Securities and Exchange Commission, Thailand

INDEPENDENT AUDIT INSPECTION ACTIVITIES REPORT 2018

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Contents

Executive Summary

Over the past year, the SEC continued to build on a robust foundation for developing and maintaining sustainable growth of the Thai capital market. In so doing, the SEC also aimed to strengthen the overall economy and promote a bigger role of the capital market in the economic system. Directions and strategies for enhancing capacity of Thailand's capital market were formalized to fulfill the country's key requirements and competitive edge on a global scale in line with the 20-Year National Strategy.

For the capital market to advance as such, financial reporting system is an essential tool as it helps to establish trust in the entities and the market itself. Good quality and reliable financial reporting is a result of a balanced financial reporting ecosystem. The SEC therefore emphasizes capacity building of stakeholders in the ecosystem, e.g., auditors, preparers, audit committees, internal auditors, and regulatory bodies in accounting professions, and better understanding of their roles and responsibilities. Various tools and mechanism have been introduced to facilitate stakeholders in discharging their duties to the fullest capacity and improve the quality of financial reporting of entities in the capital market.

Aside from the aforementioned efforts and developments, the SEC has carried out various undertakings in preserving the trustworthiness of financial reporting system and protecting investors. With respect to audit quality inspection, the results showed that in the 3rd inspection cycle (2016 to 2018), audit firms in the capital market established and maintained a system of quality control as required by the Thai Standard on Quality Control ("TSQC 1"). The majority of audit firms demonstrated an improvement vis-à-vis the results from the previous inspection cycle. Such improvement was undoubtedly enabled by the formulation of audit firms' root cause analysis process and remediation plan, contributing to constantly improved system of quality control within the firm. The most striking result to emerge from this inspection cycle was the improvement of "leadership responsibilities for quality within the firm" and "human resources" elements, as compared to the results from the 2nd or 1st cycle. Meanwhile, the "ethical requirements", an element of observations and further improvement in most of the firms, was the only one on the lookout as the relevant standards in this area have been revised to be more stringent over the years.

The inspection results in the engagement-level highlighted that, in the overall landscape, the quality in performing audit engagement was on the upward trend despite the SEC's more scrutinizing inspection. Comparison with the results from the inspection in 2018 and 2017 showed a promising increase of approved auditors without any observation and a decline in the number of approved auditors with deficiencies and condition to follow-up on the next cycle. The results of the current inspection cycle in the engagement-level mostly emerged from the lack of sufficient appropriate audit evidence in substantive procedures phase. The audit of revenue, the audit of inventory and cost of sales, and the audit of difficult or complex transactions were among the most prevalent observations. It was noteworthy that some of those observations also shared a trait of inappropriate exercising of professional skepticism.

Our preliminary root cause analysis showed that each audit firm's observations arose from different causes. For example, the absence of significant topics in the firm's audit manual and audit procedures, the lack of understanding in requirement of relevant standards, the lack of competent and skillful personnel, and the inappropriateness of internal monitoring process and remediation plan.

Looking ahead, the SEC will keep up the momentum of strengthening and developing stakeholders. In 2019, we will organize educating sessions on the impending financial reporting standards, e.g. TFRS 9 and TFRS 16, as well as equip the auditors with the knowledge and skills of the fast-evolving technology. We are also in the process of developing tools and guidelines for the audit committees to discharge their duties more efficiently. There will be more support on the strengthening of proficiency and competency of the listed entities' internal auditors as well. These are part of the SEC's efforts to enhance a well-balanced financial reporting ecosystem and the quality of financial reports in the capital market, thus fulfilling our mission to develop the Thai capital market in accordance with the direction and the strategic plan of the SEC.

Quality Assurance Review Panel

The responsibilities of the Quality Assurance Review Panel (QARP) include providing opinions and recommendations to the SEC on the audit inspection results both at the firm level and the engagement level. The QARP comprises six non-practitioner members and three experts in the audit professions as practitioner members. To maintain the independence of the QARP and their opinions, the SEC requires that the number of the attending non-practitioner members in each session be greater than the number of the attending practitioner members and none of the members shall have any relationship to or any interest in the cases being adjudicated.

Mr. Nontaphon Nimsomboon

Positions:
- Expert Member of the University Council, Walailak University, Thaksin University, and Mahachulalongkornrajavidyalaya University
- Chairman of the Board, A.M.C. International Consulting Company Limited

Work experiences:
- Director, State Audit Office of the Kingdom of Thailand
- Expert Member, the Securities and Exchange Commission Board
- Member of the Court of Directors, Bank of Thailand
- Chairman, Accountant and Auditors Association of Thailand

Education:
- Ph.D. in Accountancy (Honorary), Thammasat University
- MBA, University of Iowa, USA (Government Scholarship)
- Bachelor of Accountancy, Thammasat University
- Bachelor of Commerce (Honors), Thammasat University
- Certified Public Accountant

Mr. Natasek Devahastin

Positions:
- Subcommittee, the Accounting Standard Committee, the Federation of Accounting Professions of Thailand under the Royal Patronage of His Majesty the King
- Visiting lecturer, Faculty of Commerce and Accountancy, Chulalongkorn University

Work experiences:
- Partner and Chairman, PricewaterhouseCoopers, Thailand
- Lecturer, Faculty of Commerce and Accountancy, Chulalongkorn University

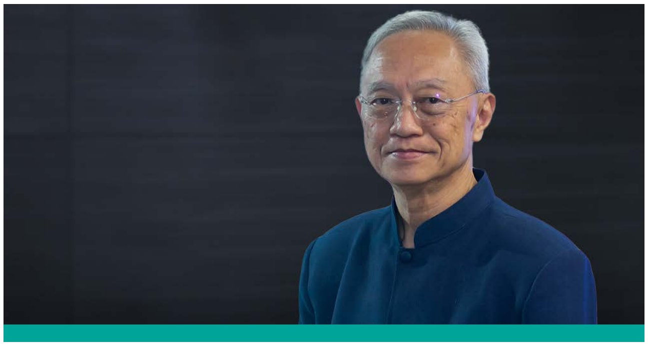
Education:
- Fellow of the Institute of Chartered Accountants in England and Wales

Ms. Chongchitt Leekbhai

Position:
- Consultant to the Board of the Thailand Federation of Accounting Professions under the Royal Patronage of His Majesty the King
- Member of Trial Appeal Subcommittee, Securities and Exchange Commission

Work experiences:
- Partner, Deloitte Touche Tohmatsu Jaiyos
- Lecturer, Faculty of Commerce and Accountancy, Chulalongkorn University
- Expert Member, the Accounting Professions Oversight Committee

Education:
- Master of Accountancy, Thammasat University
- Bachelor of Accountancy, Chulalongkorn University
- Diploma in Auditing, Chulalongkorn University
- Certified Public Accountant



Mr. Pakorn Penparkkul

Positions:
- Academic council member of 1 state university
- Visiting lecturer at state and private universities
- Member of the Accounting Education and Technology committee, Thailand Federation of Accounting Professions
- Ethics Subcommittee, Thailand Federation of Accounting Professions under the Royal Patronage of His Majesty the King
- Advisor, the Thai Accounting Firms Association
- Advisor, the Tax Auditor Association of Thailand

Work experiences:
- Partner, Price Waterhouse World Firm
- Secretariat and Member of various committees, Institute of Certified Accountants and Auditors of Thailand
- Member of the Accounting Education and Technology committee, Thailand Federation of Accounting Professions, two terms
- Audit Subcommittee, Thailand Federation of Accounting Professions under the Royal Patronage of His Majesty the King

Education:
- Ph.D. in Accountancy (Honorary), Rajamangala University of Technology Isan
- Bachelor of Accountancy, Chulalongkorn University
- Certified Public Accountant

Mrs. Pranee Phasipol

Positions:
- Independent Director, Compensation Committee Member, Governance and Nomination Committee Member, Audit Committee Member, Dusit Thani Public Company Limited
- Independent Director, Chairman of Audit Committee, Nomination and Compensation Committee Member, SCI Electric Public Company Limited
- Independent Director, Audit Committee Member, Investment Committee Member, Thaivivat Insurance Company Limited
- Chairman of the Ethics Subcommittee, Thailand Federation of Accounting Professions under the Royal Patronage of His Majesty the King

Work experiences:
- Secretary, the Accounting Professions Oversight Committee
- Deputy Director General, Department of Insurance, Ministry of Commerce
- Deputy Director General, Department of Business Development, Ministry of Commerce
- Chief of Inspector General, Ministry of Commerce
- Advisor and member of various subcommittees, Thailand Federation of Accounting Professions under the Royal Patronage of His Majesty the King
- Member of various committees, Institute of Certified Accountants and Auditors of Thailand
- Expert Member, the Securities and Exchange Commission Board

Education:
- Master of Science in Accounting, Thammasat University
- Bachelor of Accountancy (Honors), Thammasat University
- Certified Public Accountant

Mr. Prasan Chuaphanich

Positions:

- Expert Member, Audit and Evaluation of Public Sector Committee Office, the Public Sector Development Commission
- Chairman of the Board of Directors, Thai Institute of Directors (IOD)
- Committee Member, The Private Sector Collective Action Coalition Against Corruption, Thai Institute of Directors (IOD)
- Member, the Securities and Exchange Commission Board
- Expert Commission Member (Accounting), the Office of Insurance Commission (OIC)
- Chairman of the Audit Committee, the Office of Insurance Commission (OIC)
- Expert Member (Accounting), the Committee on Dumping and Subsidy, Ministry of Commerce
- Member of the State Enterprise Director Manifest Committee, State Enterprise Policy Office (SEPO)
- Member of the State Enterprise Director Selection Subcommittee, State Enterprise Policy Office (SEPO)
- Independent Director and Chairman of the Audit Committee, Siam Commercial Bank Public Company Limited
- Independent Director, and Chairman of the Audit Committee, PTT Global Chemical Public Company Limited
- Independent Director, and Chairman of the Audit Committee, Kerry Express (Thailand) Company Limited
- Independent Director, Member of Audit Committee, and Chairman of Sustainable Development Committee, Advanced Info Service Public Company Limited
- Independent Director, Member of Audit Committee, and Chairman of the Nomination and Remuneration Committee, Thai Solar Energy Public Company Limited
- Audit Committee Member, Mahidol University Council
- Member of the Finance and Property Management Committee, King Mongkut's University of Technology Thonburi

Work experiences:

- Chairman of the Audit Committee, the Thai Institute of Directors (IOD)
- Advisory Committee of Corporate Governance and Policies, the Thai Institute of Directors (IOD)
- Committee of IFRS Advisory Council, IFRS Foundation
- President of Thailand Federation of Accounting Professions under the Royal Patronage of His Majesty the King
- Vice President and Chairman of the Accounting Profession Committee on Auditing, Thailand Federation of Accounting Professions under the Royal Patronage of His Majesty the King
- Independent Director, Namheng Concrete (1992) Company Limited
- Executive Committee, Faculty of Commerce and Accountancy, Chulalongkorn University
- President, Alumni Association of Faculty of Commerce and Accountancy, Chulalongkorn University
- Executive Chairman, PricewaterhouseCoopers (Thailand)

Education:

- Bachelor of Accounting (2nd Class Honor), Chulalongkorn University
- Diploma in Auditing, Chulalongkorn University
- Certified Public Accountant
- Executive Management Program, Ivey School of Business, University of Western Ontario, Canada
- Leading Professional Services Firms, Harvard Business School, Boston, USA

Activities for Enhancing Financial Reporting Quality

Advancing the financial reporting quality of entities in the capital market has always been our focus. In 2018, numerous mechanisms were at play to support and develop stakeholders in the financial reporting ecosystem. Among others, we emphasized communication and dissemination of body of knowledge. By cooperating with relevant bodies, e.g., the Thailand Federation of Accounting Professions ("TFAC"), the Department of Business Development, the Stock Exchange of Thailand and the Thai Listed Companies Association, we held seminars to share knowledge on financial reporting standards and others related to the accounting professions. Furthermore, we sent our delegates to participate in conferences to exchange views and experiences with stakeholders and bodies. We also participated in seminars, both domestic and international, to keep abreast of the key developments in the accounting professions and apply them to the landscape of financial reporting quality development in the Thai capital market.

Building capacity of stakeholders

Stakeholders in the financial reporting ecosystem inevitably encounter growing challenges, e.g., the shifting of technology, the rapid evolution of financial transactions, and more stringent laws, regulations and relevant standards. To tackle these challenges, we organized classes and seminars for stakeholders to expand their knowledge and upskill their proficiency in technologies related to the accounting professions. These activities contributed to the advancement of the financial reporting quality of the entities in the Thai capital market to be on par with international standards, and cultivated the growing trust of both local and global investors.

Key topics of the 2018 classes and seminars are as follows

- Potential impacts of relevant technologies to the audit of financial statements
- Thai Financial Reporting Standards 15 – Revenue from Contracts with Customers – due to take effect in 2019
- Recurring issues from the audit inspection findings and how to resolve them, i.e., business combination, impairment of assets, revenue recognition using percentage of completion method and general IT controls ("GITC")
- Using the work of an auditor's expert, e.g., engineer and appraiser
- Framework for promotion of audit quality
- Revised requirement on auditor's rotation pursuant to the Code of Ethics for Professional Accountants

In addition, the SEC's representatives were guest speakers at "the Final Countdown to TFRS 9" seminar organized by TFAC, covering practical issues, impacts and transitional guidance for the TFRS related to financial instruments, and the "Introduction to Financial Instruments" seminar organized by the Department of Business

Development. We also collaborated with the Stock Exchange of Thailand and the Thai Listed Companies Association in organizing two seminars on the topics of “Getting Ready for Significant Changes in Financial Reporting” and “Disclosure under the revised CG Code” for representatives from Thai listed companies. These joint seminars aimed to help listed companies make necessary preparations for adopting good corporate governance principles to create sustainable values for their enterprises.

Quality growth and international recognition

Over the years, the SEC has been welcomed as a member of the International Forum of Independent Audit Regulators (“IFIAR”), which is an international multilateral independent organization tasked with regulating auditors around the globe, and a member of ASEAN Audit Regulators Group (“AARG”). Memberships of both IFIAR and AARG facilitate the promotion of international cooperation and enable the member countries to exchange knowledge and experiences on regulating auditors and audit firms, as well as ensure that Thailand’s audit regulations and supervisory systems are on par with the global standards.

The SEC is also a member of the International Organization of Securities Commissions (“IOSCO”), a coalition organization of securities regulators around the globe, and a member of the IOSCO Committee on Issuer Accounting, Auditing and Disclosure (“IOSCO Committee 1”), which is tasked with monitoring and keeping up the momentum of international financial reporting standards. This international participation has opened up invaluable opportunities for the SEC to keep abreast of the developments in international financial reporting standards and to prepare the stakeholders accordingly. Our staff are also delegates to the IFRS Advisory Council whose responsibility is to provide counselling on the strategy and direction of the International Accounting Standards Board (“IASB”). Such active participation and contribution to the global forums indicates the international recognition of the SEC.

In 2018, the SEC participated in the Financial Sector Assessment Program (“FSAP”), a project in association with the World Bank and the International Monetary Fund (“IMF”). The assessment on financial reporting and auditor regulations showed satisfactory results and confirmed that the SEC’s operation in the areas were in line with the global standards.

Throughout the year, the SEC participated in international conferences and seminars on the development of audit inspection programs and the development of financial reporting standards, as follows:

Strengthening capacity of internal staff

1 Expanding knowledge of financial reporting and auditing standards on a regular basis

To keep the SEC staff abreast of the ever evolving developments and knowledge of the accounting professions, we regularly conduct internal training on relevant topics including the upcoming financial reporting standards. We also send representatives to participate in regional and global seminars on financial reporting and auditing standards. The knowledge and insights gained from these efforts can contribute to the quality promotion and the supervision of financial statements preparation and auditor's performance

2 Preparing for information technology disruption

Information technology is playing a bigger role in the operation of entities in the capital market and auditors. This includes the preparatory process of financial statements and the auditing tools. As a regulatory body, we require fair presentation of financial statements and auditor's performance. To discharge our duties appropriately in this regard, we must ensure that our own staff harness a sufficient level of knowledge on information system and information technology employed by the entities and auditors. Topics of regular training sessions include the audit of GITC, the audit and analysis of frauds in accounting and digital transactions, the use of analytic tools in auditing, the approval of application for digital token offering. We are also promoting capacity building in the information technology fields by sponsoring, for example, staff attendance in relevant seminars held by various organizations and overseas secondment programs on IT audit field.

Summary of Audit Inspection Results

A. Firm Level

Excellent quality control system within the audit firms is the primary factors in enhancing the quality of each audit engagement. Accordingly, in this 3rd inspection cycle (2016 – 2018) we carry on monitoring the quality control system of audit firms in the capital market as the mean to ensure that the audit firm's policies and procedures are proper and in line with the requirements of Thai Standard on Quality Control 1, ("TSQC 1"). This subsequently reinforces its auditors and its personnel in exercising their duty as required by the professional standards.

The overall inspection results in the 3rd inspection cycle reveals the promising improvement of audit firm's quality control system. The average quality control system inspection scoring results out of 28 audit firms shows the outstanding progress compared with the scoring results of 1st cycle (2010 – 2012) and 2nd cycle inspection result (2013 – 2015), as referred to in figure 1.

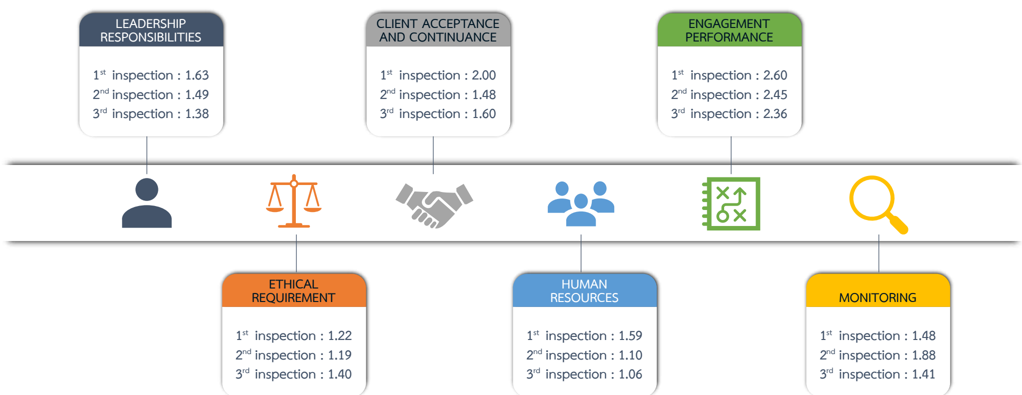


Figure 1: The weighted average score by total market capitalization in each element of TSQC 1 in 3rd inspection cycle, compared with the 1st inspection cycle results (2010 – 2012) and the 2nd inspection cycle results (2013 – 2015).

When categorizing the number of audit firms by each element in TSQC 1, as shown in figure 2, one will find that more than fifty percent of audit firms attain the 'very satisfactory' and 'satisfactory' results in client and acceptance and human resources element, while no audit firms experience 'need improvement' for those two elements.

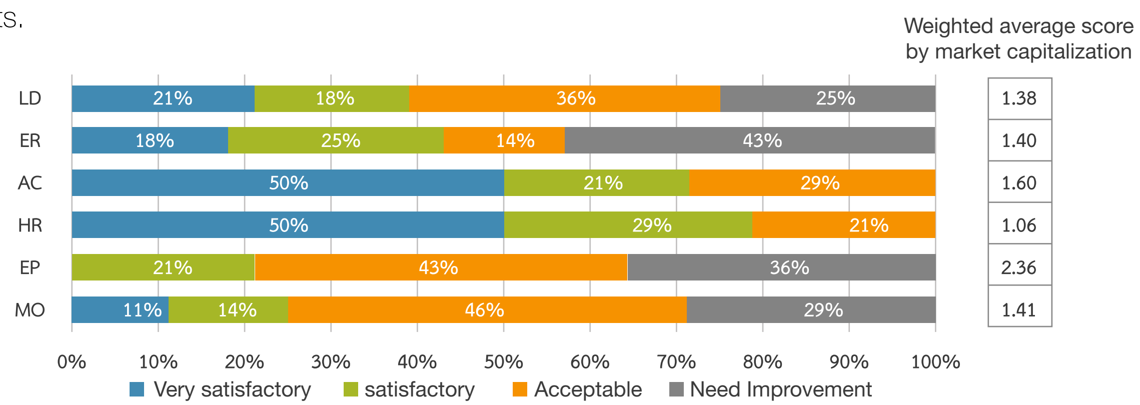


Figure 2: Percentage of the audit firms, categorized by scores in each element of TSQC 1 in 3rd inspection cycle

The 3rd inspection cycle result, when considered with the exposure to the capital market, set out the frequencies of inspection on audit firms' quality control systems as defined by our risk-based approach as follows:

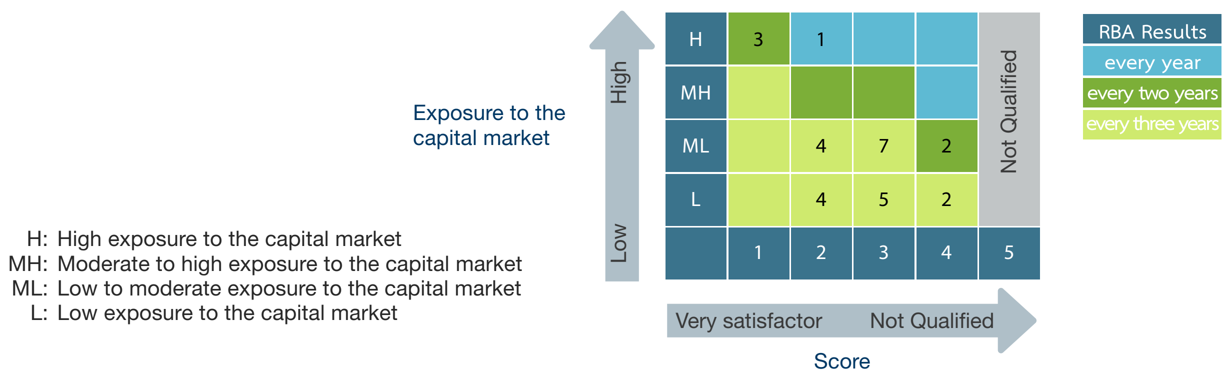


Figure 3: Frequencies of inspection on audit firms' quality control systems as defined by risk-based approach.

This inspection cycle results shows that each audit firm pays attention to 1) the capacity building of its staff and remedying of high turnover rate, 2) improvement of audit manual to be more descriptive and in line with auditing standards, 3) utilization of various mechanisms to cultivate the quality-essential culture. All of which contributes to the improvement of these elements: human resources, engagement performances, and leadership responsibilities for quality within the firm. Be that as it may, it can certainly be suggested that there be room for improvement in each element of the TSQC 1 as follows:

1. Leadership responsibilities for quality within the firm

The leaders of the audit firms are the potent figure towards the internal culture. Should they prioritize the direction of policies and procedures that expresses the importance and necessity of quality development, the overall quality control system of the firm and audit engagement will be effective. The 3rd cycle inspection results demonstrate that, aside from the staff development and audit manual improvement, most of audit firms' leaders also emphasize root cause analysis which facilitate the accurate remedy of deficiencies in this inspection cycle.

Figure 4: Listed companies to auditors in the capital market

When follow-up on the observations in this element from previous cycle result, it can be established that the leaders had already remedied the findings on partner portfolio allocation and succession plan. The statistic reveals that majority of the audit firms push forward to increase auditors in the capital market, thus support the increasing number of listed companies. Therefore, the ratio of listed companies to auditors in the capital market is improved, as the ratio decreases from 3.3 in 2016 to 3.2 and 2.9 in 2017 and 2018 respectively, as shown in figure 4. This cheerful revelation ensures that number of auditors in the capital market will be sufficient to provide valuable and quality services.

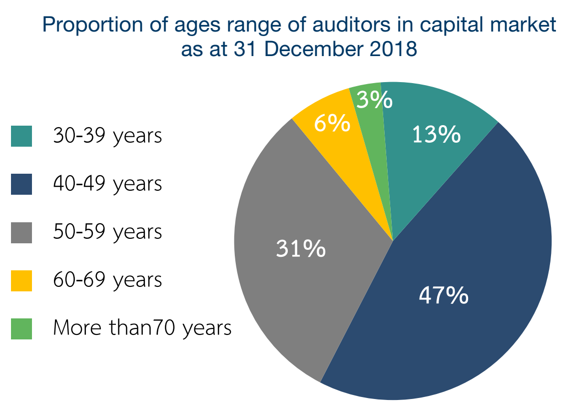


Figure 5: Ages range of auditors in the capital market

Moreover, the leaders of the audit firms also prioritize the staff capacity building plan, resulting in the steady increase of newcomer auditors. According to the collection of auditors' ages in the capital market, the majority of auditors is between the age of 40 to 49, contributing to 47 percent and the secondary is between the age of 50 to 59, contributing to 31 percent, as shown in figure 5.

2. Relevant Ethical Requirements

The sufficient policies and procedures regarding the relevant ethical requirements will provide reasonable assurance that the firm and its personnel comply with relevant ethical requirements. Auditor's independence in performing engagement is the monumental issues considered by stakeholders in financial reporting, as the auditors being independent will elevate the quality of financial reports and develop investors' trust in financial reporting ecosystem. For that reason, the international bodies in charge of promulgation of ethical requirements in accounting professions constantly revised the requirements on maintaining the auditor's independence. In past years, the auditor rotation requirement was also revised to be more stringent on a global scale, to which we already amended the relevant notifications on the rotation of auditors in the capital market to be harmonized with international requirement, with an effective date from 1 January 2019 onwards. The essence of the changing requirements can be summarized as follows:

Responsible role served	Time-on period	Cooling-off period	
		1-Jan-2019 to 31-Dec-2023 (transitional period)	1-Jan-2024 onwards
Signing audit partner / engagement partner	Seven years, regardless of cumulative or not	Three consecutive years	Five consecutive years

Responsible role served	Time-on period	Cooling-off period	
		1-Jan-2019 to 31-Dec-2023 (transitional period)	1-Jan-2024 onwards
Engagement quality control reviewer ("EQCR")	Seven years, regardless of cumulative or not	Three consecutive years	Three consecutive years
Other key audit partners	Seven years, regardless of cumulative or not	Two consecutive years	Two consecutive years

Should one take the above auditor rotation requirements into account, it is evident that the audit firm should establish at least four partners or equivalent to meet the rotation requirements within the firm. Statistic as at 31 December 2018 demonstrates that the audit firm with four or less auditors in the capital market accounted for 39 percent, as shown in figure 6. The ramification is that if auditors associated with those firms provided their services to the entities until the seventh year, the audit firms will not have sufficient personnel to continue its services without failing to fulfill auditor rotation requirements.

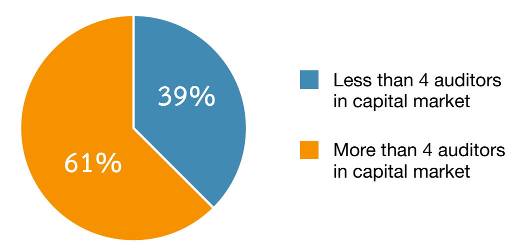


Figure 6: Proportion of audit firms with less than 4 auditors in the capital market compared to audit firms with more than 4 auditors in the capital market

The 3rd inspection cycle results reveal that the majority of audit firms had already remedied their policies and procedures on relevant ethical requirements in accordance with previous cycle observations. However, for the current period, observations on relevant ethical requirements still emerged in some of the audit firms as follows:

Observations	Associated risks	Recommendations
• Manual pertaining to the rotation of key audit partners is not sufficiently detailed, for example: - Not explicitly instruct that the time-on period of acting as signing audit partner, engagement partner, EQCR and other key audit partners is to be considered collectively. - Not specify criteria of how to define other auditors as "other key audit partners", to which the time-on period has to be considered. • The records of key audit partner's time-on period is not complete or	• Inappropriate detail in manual and database on this matter may expose the audit firm and its auditors to the non-compliance risk regarding the auditor rotation requirement • Concerns and threats to independence due to familiarity may result in the negligence of compliance with auditing standards or inappropriate exercising of professional skepticism. The quality of engagement performance and the opinion on the financial statements may be impaired.	• Establish policy on the rotation of key audit partner in accordance with the Code of Ethics for Professional Accountants with clear details on the consideration of time-on period and communicate to the relevant individuals. • Establish records of auditor rotation within the firm as per the requirement in the Code of Ethics, as well as establish monitoring process on those records.

Observations	Associated risks	Recommendations
sufficient to provide assurance in the compliance with auditor rotation requirements.		
• The requirement for the staff to sign on the annual independence confirmation and the information given for the purpose of independence consideration does not cover the disclosure of relevant 'close family' detail as required by the Code of Ethics, for example, serving as a director or officer of an audit client.	• The audit firm may lack necessary information in evaluating the circumstance or relationship that may be a threat to independence.	• Amend the policy and the disclosure form attached with the staff annual independence confirmation to be more complete and establish monitoring process on the adherence to the ethical policies and procedures, as well as inform the staff on those policies and procedures.
• The safeguard of the access to workpapers is not robust enough, e.g. there is one instance whereby workpapers in soft copy is stored in the server of audit firm and is publicly accessible to everyone in the firms, even if he or she is not allocated to the engagement.	• Staff may gain unauthorized access and may abuse that information.	• Establish and amend the appropriate access granting policy to the workpapers server and restrict the access to only those with necessity.
• The identification of related parties of the audit firms is not sufficient, which may cause the firm not to consider the possible conflict of interests arising from acceptance of non-audit services by audit firm's related parties. • The consideration on the substance of non-audit services provided by the firm's related parties is not sufficient to provide assurance that such non-audit services may or may not impair the independence arising from the self-review threat or advocacy threat.	• The audit firm may lack necessary information in evaluating the independence or conflict of interests when accepting audit engagement. • There may be the audit engagement acceptance that introduces the self-review threat or advocacy threat, which will impair the independence and trustworthiness of the audit firms.	• Identify complete related parties. Establish the policy and procedure on the consideration of independence in case of non-audit service provision to cover every related parties of the audit firm. • Set out, in the quality control manual, the description and the scope of acceptable non-audit services that can be provided to the audit clients and communicate to the relevant individuals and related parties for strict adherence. • Establish the confirmation process with the related parties of the audit firm to bring the possible non-audit services provision into consideration

Observations	Associated risks	Recommendations
		before acceptance of audit engagements. • Consult and document the judgment used when determining that provisions of non-audit services do not impair the auditor's independence.

3. Acceptance and Continuance of Client Relationships

The process of acceptance and continuance of client relationships is essential for providing the firm with reasonable assurance that it has competency and capabilities, including sufficient time and resources, to perform the accepted and continued engagement and appropriately respond to the identified risks. The process is also to ensure that such acceptance or continuance comply with the relevant ethical requirements. Accordingly, the firm should establish processes to consider the adequacy of human resources compared to the number and size of audit clients in order to plan manpower requirements that are fit and proper to the anticipated workload according to the firm's business plan. In addition to considering the proportion of listed company clients to the number of auditors in the capital market within the firm, the firm should also consider the adequacy of other staffing levels. The result of 3rd inspection cycle shows that the proportion of the number of listed companies per audit managers (or equivalent) was 0.7 for Big-4 firms and 1.5 for Non Big-4 firms, demonstrating that there are managerial manpower in Big-4 firms more than Non Big-4 firms. However, should one also take the size of audit clients into consideration, it will be apparent that the proportion of the total market capitalization of listed company clients per audit manager (or equivalent) were THB 19,823 million for Big-4 firms and THB 3,996 million for Non Big-4 firms, establishing the fact that the sizes of Big-4 firms' audit clients are relatively larger than those of Non Big-4 firms.' Therefore, Big-4 firms requires higher proportion of managerial-level staff per listed companies.

According to the result of audit firms' quality control systems inspection in this 3rd inspection cycle, we found that the majority of audit firms had evidently improved the quality control systems regarding the acceptance and continuance of client relationships from prior inspection cycles. However, some findings still emerged, particularly regarding the gathering of information in performing risk assessment, as follows:

Observations	Associated risks	Recommendations
• Issuing an engagement letter prematurely prior to completing risk assessment • Issuing an engagement letter prematurely prior to receiving an acknowledgement letter or equivalent from predecessor auditors	• The firm or its auditor may not consider necessary information and circumstances thoroughly and may be exposed to the risk of accepting or continuing an engagement that otherwise would be considered higher than acceptable level.	• The firm should require the gathering of such information as it considers necessary in the circumstances before accepting or continuing an engagement to prevent the undertaking of engagement that otherwise would be considered higher than acceptable level.

4. Human Resources

An audit engagement cannot be performed by an auditor single-handedly. In addition to the quality of the auditor whose signature is affixed to the audit report, the quality of the audit team and quality control system also serve as vital factors toward quality of audit. Accordingly, human resources as a whole are important factors which directly affect the quality of audit. The firm should employ competent personnel that has the capabilities, including time and resources, to perform the engagements.

According to the result of audit firms' quality control systems inspection in this 3^{rd} inspection cycle, we found that most of the firms already improved its human resources management process to be more efficient and effective. The analysis of statistical data for the purpose of preliminary assessment of the firms' quality reveals that the average turnover rate of assistant auditors in 2018 was 22 percent, showing promising improvement from 27 percent in 2017. When classifying the turnover rate of 2018 into those of Big-4 and non Big-4 firms, the turnover rate is 15 percent and 23 percent, respectively. This finding indicates that most of non Big-4 firms encounter staff retention issues, resulting in higher turnover rate and shortage of experienced audit assistants.

The turnover rate of audit assistants can be used to scrutinize the adequacy of staff within each audit firm. It can also be used in human resources planning, as in the recruitment, the task assignment and the alignment of strategy to maintain competent and capable staff with the firms. Therefore, audit firms should analyze and identify causes of staff resignation within its firm and improve human resources strategies and policies to better respond to staff requirements and retain competent and experienced staff within the firms.

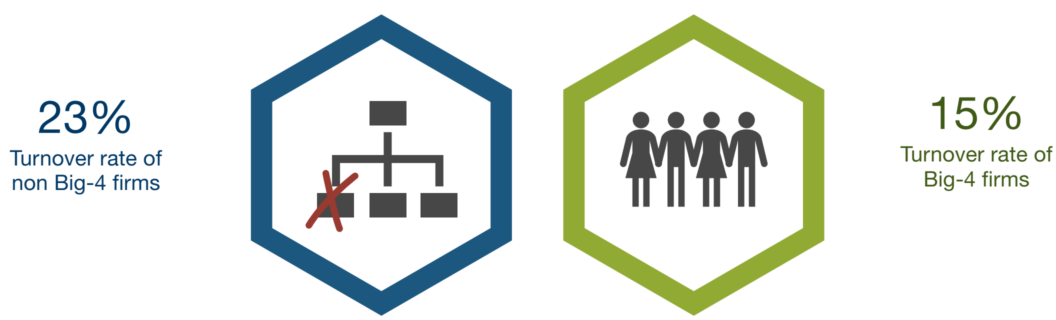


Figure 7: The turnover rate of Big-4 and non Big-4 firms

The staff per partner ratio in this 3^{rd} inspection cycle is average at 31 for Big-4 firms and 13 for non Big-4 firms, while the staff per manager ratio is average at 8 for both Big-4 firms and non Big-4 firms. This finding indicates that the average ratio of staff per manager was similar for both Big-4 and non Big-4 firms, the staff per partner ratio, on the other hand, was relatively different between two categories. It is worth pointing out that the staff per partner and staff per manager ratio are only preliminary information to provide an overview on the adequacy of staff in each level and the adequacy of supervision by the reviewer to proficiently perform engagements. The said ratios in each audit firm may be varied by the difference in human resources structure among audit firms. It is advisable that the firm consider these ratios concurrently with the number and complexity of audit engagements. Audit firms with high staff per partner and staff per manager ratio may perform an in-depth analysis on the necessity of the process to ensure that work of less experienced team members is reviewed by more experienced engagement team members; for example, establishing the minimum involvement hours in each engagement for partners, managers and EQCRs, requiring the engagement team members to consult with subject matter experts on difficult or contentious matters, and regularly building team members' knowledge and capabilities.

Figure 8: Staff per partner ratio and staff to manager ratio

5. Engagement Performance

Quality control system in engagement performance is the crucial element to provide the audit firm with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partners issue reports that are appropriate in the circumstances. However, the statistical data shows that not only do the sufficient appropriate audit manual and audit procedures contribute to the enhanced audit quality, but other factors also play a part in enhancing audit quality. Accordingly, we have collected and analyzed the statistical data to establish the audit firm's quality overview, as follows:

The average years of experience of the staff in each level are factors that help to identify preliminary capacity and capability of the audit team. The data collected in this 3rd inspection cycle reveals that staff in partners, managers, and assistant auditors level have the average years of experience at 25, 12 and 3 years, respectively. The breakdown detail for each level can be seen in figure 9. Even though the assistant auditors have relatively few years of experience, they represent the majority of the time utilized in performing engagement, with the average time utilized from 58 to 87 percent of total hours, as shown in figure 10. Therefore, it is advisable for the audit firm to build the capacity for staff in this level, both professional knowledge and skill in performing engagement. The tools and format for training can be tailored to meet the requirement and nature of the engagement, e.g. instructor-led, workshop, or on-the-job training; in order to establish the assurance that the audit teams possess the skill, knowledge and professional skepticism to perform engagement appropriately.

Audit partners	Managerial audit staff 12 years			Non-managerial audit staff 3 years	
25.3 years	Directors 18.6 years	Senior managers 14.9 years	Managers 9.4 years	Seniors 4.4 years	Juniors 1.3 years

Figure 9: Average years of experience of staff in each level

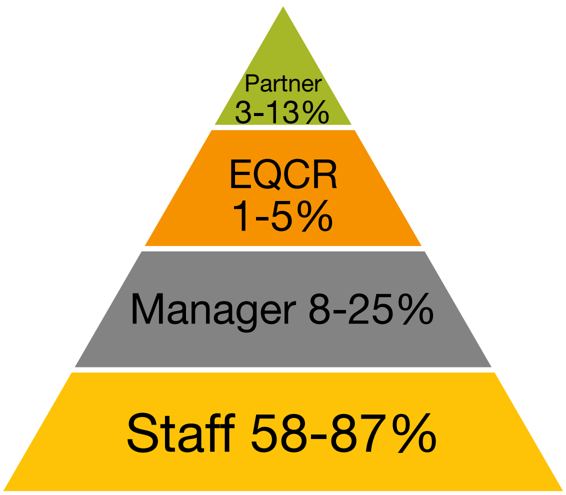


Figure 10: Percentage of involvement in engagement of staff in each level

Information on the engagement involvement of auditor and EQCR is important and correlates with the audit quality. Because the auditors are the individual with experience and knowledge in the entity they audit, they can plan, perform risk assessment, review the workpapers and provide proper consultation to the audit team. Likewise, EQCR, despite not being part of the engagement team, is the individual with high audit experience, can assess the exercising of professional judgment by the audit team and assess the appropriateness of the audit procedures and conclusions reached by the auditor in expressing their opinions. Their role contributed to the promotion of audit quality and overall quality within the firm. Results from this 3rd inspection cycle exhibit that audit firms whose score in 'engagement performance' element is satisfactory and acceptable will have the average involvement of auditors in each engagement around ten percent.

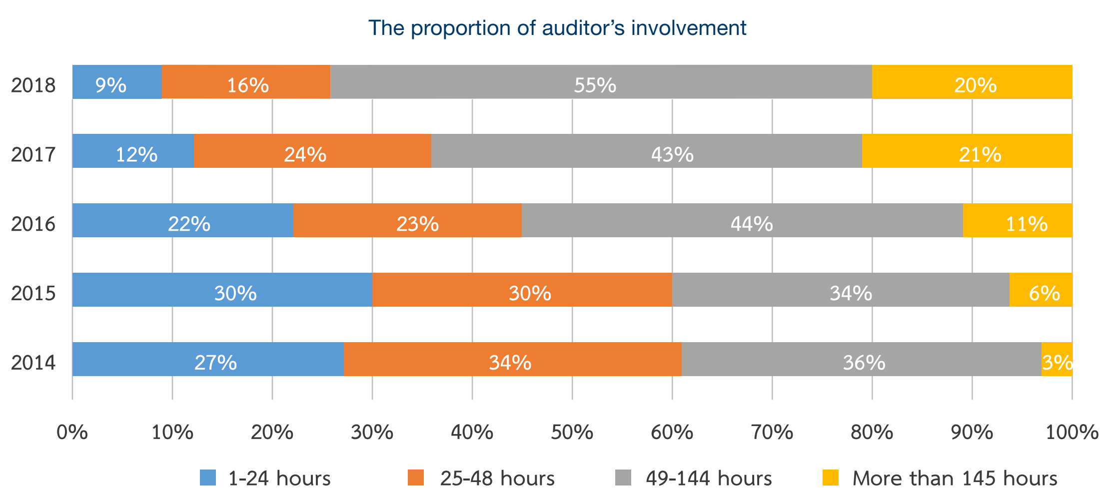


Figure 11: The proportion of auditor's involvement

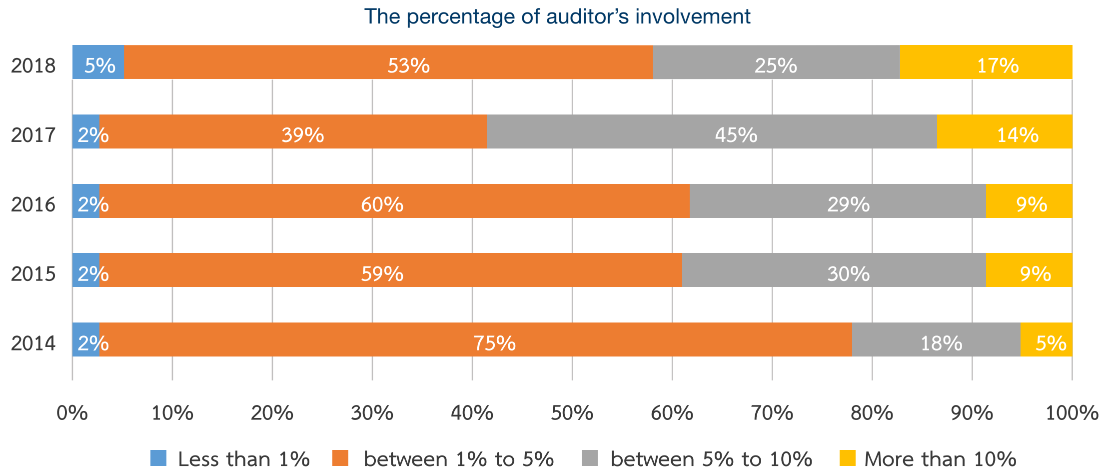


Figure 12: The percentage of auditor's involvement to the total hours

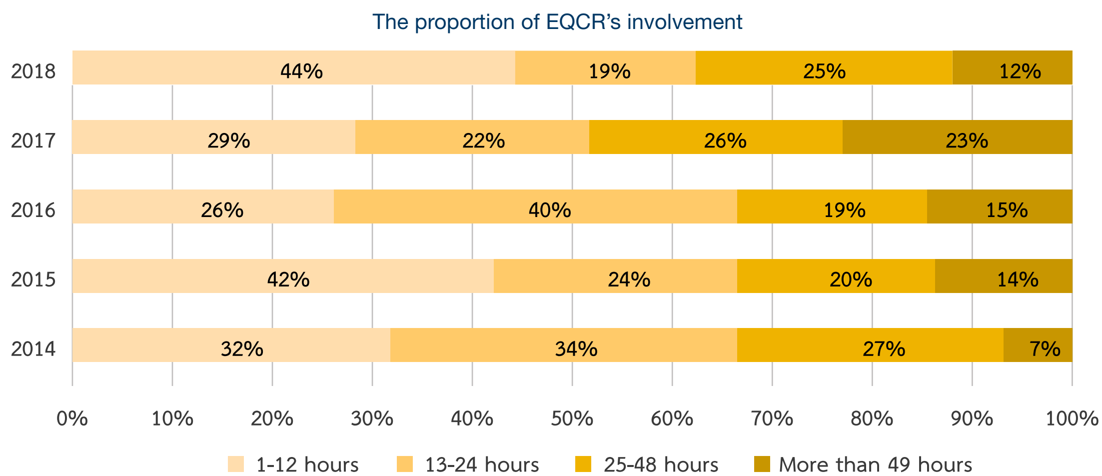


Figure 13: The proportion of EQCR's involvement

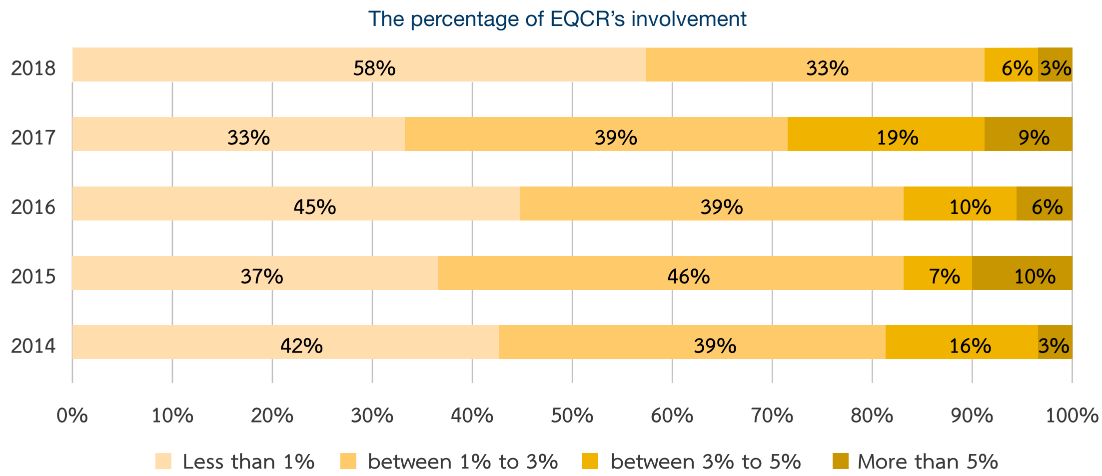


Figure 14: The percentage of EQCR's involvement to the total hours

The result of 3rd inspection cycle on the audit firm's quality control system reveals that most of the audit firms already put the priority on the development and improvement of 'engagement performance' element in various aspects, e.g. audit manual and audit procedure, consultation, and the gathering of audit evidence. Our observations were also considered and alleviated continuously. Yet, we still identify the critical observations in engagement performance in multiple audit firms, as stated below:

Observations	Associated risks	Recommendations
• Audit manual and audit procedures are not comprehensive or not in accordance with the auditing standards, e.g. identifying and assessing the risks of material misstatement, determining materiality, and determining audit sampling criteria.	• Audit teams may not be able to perform engagement as required by the relevant auditing standards, which may expose the auditor to the risk of expressing inappropriate opinion.	• The audit firm should entrust individual with sufficient knowledge and timing resources to be the one in charge of audit manual and audit procedure improvement, as well as the amendment of relevant audit templates and forms to be more comprehensive and in line with the auditing standards. Subsequently circulate and communicate the change to the staff.
• Audit teams do not perform engagement as required by the firm's audit methodology and audit procedure.	• The audit firm's trustworthiness may be impaired, and the auditor may be exposed to the risk of expressing inappropriate opinion.	• The audit firm should communicate audit manual and audit procedures to staff in every level in a reasonable timeframe and hold instructive session on those audit manual and audit procedures. • The audit firm should establish monitoring process and raise observations to staff who did not comply with the firm's audit manual and audit procedures in a timely manner.
• The audit firm does not sufficiently specify or provide example on the situations or matters where the audit teams should seek consultation in the firm's quality control manual, e.g. matters on business combination, share-based payment, financial instruments.	• Inappropriate or insufficient consultation on significant matters may expose the auditor to the risk of expressing inappropriate opinion because the relevant fact and professional standards may not be thoroughly considered.	• The audit firm should specify or provide example on matters where the consultation is expected and reinforce the firm culture that the consultation on difficult or contentious matters is encouraged.

6. Monitoring

The favorable monitoring process will provide the firm with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. It also supports the firm in remedying the deficiencies in a timely manner, which will ultimately enhance the audit firm's quality control system and quality of audit engagement. The result of 3rd inspection cycle reveals that multiple audit firms have already improved their monitoring process to be in line with the TSQC 1 requirements and our observations. However, we still identify the observations on monitoring process in some audit firms, as follows:

Observations	Associated risks	Recommendations
• The monitoring guideline in firm-level and engagement-level is inadequate and insufficient. An absence of description and example on what is expected to be monitored also causes the assigned person the inability to monitor the significant matters thoroughly. • The documentation of the monitoring process performed is insufficient to provide recommendations for appropriate remedial action.	• The person assigned to the monitoring process may not be able to comprehensively identify deficiencies noted in each element as a result of the monitoring process. The audit firm, as a result, may not be able to improve its audit quality in significant matters.	• The audit firm should amend the monitoring guideline, both in firm-level and engagement-level, to cover all the requirements of auditing standards and have descriptive detail in significant matters. • Design the monitoring process to include the communication of deficiencies to relevant engagement partners and other appropriate personnel.
• The firm do not establish policies and procedures in identifying the root causes of the deficiencies, the formulation of remediation plan, and the follow-up on the deficiencies noted as a result of the monitoring process.	• The firm may not be able to take all appropriate remedial actions, as the root causes of the deficiencies are not identified. The deficiencies may also not be amended in a timely fashion, due to the lack of remediation plan and follow-up process to the plan.	• The firm should establish the process to analyze the root causes of deficiencies, form the remediation plan and follow-up process to the plan, by establishing specified time frame to remediate and resolve deficiencies in each year.

B. Engagement Level

There are 239 auditors in the capital market, from 28 audit firms (as shown in figure 1), as at the end of the 3rd inspection cycle (31 December 2018), an increase by 64 auditors or a 37 percent rises from the 2nd inspection cycle (31 December 2015). The average increasing rate of auditors in the capital market for the past three years was 11 per annum. In this 3rd inspection cycle, we inspected 284 audit engagements, 104 of which were inspected in 2018 from 53 auditors in the capital market, comprising 25 auditors with renewed approval and 28 newly approved auditors (as shown in figure 15).

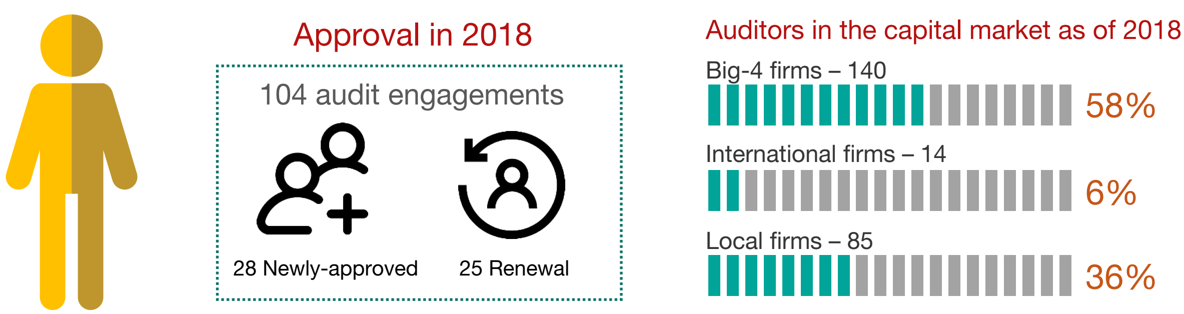


Figure 15: Number of the auditors in the capital market, categorized by type of audit firms as at 31 December 2018, and number of the approved auditors in 2018.

Remark: 'International firms' refers to audit firms which are members of international audit firms, bare the same names and consistently comply with the policies and procedures of the international audit firms, excluding the Big-4 firms.

We observed the continuous improvement of audit quality over the past years. The result of audit quality inspection in this 3rd inspection cycle (as shown in figure 16) reveals that the portion of the SEC-approved auditors who were subject to remedying of deficiencies and next cycle mandatory follow-up inspection constantly decreased from 2016 to 2018. Likewise, the portion of the SEC-approved auditors without any observations significantly increases. This development stems from the perseverance and cooperation between the auditors and audit firms in continuously elevating the audit quality. In an effort to supplement the actions taken by auditors and audit firms lie the initiatives from us, aiming to steadily promote and support the audit firms in improving audit quality. For example, we hold meetings with audit firms to analyze the observations from audit inspections and identify the root causes and remediation plan; organize seminars and workshops on the recurring deficiencies for the effective improvement of audit manual and audit procedures by the audit firms and auditors. We also organize seminars to prepare for the new financial reporting standards and impact from the evolving technology on audit to ensure that auditors in the capital market are equipped and prepared for the incoming changes.

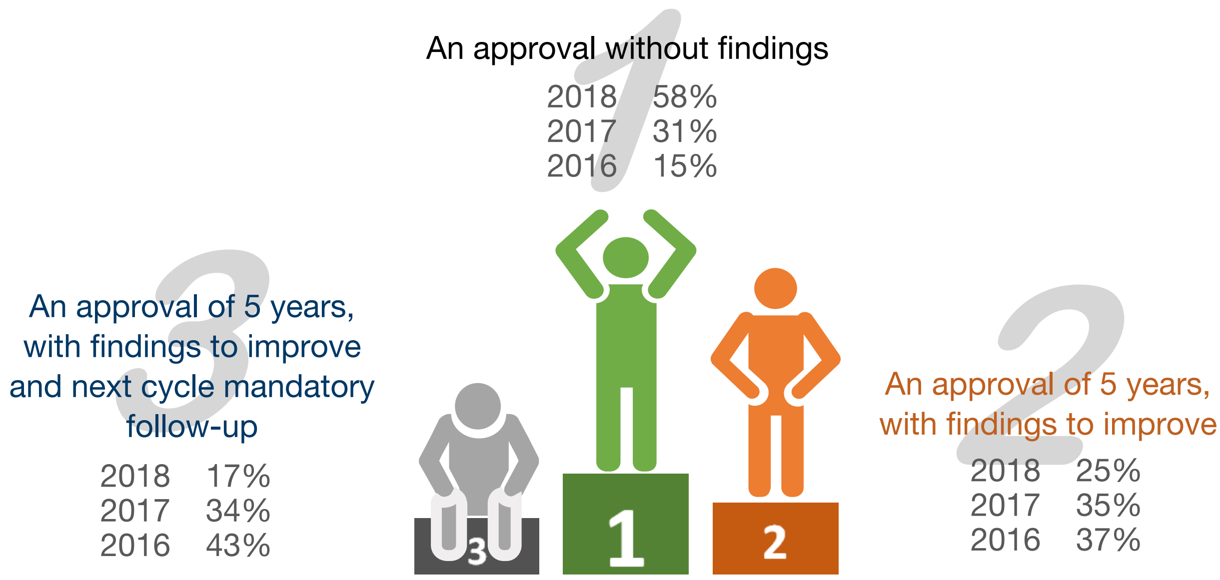


Figure 16: The inspection results of individual audit engagements, categorized by type of approval during 2016-2018.

When classifying the findings identified from the inspection of auditors' workpapers in the 3rd inspection cycle during 2016 – 2018 by the phases of audit, as shown in figure 17, one will find that most of the observations emerge from the substantive procedures, of which the observations in 2018 accounted for 76 percent. One of the reasons was failure to obtain sufficient appropriate audit evidence in performing substantive procedures of complex or judgmental transactions, which require professional skepticism, experiences and the ability to analyze the true substance of such transactions. Moreover, the recurring observations from the substantive procedures are from the audit of inventory, audit of cost of sales, and audit of revenue; which the audit firms gradually amend and improve their audit manual and audit procedures. Favorably, those observations decrease in the current inspection cycle.

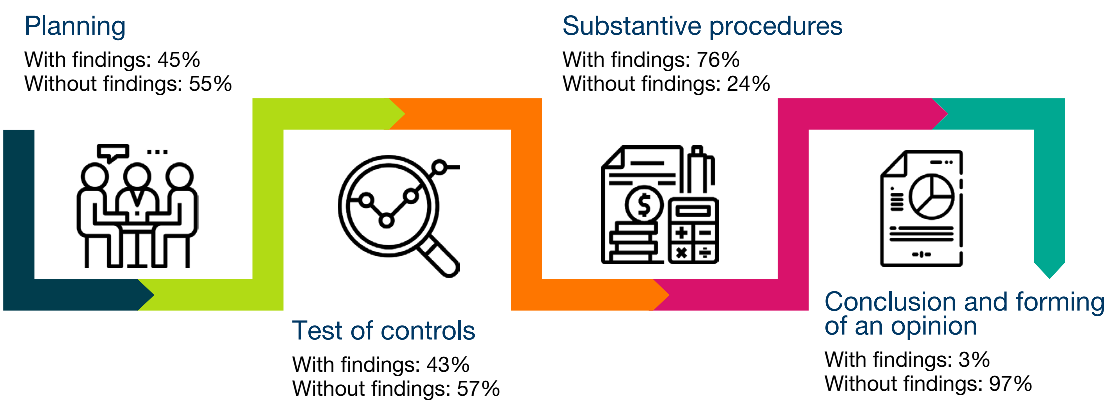
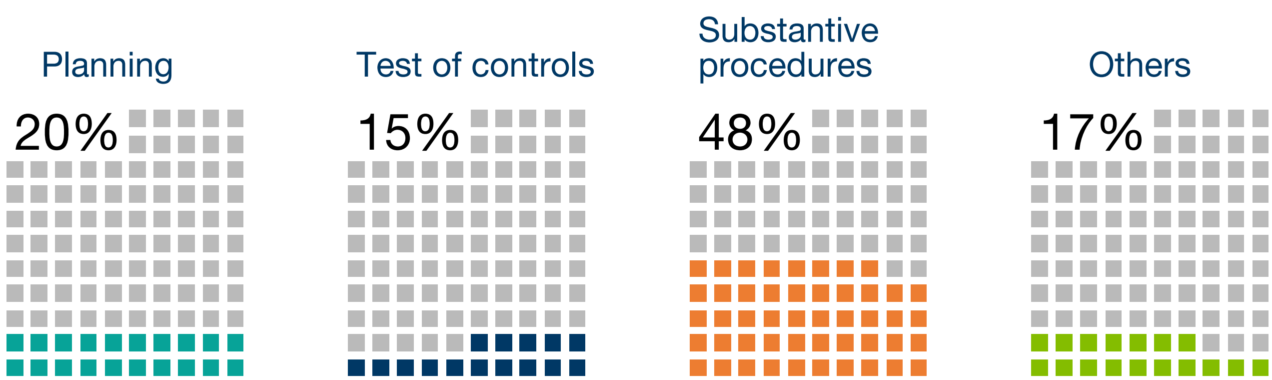


Figure 17: Proportions of audit engagement with inspection findings in 2018, categorized by the phases of an audit

The analysis on the types of inspection findings, as shown in figure 18, revealed that the recurring findings in multiple audit engagements include risk assessment, test of controls, and audit sampling. It is worth mentioning that the risk assessment in audit planning phase requires the audit experiences, as well as the sound understanding in the client's business. That said, we observed that in some instances the engagement partner or signing partner and the engagement quality control reviewer may not sufficiently involve in those processes. Their involvement is crucial in identifying what can go wrong due to fraud and planning audit procedures to address the identified risks accordingly. Furthermore, in test of controls phase, in order to appropriately assess the efficiency and effectiveness of the internal control systems, we still found that the identification of key controls is insufficient or does not properly reflect the nature of the transactions. The findings on audit sampling are still prevalent both in test of controls and substantive procedures. Even though several audit firms had amended their audit manual, in some instances the criteria in identifying sample size or sampling methodology is still unclear, resulting in the inappropriate audit sampling by the audit teams.



Planning
- Risk assessment due to fraud 8%
- Related party transactions 5%
- Materiality 3%
- Risk assessment (aside from fraud) 2%
- Preliminary analytical procedures 2%

Test of controls
- Test of controls 11%
- Test of general IT controls 4%

Substantive procedures
- Inventory and cost of sales 14%
- Revenue recognition 9%
- Audit sampling 8%
- Using the work of an auditor's expert 6%
- Journal entries testing 4%
- Impairment of assets 4%
- Revenue recognition under stage of completion method 3%

Others

For example
- Going concern
- Completion of the assembly of final engagement files
- Communication of misstatements to those charged with governance

Figure 18: Types of inspection findings in 2018.

The analysis on the inspection findings as categorized by industries of the audit clients, as shown in figure 19, revealed that some findings are prone to be identified in certain industries. For example, the observations on revenue recognition under stage of completion method are common in the construction entities, as those entities usually measure the percentage of completion by using actual cost to total budgeted cost ("cost to cost method".) The audit of the budgeted cost requires in-depth and specific knowledge on the reasonableness of the estimation of budgeted cost. Service entities, on the other hand, are prone to the observations on the point of revenue recognition and the gathering of evidence that such service is indeed delivered. The understanding of essential internal controls points in the service process is another common pitfall for audit of these entities, as each business may have different key control points depending on the nature of its operation and transactions. The observations on the audit of inventory and cost of sales frequently emerged in agriculture and food industry, consumer products and industrial commodity entities, due to the various physical characteristic of the inventory in form of agricultural product, consumable product, or industrial commodity products. As a result, the relevant observations are the appropriateness of the cost allocation and the consideration of inventory's net realizable value. On top of that, observation on the audit of impairment of assets is another recurring finding and usually associated with the technology-related entities or entities which heavily invested in the fixed assets. The aforementioned observations point out to the fact that before acceptance of audit client in each industry, auditor should consider the availability of its existing staff with necessary knowledge and experiences so that the sufficient appropriate audit evidence and issuance of appropriate opinion can be achieved.

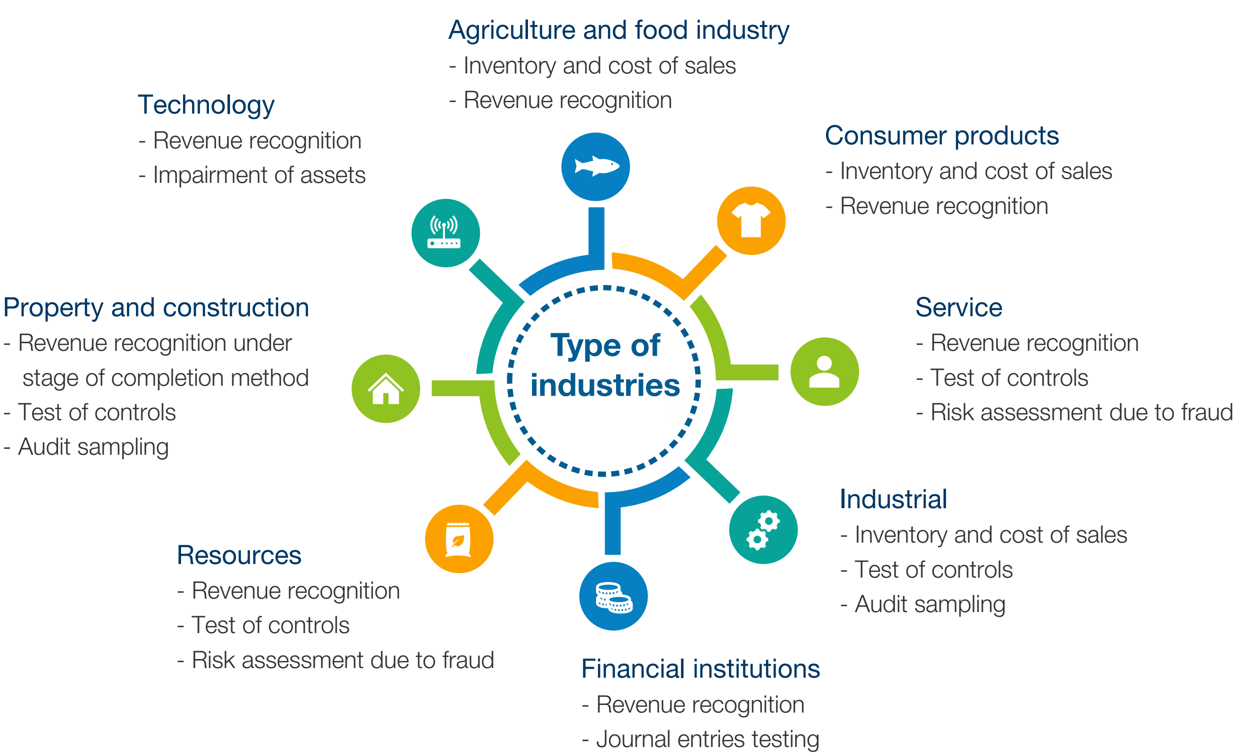


Figure 19: Inspection findings in 2018, categorized by the audit clients' industries.

In this 3rd inspection cycle we followed-up on the recurring findings from the previous inspection cycle, which most of the audit firms have amended its audit manual accordingly. Unfortunately, there may be some inconsistency, as the application of the audit manual is not standardized across the firm; such matter requires the robust communication and training. It is noteworthy that during 2016 to 2018 we identified the significant area to inspect in each engagement, mostly on the issues related to the financial reporting standards with recurring findings and high judgmental issues. In this regard, to ensure that the accounting treatment by the entities is correct and proper, the auditor should carefully consider the requirement in the financial reporting standard as well as obtain sufficient appropriate audit evidence, which includes the consideration on the appropriateness of management judgment concurrently with circumstantial fact and substance of the transaction. As doing so requires relatively competent and high experience staff, we still identify observations on the audit of impairment of assets, the audit of revenue construction under percentage of completion method and audit of revenue recognition, as follows:

1. Impairment of assets

In this 3rd inspection cycle we still identify recurring observations on the audit of impairment of assets in multiple audit engagements. The statistics as of 2018 showed the auditor's four main deficiencies in audit of impairment of assets as set out below:

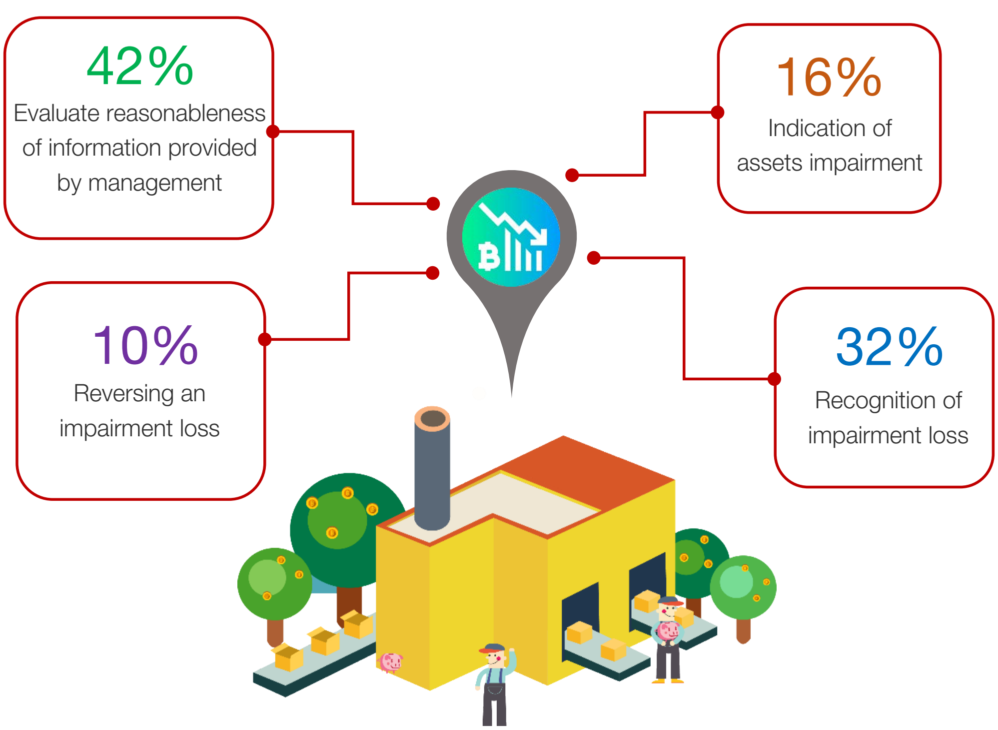


Figure 20: Proportion of common deficiencies identified from audit of impairment of assets in 2018 audit inspection

Auditing the indication of assets impairment

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. As such, the auditor should assess whether there is any indication that an asset may be impaired, by obtain audit evidence from both external and internal sources of information. And if any such indication exists, the auditor should consider whether the entity assessed and tested the possibility of assets impairment as required by the Thai Accounting Standards 36 – impairment of assets. Unfortunately, from the workpapers inspection it is found that, in some instances, the auditor does not verify the accuracy of the information used by the entity in assessment of indication of assets impairment. E.g. the reasonableness of the criteria used by the entity in assessment of indication of assets impairment, the accuracy of the subsidiaries' or associates' net assets value used in comparing with the book value of investment in subsidiaries or investment in associates in order to draw conclusion on whether such assets impairment indication exists.

Auditing the recognition of impairment loss

Recoverable amount should be determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs. As such, to identify the assets that may be impaired the auditor shall consider whether the CGU as identified by management is appropriate. However, from the workpapers inspection it is found that, in some instance, the auditor does not consider the appropriateness of the CGU used in assessment of assets impairment, particularly in view that whether the CGU as identified by management falls into the definition of CGU in TAS 36.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal ("FVLCD") and its value in use ("VIU"). Unfortunately, from the workpapers inspection it is found that, in some instances, the consideration of appropriateness of recoverable amount used by the entity to compare with the carrying amount in order to recognize impairment loss was performed only with consideration of fair value. FVLCD and VIU comparison, however, is not considered to appropriately identify the higher amount to be used as the recoverable amount. It is worth mentioning that the entity may not require to measure both FVLCD and VIU if the case is that one of the two amounts is higher than the carrying amount, indicating that an asset is not impaired. On the other hand, if the carrying amount is higher than only one measurement out of the two amounts, it may not be appropriate for the entity to conclude that the asset is impaired and thus conclude that an impairment loss should be recognized. Accordingly, in auditing an impairment of assets the auditor should pay attention to the amounts used by the entity in identifying an impairment of assets, namely, FVLCD and VIU.

Evaluating the reasonableness of information provided by management

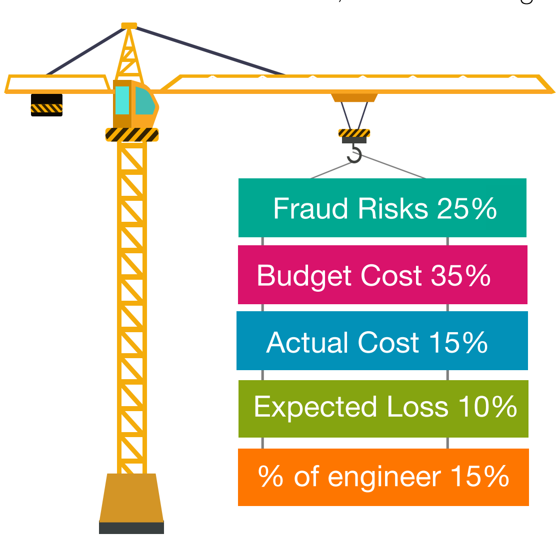
The auditor should consider the reasonableness of the assumption underlying the accounting estimates used by management when calculating the VIU by forecasting the future cash flows expected to be derived from an asset. For example, the discount rate, the revenue growth rate, the selling price, and capital expenditure. Likewise, to evaluate the reliability of the VIU, the auditor should obtain an understanding of the appraiser's work and consider the competency and capability of the appraiser. From the workpapers inspection, however, it is found that, in some instances, the auditor does not evaluate the reasonableness of information used in the calculation of VIU provided by management. For example, the assumption and methodology used in asset valuation, relevant information used in calculating WACC, and the circumstantial information supporting the growth rate of revenue.

Auditing the reversal of an impairment loss

In case the entity reversed an impairment loss, the auditor should audit and document the result of assessing whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased and assessing the appropriateness of the recoverable amount used by the entity to reverse the impairment loss. However, from the workpapers inspection it is found that, in some instances, the auditor does not document the result of assessing the reasonableness of the reversing of an impairment loss, particularly in view that whether an indication that an impairment loss recognized in prior periods for an asset is indeed no longer exist or may have decreased. Furthermore, the auditor does not document audit evidence obtained in verifying the information used in the reasonableness consideration of recoverable amount, which is compared with the carrying amount of an asset to determine whether the reversal of an impairment loss is eligible according to the requirements set out in TAS 36.

2. Revenue under construction contract.

In this 3rd inspection cycle we still identify recurring observations on the audit of revenue under construction contract, which refers to the stage of completion in the work performed, as required by the Thai Accounting Standards 11 – construction contracts. The inspection of workpapers for construction entities in 2018 reveals the auditor's five main deficiencies, as shown in figure 21, as follows:



- Identifying and Assessing the risks of material misstatement due to fraud
- Auditing budgeted cost
- Auditing actual cost
- Auditing expected loss
- Auditing the percentage of completion estimated by project engineer

Figure 21: Proportion of deficiencies identified from audit of revenue under percentage of completion method

Identifying and Assessing the risks of material misstatement due to fraud and test of internal controls

For the planning phase of auditing revenue of construction entities recognized by stage of completion method, the auditor should pay attention to the risk assessment process, both due to fraud and errors which may give rise to the material misstatement. Doing so enables the auditor to appropriately design the response to the assessed risks as well as sufficiently obtain an understanding of the entity's internal controls and processes to prepare and amend budgeted cost. Unfortunately, from the workpapers inspection it is found that, in some instances, the auditor does not assess whether and how the entity may prepare fraudulent financial reports by recognizing revenue based on inaccurate budgeted or actual cost. The response to the assessed risks by the auditor, as a result, is limited to normal substantive procedures without the specific audit procedures designed for unusual transactions. The auditor also does not obtain sufficient understanding on the process to prepare and amend budgeted cost, and sufficiently perform test of controls to draw conclusion on the effectiveness of the controls over the preparation and amendment of budgeted cost.

Auditing the budgeted cost, actual cost and the expected loss

In case the entity determines the stage of completion by using the proportion of actual cost to budgeted cost for the purpose of revenue recognition, the auditor should pay attention to the verification of actual cost accuracy and budgeted cost reasonableness. The auditor should plan to perform substantive tests on the component information of the budgeted cost with the evidential information to verify that the budgeted cost calculated by the entity is appropriate. Likewise, the auditor should consider whether the revised budgeted cost by the entity reflects the probable cost of the entire project, by continuously monitoring the amount of estimated cost to completion. Additionally, the auditor should verify the accuracy and completeness of the recognition of expected loss for each project. From the workpapers inspection, the significant findings arise as follows:

- The auditor does not assess and identify risks on the recognition of actual costs in the wrong accounting period. The cut-off period is also not determined based on the period that may introduce risks.
- The auditor does not verify the classification or allocation of the actual cost, particularly in view that whether expenses should be recognized as construction cost or administrative expenses.
- The audit sampling method and sample size in testing actual cost and budgeted cost are not sufficient.
- The auditor does not obtain sufficient audit evidence on budgeted cost, despite the indication that budgeted cost in each project may be inappropriate. E.g. there is increase or decrease in the scope of work but the auditor does not verify the reasonableness of the relevant estimation; in case of inconsistency between the material price in the budgeted cost and the purchase order, the auditor does not investigate the reason for such difference.
- The auditor does not obtain sufficient evidence on the consideration of estimated cost to completion to sufficiently assess the reasonableness of the revised budgeted cost.
- The auditor does not verify the accuracy of the expected loss progressively recognized by the entity, particularly in view that whether the recognition is in accordance with the requirement in accounting standards. Additionally, the auditor does not compare the total construction cost to the total construction revenue to consider whether the entity accurately and completely recognized the expected loss in the income statement.

Auditing the percentage of completion estimated by a project engineer

The crucial procedure that will assist the auditor in considering the reasonableness of the percentage of completion estimated by a project engineer is the understanding of the method a project engineer used to estimate the percentage of completion, which allows the auditor to assess the risks and design the response to those risks accordingly. Unfortunately, from the workpapers inspection it is found that, in some instances, the auditor uses the estimation by a project engineer to determine the stage of completion without obtaining sufficient understanding of the method a project engineer used to estimate the percentage of completion. Moreover, the auditor does not verify the appropriateness and reasonableness of the stage of completion estimated by a project engineer.

3. Revenue recognition

Being the main transaction of the financial reports, revenue draws an attention from the financial reports' users, and the risk from revenue recognition due to fraud is a significant risk. Therefore, the auditor should pay more attention to the audit of revenue. However, we still identify the findings on the sufficient and appropriate audit of revenue. The inspection of workpapers in 2018 reveals the auditor's four main deficiencies, as shown in figure 22, as follows:

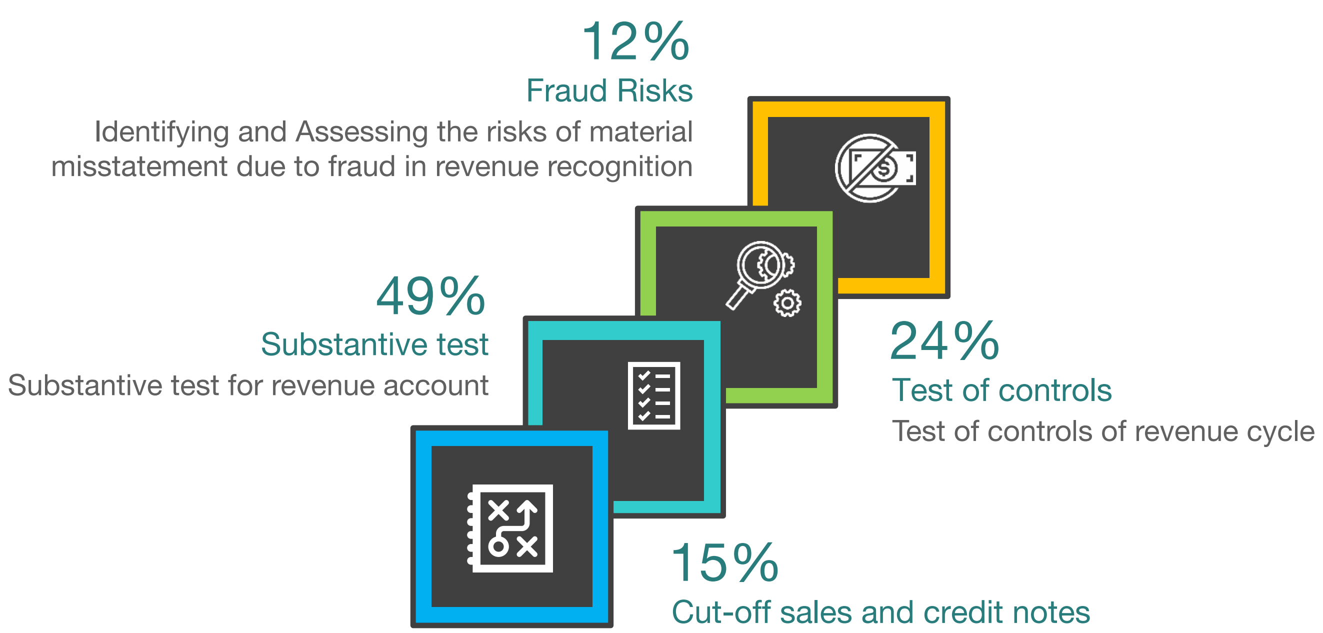


Figure 22: Proportion of deficiencies identified from audit of revenue recognition in 2018

Assessment of the risks of material misstatement due to fraud

For the auditor to properly design the audit procedures in response to risks, the auditor should pay attention to the risk assessment process both due to fraud and errors, as well as clearly identify what can go wrong for each type of revenue in the planning phase of the audit of revenue. However, from the workpapers inspection it is found that, in some instances, assessment of the risks of material misstatement due to fraud is not sufficient appropriate; and the identification of what can go wrong for each type of revenue is unclear. Consequently, the auditor does not design the specific procedures and incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures which is necessary to identify the material misstatement due to fraud in revenue recognition. Also, in some cases, the auditor identifies risk of material misstatement due to fraud in revenue recognition as a normal risk although the standards on auditing requires that the auditor treat the assessed risks of material misstatement due to fraud as significant risks

Test of controls

In the understanding phase of key control points in revenue cycle, the auditor should obtain sufficient understanding of the entity's internal controls to thoroughly identify significant key control points in revenue cycle. And, based on those understanding, the auditor should design test of controls to gain assurance that the internal controls relevant to revenue are effective and efficient throughout the period. In this inspection cycle we identify the observations on test of control as detailed below:

- The auditor does not obtain sufficient understanding of internal controls relevant to revenue and does not perform thorough walkthrough on key control points in revenue cycle.
- The auditor does not appropriately perform test of controls for each key control point, e.g. point of revenue recognition, the conversion of exchange rate from sales in foreign currency, in order to draw conclusion on the effectiveness of the internal controls of revenue cycle.
- The auditor does not properly stratify the population into category with homogeneous transactions or controls to design separate test of controls for each different category. As a result, the sample size may not be sufficient to draw conclusion on the effectiveness of the internal controls for each type of revenue.
- The sample size and the sampling methodology for test of controls are not sufficient and appropriate. The auditor also does not select sample for test of controls throughout the period and does not perform other procedures to gain assurance that the internal controls relevant to revenue are effective and efficient throughout the period

Substantive procedures and test of details of revenue

When obtaining the audit evidence from the test of details of revenue, the auditor should document the critical information in determining the point of revenue recognition or the evidence that indicates the date of risks and rewards transfer, e.g. the delivery date, the transfer of ownership date as per the international commercial terms ("incoterms".) Additionally, the auditor should exercise their professional skepticism in auditing sales transactions that are outside the entity's normal operation, by identifying audit procedures necessary for obtaining audit evidence and drawing conclusion on those matters. For example, verification of sales contract or equivalent document indicating the transfer of risks and rewards to the customers, the consideration of principal versus agent, the cash collection. However, from the workpapers inspection we identify the significant findings on test of details of revenue as follows:

- Audit sampling methodology is not sufficient and appropriate. E.g. specific sampling selection by selecting only transactions whose amount are higher than specified amount. As a result, the remainder of population does not have a chance of selection, despite the fact that the cumulative amount of the remainder of population exceeds the materiality.

- The auditor does not document the result of inspection of critical information or document that would indicate the revenue recognition by transferring of significant risks and rewards in goods to the customers, to draw the conclusion on the occurrence of sales. For example, the date of acceptance by the customers or the delivery date as per the incoterms.
- The auditor does not consider the impact of the entity using the exchange rate of the date in invoice to recognize revenue, instead of the rate as per the incoterms.
- The auditor does not verify the reasonableness of the assumption used by management in estimation of revenue and relevant information. For example, estimation of warranty expense and sales return, cash discount and trade discount, or the redemption rate of the customer royalty program.
- In auditing sales commission or claim received from damaged goods from supplier, the auditor neither obtains understanding on the nature of terms and conditions and arrangement between the supplier and the entity nor obtains other relevant evidence in considering the compliance with financial reporting standards, particularly in view that whether the cash received from the supplier thereof should be recognized as deduction from cost of sales or as other revenue.
- The auditor does not obtain audit evidence in considering whether the entity's sales transaction falls into the act of principal or agent, which may impact the consideration of the appropriateness of the transaction, particularly in view that the entity should disclose the revenue and cost of sales separately in the financial statements or disclose the revenue as the net amount from cost of sales.
- The auditor does not obtain audit evidence in considering whether the entity's sales transaction should be deemed as bill and hold sales.
- The auditor does not consider the impact of the recognition of leasehold income on the due date, particularly in view that whether the recognition is in accordance with financial reporting standards.
- The auditor does not consider the materiality of the credit note issued in current period to reverse the sales from prior period, and the possibility that the retrospective adjustment maybe warranted.
- The auditor does not consider whether the recognition of debt forgiven by the parent company as other income of the entity is in accordance with financial reporting standards, despite the fact that such transaction bears a resemblance to the financing activities from the parent company for the entity as a working capital.
- The auditor verifies transfer pricing only with invoice and the intercompany confirmation letter, which may not be sufficient to support the auditor's conclusion on the appropriateness of pricing policy. It is worth mentioning that the determination of transfer pricing may be a channel for benefit syphoning. The auditor therefore should perform additional procedures to response to the risks of material misstatement due to fraud in revenue recognition.

Cut-off procedures for revenue and credit note

When performing the cut-off procedures for revenue, the auditor should document the basis and rational in identifying the timeframe used in cut-off procedures. Various factors which may cause the revenue recognition in the wrong period should be considered, e.g. the lead time for delivery of goods and incoterms. In addition, when performing cut-off procedures for credit note the auditor should also inspect sales document relevant to such credit note in order to consider whether credit note is recorded in the correct period.

Root Cause Analysis

Over the course of our 3rd inspection cycle (2016-2018), we witnessed the determination of auditors and audit firms in their continuous improvement and development of audit quality, both at firm-level and engagement-level. Root cause analysis was carried out by most of the audit firms as a crucial process to lay out and formalize an appropriate, accurate and timely remediation plan. Root cause analysis also played an important role in preventing the recurring of the same deficiencies. The efforts to alleviate deficiencies by addressing the root cause were evident among audit firms, e.g., addition of more detailed description in the audit manual to promote clarity and standardization, increase of partner and EQCR's involvement, encouraging consultation with technical teams on significant issues, and coaching staff on the complex issues or observations. Unfortunately, for some audit firms that still struggled with alleviation of deficiencies, we performed root cause analysis and the possible causal factors can be identified as follows:

1. Retention of experienced and competent staff

Exceptional engagement performance and maintenance of high-standard quality control system are assuredly contributed by adequate amount of experienced and competent staff. Highly-experienced staff also possess professional skepticism, a valuable trait of auditors, which will promote the exercising of appropriate judgment in the audit team. Be that as it may, the scarcity of personnel in the professions is a recurring issue. The turnover rate is still high, especially among the experienced ranks that can act as team leaders, and the younger workforce tends to have lesser interest in the professions. The career and development path as well as the succession plan are still not in place for medium or smaller sized audit firms. As such, the staff may lack motivation to work for the firms in the long haul, resulting in the firms' inability to replace the positions with proper individuals in time. Over the years, audit firms have always given the priority to the retention of experienced and competent staff, by recalibrating the strategies and policies on the benefit and career advancement to motivate and retain current staff in its roster. The firm's culture and behavior are also nourished to establish connection with employees and respond to the needs of younger workforce. The turnover rate in the 3rd inspection cycle is therefore improved from the previous cycle inspection result, yet still high vis-à-vis other professions turnover rate. The retention of experienced and competent staff is undoubtedly still a constant challenge for every audit firm. We recognize the importance of addressing the lack of personnel in the accounting professions and therefore regularly collaborate and consult with the relevant bodies, e.g., TFAC, on those matters. By doing so, we aim to establish the audit professions from its core to be the "beneficial professions" and to attract the potential candidates into the professions. This undertaking is time-consuming and requires the cooperation from each and every stakeholder.

2. Staff coaching and preparation in every level to keep abreast of the changes in accounting professions standards

Standards in accounting professions, i.e., financial reporting standards, auditing standards, code of ethics for professional accountants and standards on quality control, are a living body of knowledge and therefore facing constant revision. Accordingly, it is advisable for the audit firms to prepare and equip its staff so that they can deliver quality work and abide by the standards requirements. That being said, we observed the absence of plan to develop staff in every level in some audit firms and therefore the staff coaching and tools preparing may not be optimized, inevitably affecting the sufficiency and appropriateness of the audit manual and the staff understanding towards the requirements. This conforms to our previous findings that were caused by the lack of understanding in newly-issued standards due to the firm's unpreparedness in coaching technical knowledge and updating audit tools. Supporting auditors in the capital market in keeping up the pace with the development in accounting professions has never been more important. As such, we regularly hold sessions on the updated financial reporting standards for auditors as we expect them to be effectively applied in performing audit engagement.

3. Audit manual, audit procedures, and auditing tools

Sufficient details in the audit manual and audit procedures, together with tools used in auditing will facilitate users in understanding the intention and procedures of each audit process and enable users to meet requirements set out by the standards effectively. They also promote consistent quality across the engagements and standardize the audit process. However, previously we observed that the audit manual and audit procedures in some audit firms may not cover significant matters as required by the standards or may have unclear procedures in certain areas. The audit firms should thus entrust individuals with sufficient knowledge and experiences in financial reporting and auditing standards to be in charge of reviewing and modifying the audit manual and audit procedures. Subsequently, such individuals should communicate the thorough and standards-complied audit manual and audit procedures to relevant users within the firm. The monitoring process should also be established to ensure that the audit teams possess an accurate and sufficient understanding to the extent that they are able to perform the audit effectively. It should be noted that the use of technology-assisted audit tools will help increase the effectiveness and efficiency of the work, e.g., sampling selection tools and data analytic tools.

4. Monitoring process and remediation plan

A properly executed monitoring process will provide several benefits to audit firms. For example, (1) sufficient information to perform root cause analysis, (2) impact assessment associated with each deficiency, (3) prioritization of the accurate remediation plan, and (4) timely communication of the observation and findings from the monitoring process to the relevant parties, thus enabling timely alleviating actions. The quality control system of both firm-level and engagement-level will therefore improve. Previously, we observed that audit firms had already established an internal monitoring process. Unfortunately, in some cases the monitoring process may not have adequate level of scrutiny to discover deficiencies. Moreover, in some audit firms, root cause analysis and remediation plan may not address the firms' needs and requirements and do not take the firms' environment or culture into account, resulting in the failure of deficiencies alleviation effort and the emergence of recurring deficiencies. To combat this, the individuals in charge of the monitoring team should have an adequate degree of knowledge and experiences and should devote sufficient time to perform monitoring function. Likewise, the leaders of the firms play a pivotal role in assessing the appropriateness of remediation plan and providing sufficient resources to address the root cause of the deficiencies.

Framework and Focuses in 2019

Building proficiency of the stakeholders in the financial reporting ecosystem will continue to be the theme of the SEC efforts to promote the quality of listed companies' financial reporting in 2019. To ensure that all stakeholders, from company directors and high-ranking executives to audit committees and financial preparers, will be able to perform their duties to the fullest capacity, the SEC has laid out frameworks for key improvements, as summarized below:

Framework for strengthening the preparers' proficiency

Preparers play a pivotal role in promoting the quality of financial reports right from the beginning of the process. It is, therefore, important to support the promotion of preparers' proficiency and the quality of financial reporting on a continuing basis. In 2019, the SEC will organize briefing sessions on the impending financial reporting standards to ensure that preparers will be ready and able to prepare quality financial reports. In addition, academic research will be conducted on the audit adjustments proposed by auditors to the listed companies during the performance of audit engagement for the fiscal year 2018. The results of the research will be considered when laying out action plans to reinforce preparers' proficiency and promote the quality of financial reports. For example, the SEC will consult with the TFAC on the accounting topics with incorrect applications or necessary interpretation, and will arrange training and seminars on relevant issues for preparers in due course.

Framework for promoting the role of company directors and audit committees as a key catalyst for advancing the quality of financial reporting of listed companies

Company directors and audit committees play a key role in steering the direction for company operation. They are also in charge of implementing good governance principles to protect the interest of shareholders and other stakeholders, which in turn will contribute to the sustainable growth of the company. In 2019, the SEC will step up the support for company directors and audit committees to discharge their duties of selecting appropriate auditors and responding to auditors' work more efficiently and effectively. After carefully studying the "Good Practices for Audit Committees in Supporting Audit Quality," which has been issued by the International Organization of Securities Commissions (IOSCO), the SEC plans to apply these practices in the Thai context and circulate them to the audit committees for their appropriate application in exercising their roles.

Furthermore, good internal control system helps to prevent errors and fraudulent acts, builds trust in the financial reporting system, and subsequently promotes sustainable growth of listed companies. Therefore, in 2019, we plan to promote the cultivation of "tone at the top" by emphasizing the establishment of good internal control system. In this regard, company directors and audit committees are also the impetus for sufficient appropriate internal control system of listed companies.

Framework for reinforcing audit quality

The results of regular audit engagements quality inspection show that the majority of audit firms have already implemented and improved quality as per the SEC's observations. We therefore will amend our quality inspection plan for 2019 to be more focused on specific high-risk areas, namely the correlation between the paid benefit and quality of work, the preparation for the potential individuals to step up as auditors in the capital market, the confidentiality of the audit client, the auditor rotation with respect to the revised code of ethics for professional accountants, the assessment on client's accounting and internal control system prior to accepting the engagement, the development of audit procedures and training on the new financial reporting standards, and the outcome of remediation plan implementation. In this regard, we will continue dialogues with both auditors and audit firms on the observation and recommendation, by focusing on the performance of root cause analysis and remediation plan that ensues. The audit firms, as a result, will be able to accurately and effectively alleviate the deficiencies in a timely manner. The significant undertakings to reinforce and support audit firms in promoting audit quality in 2019 are as follows:

1. Arranging sessions to regularly educate auditors on practical issues emerged from application of financial reporting standards and auditing standards. The priority will be given to the recurring observations and the financial reporting standards and auditing standards that are on a horizon, i.e., financial reporting standards on financial instruments, TFRS 16 - Leases, and the revised International Standard on Quality Management 1 and 2 (ISQM 1 and ISQM 2). Likewise, we plan to arrange sessions for auditors on the audit of general IT controls and IT application controls, while aiming to prepare and reinforce auditors with the latest know-hows and the ability to keep up the pace with an ever-increasing adoption of technology in businesses.
2. Encouraging smaller audit firms to collaborate on the development of audit enhancement technology, e.g., e-audit workpapers and knowledge base. The auditors under local audit firms will also be coached on the impending technology-assisted audit techniques, e.g., the use of data analytics in auditing.
3. Working with the TFAC on the support for the project to develop auditors with adequate experiences and qualifications for becoming an engagement quality control reviewer ("EQCR") or a monitoring team for smaller audit firms or potential audit firms. This will result in an increasing number of listed companies' financial reports that engagement partners can handle, and preparation for the revised requirements on auditor rotation of the public intertest entities.
4. Cooperating with AARG members on a continuing basis in fulfilling the ongoing goal of "reducing the findings emerged from the inspection of engagement performed by big-4 firms by 25% within 2020," to raise the quality of auditors in ASEAN region. To that end, we will perform root cause analysis on the recurring deficiencies among the big-4 firms in the region, as well as monitor progress on the reduction of deficiencies continually.
5. Promoting audit firms in the capital market to adopt audit firm governance practices as a means to promote transparency within the operation of audit firms and prepare for the revised requirements in the quality control system as prescribed by ISQM1.

Essential Statistics

Approved audit firms and auditors as at 31 December 2018

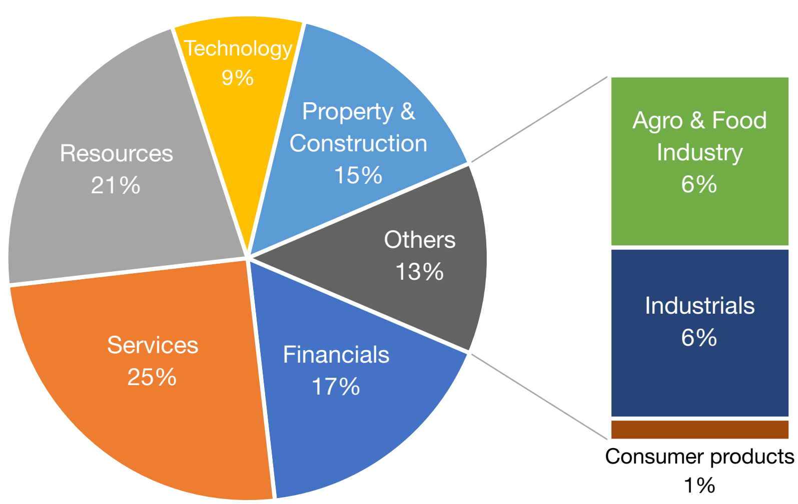
Type of audit firms	Number of firms	Number of approved auditors
Big-4 firms	4	140
International firms	5	14
Local firms	19	85
Total	**28**	**239**

The ratio of listed companies to auditors in the capital market was 2.93

Record of approval of auditors in the capital market

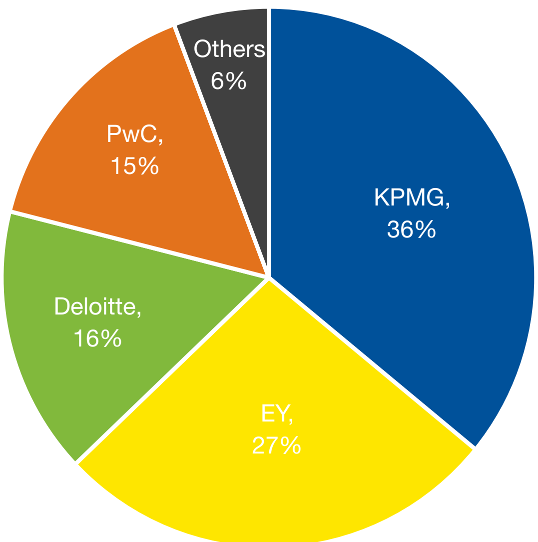
Year	Number of applicants	Number of approved auditors		Number of rejections
		New	Renewal	
2014	46	15	29	2
2015	34	21	11	2
2016	65	26	39	-
2017	62	26	36	-
2018	53	28	25	-

Proportion of the average total market capitalization of the inspected financial statements in 2018, categorized by industry



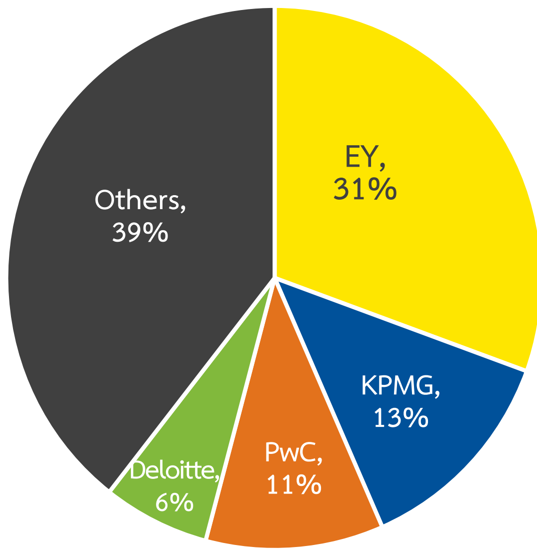
Remark: The total market capitalization of the listed companies on the Stock Exchange of Thailand as at 28 December 2018.

Proportion of the listed companies on the Stock Exchange of Thailand as audit clients of each audit firm, categorized by market capitalization



Remark: The total market capitalization of the listed companies on the Stock Exchange of Thailand as at 28 December 2018.

Proportion of the number of the listed companies on the Stock Exchange of Thailand as audit clients of each audit firm



Remark: The total market capitalization of the listed companies on the Stock Exchange of Thailand as at 28 December 2018.

Record of mandates to rectify listed companies' financial statements

unit: company

Issues	2015	2016	2017	2018
(1) Preparation and disclosure of financial statements not in accordance with relevant financial reporting standards	2	1	2	-
(2) Qualified or disclaimer of opinion in the auditor's report due to management-imposed limitation.	3	2	-	1

Action imposed on the listed companies' financial statement

unit: company

Special audit	2015	2016	2017	2018
Special audit	-	-	3	-

CONTACT INFORMATION

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