style="list-style-type: none"> 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).

<p>11. Permanent Education / Continuous Training of Auditors</p>	<p>11.1 If the Member has the responsibility for <u>Permanent Education / Continuous Training of Auditors</u>, please indicate whether this responsibility is undertaken directly or through oversight of Permanent Education / Continuous Training 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, including any changes, with an appropriate level of detail.</p> <p>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;">N/A</p>
<p>12. Enforcement</p>	<p>12.1 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 directly, please describe the responsibility and procedures applied (including investigations, disciplinary actions or sanctions), as well as the reporting process for disciplinary action.</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>Sections 162 and 163 provides specific penalties for willful certification of incomplete, inaccurate, false, or misleading statements or reports, and independent auditor collusion, as follows:</p> <p style="text-align: center;"><i>“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 (P20,000.00) to Two hundred thousand pesos (P200,000.00). When the wrongful certification is injurious or detrimental to the public, the auditor</i></p>

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).

Section 163. Independent Auditor Collusion; Penalties. – 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 (P80,000.00) to Five hundred thousand pesos (P500,000.00). 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 (P100,000.00) to Six hundred thousand pesos (P600,000.00).”

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:

“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:

- a. Report information concerning such act, practice or omission to the Commission En Banc; and*
- 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.*

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

- a. Censure;*
- b. Require additional professional education and training;*
- 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*

	<p><i>reports and the obligations and liabilities of accountants with respect thereto;</i></p> <p><i>d. Monetary fines;</i></p> <p><i>e. Downgrading of the PSEC accreditation level;</i></p> <p><i>f. For egregious or repeat violations, suspension or revocation of PSEC accreditation; and/or</i></p> <p><i>g. Other sanctions that will be subsequently determined and issued by the Commission.”</i></p> <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>
13. Other Responsibilities in Audit Oversight or Audit Regulation	<p>13.1 If the Member has the responsibility for <u>other tasks within the area of Audit Oversight or Audit Regulation</u>, please describe with an appropriate level of detail:</p> <p style="text-align: center;">Not applicable.</p>
14. Main Other Responsibilities of the Member <u>outside</u> the area of Audit Oversight or Audit Regulation	<p>14.1 Please describe with an appropriate level of detail, the responsibility of the Member for <u>tasks outside the area of audit oversight or audit regulation</u> 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</p>

	<p>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>
<p>15. Member Update for public information (if any)</p>	<p>15.1 Are there any major news, activities, events or updates (on audit matters, the Member’s organization, the governing legislation or the authority/responsibilities) that you wish to keep the public informed of 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>Provided below are the major new, activities, events or updates relative to the audit oversight of PSEC:</p> <ul style="list-style-type: none"> • <i>Publication of the 1st Public Inspection Report in July 2022 containing the summary of observations on audit quality from its first cycle of inspections – covering all in-scoped firms.</i> • <i>Hosted the virtual plenary meeting of the ASEAN Audit Regulators Group (AARG) held in July 2022. This event ultimately served as the avenue for ASEAN audit regulators to build a stronger connection and come up with modern-day solutions to the challenges faced by the region.</i> • <i>Conducted preliminary round table discussion with Audit Committee and Audit Firms in October 2022 for the development</i>

	<p><i>of Audit Quality Indicators (AQI) Framework in the Philippines. In this project, the Asian Development Bank (ADB) is providing technical assistance to the PSEC, as part of its program on strengthening the quality assurance of audits in Asia and the Pacific. The ADB commissioned consultants from the Institute of Chartered Accountants in England and Wales who helped in understanding the objectives and benefits of AQI to further raise and sustain audit quality and reliability of financial reports in the Philippines. As of date, this project is still in process and a series of dialogues with Audit Committee and Audit Firms are scheduled in 2023 to emphasize the importance of AQI and determine the readiness of key stakeholders.</i></p>
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