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# INDEPENDENT AUDIT INSPECTION ACTIVITIES REPORT 2019

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ACTIVITIES REPORT 2019**

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# Executive Summary

The capital market plays an important role in driving the country's economic and societal systems towards stable and sustainable growth. In the past year, the abrupt changes to the overall landscape inevitably affected the state of play of the capital market. Such transformation included advancements of financial technology, international trade policies influencing business conduct, a shift in the demographic structure towards aging society, and the growing business trends focusing on sustainability. Furthermore, continually low interest rates as a result of economic situations caused business operators to increasingly perform fundraising through bond issuance, and the public in turn search for investments with higher yield that were often associated with higher risk. Lastly, the government's policy aimed to promote and support small and medium enterprises (SMEs)' growth and facilitate their access to sources of fund in the capital market. Given such backdrop, the Securities and Exchange Commission (SEC), as the capital market regulator, had to adjust its strategic plan and operating procedures in alignment with both the National Strategy and the dynamic landscape of the capital market.

In 2019, the SEC initiated to revisit the whole legislative structure regarding the supervision of auditing professions in Thailand for the first time to enhance the efficiency of such oversight. In so doing, the SEC engaged an independent research institute to conduct a comparative study on the oversight of audit firms and auditors in the capital market between the Thai legislation and framework and the international counterparts. The results have become a basis for the proposal and the roadmap to amend the Securities and Exchange Act B.E. 2535 (1992) with the objectives of increasing the efficiency of legal enforcement and investor protection and establishing a proactive policy to increase competent auditors in support of potential increase in the number of listed companies. These efforts are expected to contribute to Thailand's economic growth and maintain the high-quality standard of the financial reporting of listed companies in Thailand.

Additionally, the SEC reinforced a core objective of building a robust foundation for the financial reporting ecosystem, with a special focus on extending the efforts in promoting stakeholders' better understanding of their roles and the exercising of their duties to the fullest capacity in order to create a well-balanced ecosystem and subsequently financial reports – an output of the ecosystem – that are fair, reliable and most useful for the users. This supportive environment helps to drive the Thai capital market towards the directions laid out in the SEC Strategic Plan. In this regard, the SEC has rolled out significant projects, including dissemination of the results of the root cause analysis on audit adjustments proposed by auditors to listed companies in order to communicate and motivate listed companies' executives and audit committees to prioritize and provide necessary support for the financial reporting preparation process as well as to strengthen capacities of individuals who are directly responsible for the financial reporting preparation.

Furthermore, the SEC shared knowledge and insights on new developments related to the financial reporting preparation to promote relevant stakeholders' up-to-date knowledge and understanding of the latest regulations and professional standards and to ensure that they will be able to exercise their duties efficiently to the fullest capacity. Meanwhile, the SEC is laying out the foundation of a robust and adequate accounting system and a financial reporting preparation process to support SMEs' fundraising in the capital market.

Numerous integrated initiatives have been undertaken to maintain the reliability of the financial reporting system and promote sustainable growth of the capital market. Regarding the supervision of audit quality, the SEC found that the inspection results of audit firms' quality control system from the first inspection cycle (2010-2012) to 2019, the first year of the 4<sup>th</sup> inspection cycle (2019-2021), showed promising overall

improvement despite the SEC's more intensive inspection in several areas. The latest inspection on 29 audit firms in the capital market revealed that 86 percent of the inspected audit firms received either "acceptable" or "very satisfactory" rating for their quality control system. Additionally, more than 50 percent of the total inspected audit firms attained "very satisfactory" or "satisfactory" rating for their "client acceptance and continuance" and "human resource" elements. These positive results were possible thanks to the audit firm leaders' efforts in building an audit firm culture recognizing quality is essential in performing engagements and the audit firms' more efficient and effective monitoring process.

Along the same line, the inspection results of individual engagements showed promising improvement of audit quality in the capital market, as reflected in the continuously decreasing number of approved auditors with deficiencies and the condition to be monitored in the next inspection period from 2017 to 2019. Similarly, approved auditors without deficiencies significantly increased thanks to the audit firms' devoted allocation of resources to develop quality control system, enhance quality of human resources, and invest in audit supporting technology to improve both efficiency and effectiveness of engagement performance. Most observations from the engagement-level inspections in the past inspection cycle were related to audit planning and audit of difficult and complex issues that required judgment and interpretation of certain financial reporting standards. These are challenges on which the SEC and auditors must work closely together to further improve and develop audit quality in these areas.

The root cause analysis on some audit firms' continual lack of the ability to fully remediate their deficiencies revealed a scarcity of experienced and competent staff to assume duties in important tasks, for instance, final reviewing and revising audit manual and audit program to reflect changes in the professional standards and the monitoring process. The SEC therefore encouraged audit firms without an international network to form a coalition to share academic supports among themselves. For example, a joint development of an audit program, joint training sessions, and mutual procurement of information technology tools for auditing. In so doing, audit firms will be able to promptly respond to the fast-changing environment and effectively increase the efficiency of engagement performance and audit quality.

For future plans, the SEC will continue to carry out the initiatives to strengthen the capability of all stakeholders. In 2020, a focus will be on proactive increase in the number of capital market auditors in preparation for future market growth while audit quality will be enhanced to provide investors with quality financial reports in support of their decision-making. The propriety of relevant legislations will be revisited, amended, and revised to increase the efficiency of law enforcement and the whole audit oversight regime, both at the firm level and the individual level. Additionally, the SEC's standard operating procedures will be adjusted in alignment with the organization's digital transformation, with a focus on educating and building capability of staff in every level. This includes digitalization of the SEC's entire workflow and database management system with regard to audit oversight. These collective efforts will reinforce further collaboration among stakeholders in the financial reporting ecosystem to enhance quality financial reporting for the benefit of sustainable growth of the Thai capital market.

# Quality Assurance Review Panel



**Mr. Prasan Chuaphanich**

## Positions:

- 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)
- 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
- Commissioner, the Securities and Exchange Commission Board
- Expert Member, Public Sector Audit Evaluation Committee, Office of the Public Sector Development Commission
- 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)
- Audit Committee of Administrative Management, Mahidol University
- Member of the Finance and Property Management Committee, King Mongkut's University of Technology Thonburi
- 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

## 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, London, United Kingdom
- 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:

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



**Ms. Chongchitt Leekbhai**

**Positions:**

- 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, the Securities and Exchange Commission Board
- Audit Committee, Rajamangala University of Technology Srivijaya

**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. Natasek Devahastin**

**Positions:**

- Subcommittee, the Accounting Standard Committee, Thailand Federation of Accounting Professions 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



**Mrs. Suwannee Phuripanyo**

**Work experiences:**

- Partner, PricewaterhouseCoopers ABAS Limited, Thailand
- Director, Coopers & Lybrand Associates Company Limited
- Financial Controller, Bristol-Myers (Thailand) Company Limited
- Manager, Coopers & Lybrand Associates Company Limited
- Internal Audit Manager, Johnson & Johnson (Thailand) Limited
- Audit Supervisor, Coopers (Thailand) Limited

**Education:**

- Master in Accounting, Thammasat University
- Bachelor in Accounting, Thammasat University
- Diploma in Auditing, Thammasat University
- Certified Public Accountant



**Mr. Ayusm Kritsanamara**

**Positions:**

- Chairman of the Subcommittee, Regulations Consideration Subcommittee on Sales Conduct and Provision of Investment Advice, the Securities and Exchange Commission (SEC)
- Member of the Subcommittee, Regulations Consideration Subcommittee on the Operation of Mutual Funds Management Business -- Property Funds, Infrastructure Funds, and Real Estate Investment Trusts, the Securities and Exchange Commission (SEC)
- Member of the Subcommittee, Regulations Consideration Subcommittee on Securities Issuance and Offering – Bond, Derivatives and Complex Products, the Securities and Exchange Commission (SEC)
- Expert Board Member, the Capital Market Supervisory Board (CMSB), the Securities and Exchange Commission (SEC)
- External Consultant on Risk Management Standard for Financial Institution and its Financial Group, Bank of Thailand
- Vice President, the Philatelic Association of Thailand

**Work experiences:**

- Member of the Risk Management Committee and Secretary, Bangkok Bank Public Company Limited
- Executive Vice President in charge of Accounting and Finance Division and Manager of Risk Management Division :Bangkok Bank Public Company Limited
- Director, Bualuang Ventures Limited



- Director, the Asian Bankers Association (ABA), Taipei, Taiwan
- Vice Chairman, BBL Asset Management Co., Ltd
- Chairman, Basel Club, Thai Bankers Association
- Chairman, IFRS Club, Thai Bankers Association
- Chairman, Thai Forex Club (ACI), Thai Bankers Association

### Education:

- Master of Business Administration, Pepperdine University, Los Angeles, U.S.A.
- Bachelor of Science – Chemical Engineering, Lehigh University, Bethlehem, U.S.A.
- Advance Management Program, Harvard Business School, Boston, MA, U.S.A.
- National Defense Academy (NDA), Class of 2004
- Chief Executive Program, Capital Market Academy, 6<sup>th</sup> Batch



## Mr. Piyapong Sangpattarachai

### Positions:

- Executive Officer, Financial Risk Management Products, Kasikorn Bank Public Company Limited

### Work experiences:

- Executive Committee, KPMG Phoomchai Audit Limited
- Manager, CFO Advisory Division, Melbourne, Australia
- Expert in Accounting and Valuation of Financial Instruments (IAS39/IFRS9/IFRS13)
- IFRS speaker for various regional and international companies, financial institutions, government agencies and educational institutions

### Education:

- Master in Professional Accounting, The University of Texas at Austin, U.S.A.
- Bachelor of Business Administration, The University of Texas at Austin, U.S.A.
- ASEAN Chartered Professional Accountant
- Certified Public Accountant, Texas, U.S.A.
- Certified Public Accountant

# Activities for Enhancing Financial Reporting Quality

Promoting and developing sustainable growth of the Thai capital market requires a robust foundation. One of the important contributing factors is the enhancement of financial reporting system quality. To that end, the SEC has been focusing on regularly building capacity of stakeholders in the financial reports preparation process with an aim to establish a balanced financial reporting ecosystem in the capital market. Several initiatives are also at play to ensure that the financial reports enhancement is recognized internationally. This in turn will strengthen the reliability of the Thai capital market in the view of both regional and global investors. Throughout 2019, the SEC cooperated with relevant organizations in conducting various activities, e.g., communicating with and educating stakeholders or conducting an in-depth study and research to apply the results in laying out a framework for the development of the financial reporting system of entities in the Thai capital market. Meetings with relevant organizations have been regularly carried out to ensure that the defined goals are achieved. Building capacity and expanding knowledge of the staff is also carried out in order to enable proper execution of the defined strategic plan.



## Building Capacity of Stakeholders

The quality of the financial reporting system in the capital market depends on stakeholders' knowledge and adequate understanding of their roles and professional standards. They should also be adaptive to the fast-changing environment, e.g., the development of financial transactions, the growing effects on how the information technology and information systems disrupt listed companies and accounting professions' operations, and more stringent regulations and newly effective financial reporting standards. These challenges significantly impact the operations of stakeholders in carrying out their duty of preparing financial reports. Accordingly, the SEC continuously emphasized keeping relevant stakeholders abreast of the ever-changing knowledge, especially that relating to the preparation of financial reports. The SEC also improves the quality of both audit engagements and audit firms constantly to enable the stakeholders to effectively discharge their duties to the fullest extent. Throughout 2019, the SEC organized training sessions and seminars on emerging issues with significant changes to stakeholders at all levels, e.g., executive officers of listed companies, chief financial officers (CFO), bookkeepers, audit committees and auditors, ranging from audit assistant to audit partner. The sessions and seminars are as follows:

- Thai Financial Reporting Standards 9 – *Financial Instruments*
- Thai Financial Reporting Standards 16 – *Leases*
- Training sessions to prepare directors, high-level executives, and auditors for the Personal Data Protection Act, as well as discussion to establish an action plan relating to privacy protection and cybersecurity.

- The impact of the amended labor law on the calculation of the employee's benefit using actuarial science.
- IT Application Control in performing audit engagements.
- International Standards on Quality Management 1 and International Standards on Quality Management 2 for audit firms.



Moreover, the SEC sponsored the Thai Listed Companies Association in organizing a seminar on CFO Professional Development. The seminar aimed to build a body of knowledge and exchange experiences among the CFOs of listed companies on interesting topics, e.g., the use of technology in the accounting field, the roles and responsibilities of the CFOs in an effective and transparent communication with the stakeholders.

Over the years, the SEC has paid attention to the roles and responsibilities of the audit committees in promoting good governance within listed companies. The SEC therefore collaborated with the Thai Institute of Directors (IOD) in developing good practices for the audit committee in enhancing audit quality to be adopted by the audit committees. Also, the seminars on knowledge and experience-sharing through the vision of the audit committees from the “Board of the Year” award-winning companies were organized. The seminars aimed to help the audit committees of listed companies to communicate and discharge their duties more efficiently in line with the currently changing landscape.



Communication and dissemination of knowledge are an essential tool to enhance the financial reporting quality. In support of such tool, the SEC took part as instructor at several seminars held by various organizations. Namely,

- Introduction to the Forensic Accounting Certificate (FAC), held by the Thailand Federation of Accounting Professions (TFAC), for individuals interested in the application of forensic accounting to detect fraudulent activities.

- Seminar to educate CFOs, held by TFAC, about developing and updating accounting knowledge and skills, which included regulations relating to listed companies and recently effective financial reporting standards.

- Seminar to educate financial advisors, held by the Investment Banking Club under the Association of Thai Securities Companies, to communicate issues regarding financial reporting standards and case studies that were exemplary and useful.



Aside from the communication through the training sessions, seminars, and issuances of practical guidance to relevant stakeholders, the SEC emphasized the meetings with audit firms in the capital market together with regular exchanges of useful insights with auditors. In 2019, the SEC organized meetings to discuss significant matters and visited audit firms, both big audit firms and Thai audit firms, to exchange knowledge and experiences in the following topics:

- ▲ Measures to maintain clients' confidentiality and the audit of securities investment of staff of audit firms in the capital market.
- ▲ Guidelines on audit of transactions related to digital assets in the future.
- ▲ Significant and recurring deficiencies arising from the inspection of auditor's engagement, e.g., revenue recognition, going concern and provisions of allowance for doubtful accounts.
- ▲ Recurring accounting and auditing issues arising from the review of financial statements of initial public offering (IPOs) entities, e.g., revenue recognition, consignment and cost allocation for investment property business.

Along the same line, the SEC encouraged consolidation of medium and small-sized audit firms to boost capabilities and support each other academically, e.g., joint training sessions, use of information technology tools in auditing, and improvement of audit manual to enhance audit engagement efficiency and audit quality. The SEC supported the founding of "the Auditors in the Thai capital market Club". Regular meetings were held to discuss the preparation for embracing the information technology advancement in Thai audit firms. Moreover, we communicated the expectation on the audit quality, the preparation for root cause analysis and remediation plan, and the appropriate succession plan to enhance the quality of Thai audit firms and support the increase in auditors in the capital market as planned.

## Developing sustainable growth of the capital market

The capital market is an essential fundraising channel and mechanism to propel the nation's economy. Therefore, as a nod to the strategic plan, the SEC focuses on building a landscape and ecosystem that support the development of the Thai capital market in moving towards sustainability. Together with strengthening the capacity of stakeholders through communication and education, the SEC initiated various projects and activities to facilitate good ecosystem and readiness for capital market growth in the future, as follows:



### ● Increase auditors in the capital market

In 2019, the SEC organized educational activities to attract students into accounting professions. The events were held for students of Maha Sarakham University and six other universities in Chiang Mai province and neighboring areas, totaling 1,100 students. The goals were to disseminate knowledge and share experiences in the field of accounting and to attract students into accounting professions, which will support the increase in the number of auditors in the capital market and prevent the shortage of workforce in accounting professions in the future.

### Promote and support small and medium enterprises (SMEs)

The SEC has policies to support SMEs in gaining access to sources of funds in a reasonable and sustainable way. The supporting plans for SMEs include decreasing barriers stemming from regulations, expenses on initial public offerings (IPOs), listing on the Stock Exchange of Thailand, disclosure of financial position and operation subsequent to IPOs. In 2019, the SEC held “Capital Market Caravan” activities to communicate with SMEs in several regions. One of the highlights in the event was the seminar on “Accounting You Must Know to Enter the Capital Market,” to exchange knowledge on the preparatory process of financial reports, build readiness of the accounting system of SMEs, and provide counselling and answers on accounting and auditing issues.



### ● Improve financial reports of listed companies

The quality and reliability of listed companies' financial reports play a pivotal role in supporting transparency and trustworthiness of the Thai capital market. To that end, the SEC engaged the Research Institute for Policy Evaluation & Design (RIPED), University of the Thai Chamber of Commerce, to study the audit adjustments of listed companies proposed by auditors. The goal of the study is to perform an in-depth root cause analysis of the adjustments and to reflect the important elements in promoting the preparation of correct financial reports right from the beginning. The SEC organized a seminar to publicize the results of the study to relevant stakeholders, e.g., delegates from listed companies, audit committees, auditors in the capital market, and delegates from other relevant bodies.

The study results revealed that the recurring audit adjustment, to which the management and audit committees should pay special attention, is the adjustment of revenue and accrued expenses during the end of period as some entities may prematurely recognize revenue or incompletely record accrued expenses. The results also gave a recommendation on the guideline for establishing future policies to enhance the quality of listed companies' financial reports from the very first step. Companies' management and audit committees should pay more attention to the preparatory process of financial reports by establishing clear goals in the matter, e.g., the reduction of audit adjustments each year, especially the recurring adjustments. Moreover, companies' management should support regular professional development of individuals who have direct responsibilities for the preparation of financial reports. The relevant bodies should also consider the arrangement of in-depth, industry-specific financial reporting standards training sessions or knowledge and experience-sharing sessions on accounting methods and relevant procedures by accounting experts from each industry.

- **Elevate auditors' and audit firms' regulatory frameworks**

Audit firm's quality control system serves as a critical component to the quality of auditor's engagement performance, which will result in the reliable financial reporting of listed companies. The SEC therefore requires auditors in the capital market be attached to an audit firm with operation that is in line with standards on quality control. Be that as it may, Thailand's current structure of audit regulatory framework still focused on the oversight of individual auditors. In response to that, the SEC engaged Thailand Development Research Institute (TDRI) to study the legislation relating to the oversight of audit firms and auditors in the Thai capital market, compared to the international counterparts. The target is to issue a proposal and means to amend the Securities and Exchange Act B.E. 2535 (1992), with the intention to more effective law enforcement and investor protection.



## Prosperous growth with international recognition

Being a proud member of the International Forum of Independent Audit Regulators (“IFIAR”) and ASEAN Audit Regulators Group (“AARG”) – which comprise global members and Southeast Asian members who are independent audit regulators – indicates that the SEC is recognized as a Thai organization with audit regulatory system on par with international standards. Accordingly, maintaining those standards is of paramount importance. The SEC also emphasizes supporting international cooperation to share information and regularly attending meetings to share experiences and knowledge on the supervision of auditors and audit firms.

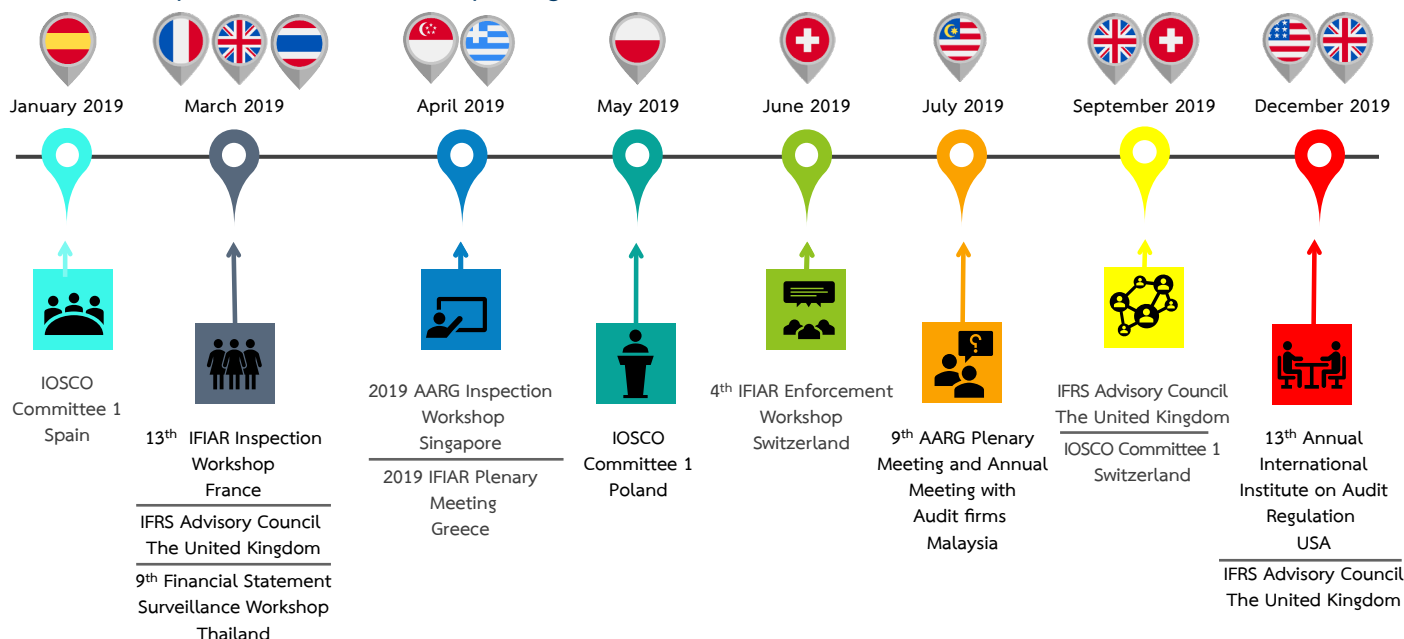
Furthermore, the SEC is also welcomed as a member of the International Organization of Securities Commissions (“IOSCO”), an international organization of securities regulators around the globe. Throughout the year, the SEC sent delegates to attend the IOSCO Committee 1 (“IOSCO C1”) Meeting in order to exchange dialogue on the issues and applications of international financial reporting and auditing standards, which will be beneficial to the revision and amendment of those standards to be more practical under Thailand's context. Likewise, the SEC sent delegates to attend seminars hosted by international audit regulatory bodies, e.g., “the International Institute on Audit Regulation” hosted by the Public Company Accounting Oversight Board (“PCAOB”), to keep abreast of the evolution of auditor supervision in the international level and apply it to improve Thailand's audit regulatory framework towards international recognition



In March 2019, the SEC hosted the 6<sup>th</sup> Financial Statement Surveillance Workshop among international regulatory agencies to share knowledge, experiences, practical issues and challenges in the review of listed companies' financial statements. The SEC also hosted the IFRS Workshop for Regulators (“IFRS workshop”) by inviting expert instructors from IFRS Foundation to

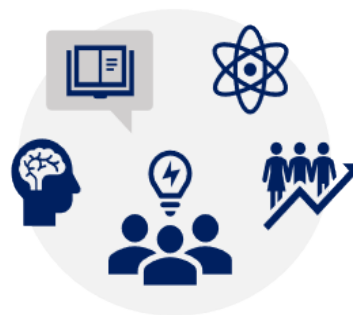
lecture on the International Financial Reporting Standards 9 – *Financial Instruments* and International Financial Reporting Standards 16 – *Leases*, both of which will become effective in Thailand in 2020. Also, at this event, the SEC exchanged opinions on the practical issues among regulatory agencies to further develop the framework for listed companies' financial statements surveillance.

Throughout 2019, the SEC attended international meetings and seminars relating to the development of audit inspection and financial reporting standards as follows:



## Expanding knowledge of staff

The SEC paid special attention to the regular development of capacity and knowledge for its staff. This is to ensure that they can efficiently and effectively discharge their duties in the surveillance of listed companies' financial statements and supervise the work of auditors. In so doing, the SEC regularly arranged internal training sessions on financial reporting standards and auditing standards. In the same way, the SEC is aware of how technology might have an important impact on the operations of both listed companies and auditors. In response to that, in 2019 the SEC organized staff training on the topic of the impact of technological changes on the audit and a workshop on the use of data analytic tools to detect anomaly. The SEC also sent staff members on a secondment program at the IT Audit Department of one of the international Big-4 firms to prepare the SEC staff for tackling the changes in technologies and to adequately enable the development of audit quality inspection program in the information technology area.

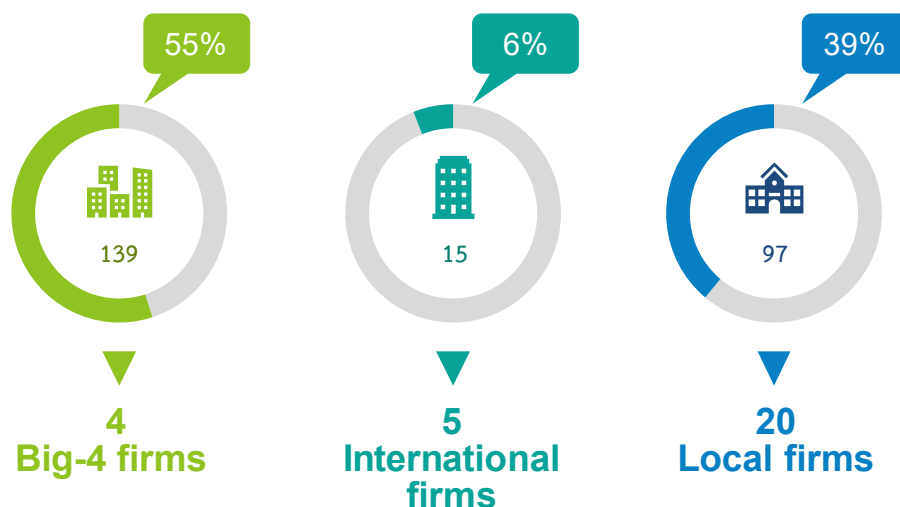


# Auditing Landscape in Thailand

As of December 31, 2019, there are 13,432 CPA licenses issued in Thailand, 10,240 of which are still active. Also, there are approximately 750,000 juristic persons

## Auditors, audit firms, and listed companies

From 29 audit firms, at the end of 2019 there are 251 auditors in the capital market. The proportion is shown in figure 1. For the current year, auditors in the capital market increases, in net amount, by 12 from the previous year, i.e., an increase by five percent. 725 listed companies with market capitalization of 16.94 trillion baht accounted for 103 percent of country's gross domestic product at the end of 2019.



**Figure 1** Auditors in the capital market, grouped by type of audit firms, as of December 31, 2019

**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.

Adequate number of auditors in the capital market is a pivotal factor in reinforcing the continuous growth of the capital market. As such, it is our strategy to expedite to increase auditors in the capital market; so that number of auditors in the capital market are sufficient for the ever-increasing listed companies – a result of an economic growth and our efforts to promote the capital market as source of funds for the private sector.

Figure 2 reveals the constant decrease of listed companies per auditors from the end of 2016 to 2019 which was 2.88 at the end of 2019, a ratio equivalent to other countries in the South East Asia. However, the issues of auditor insufficiency may still occur in the future as several current auditors in the capital market are scheduled for retirement in the near future. Additionally, audit firms in the capital market heavily encountered staff shortage issues and high staff turnover rate; therefore, an effort to increase competent auditors in the capital market is our continuous focus.



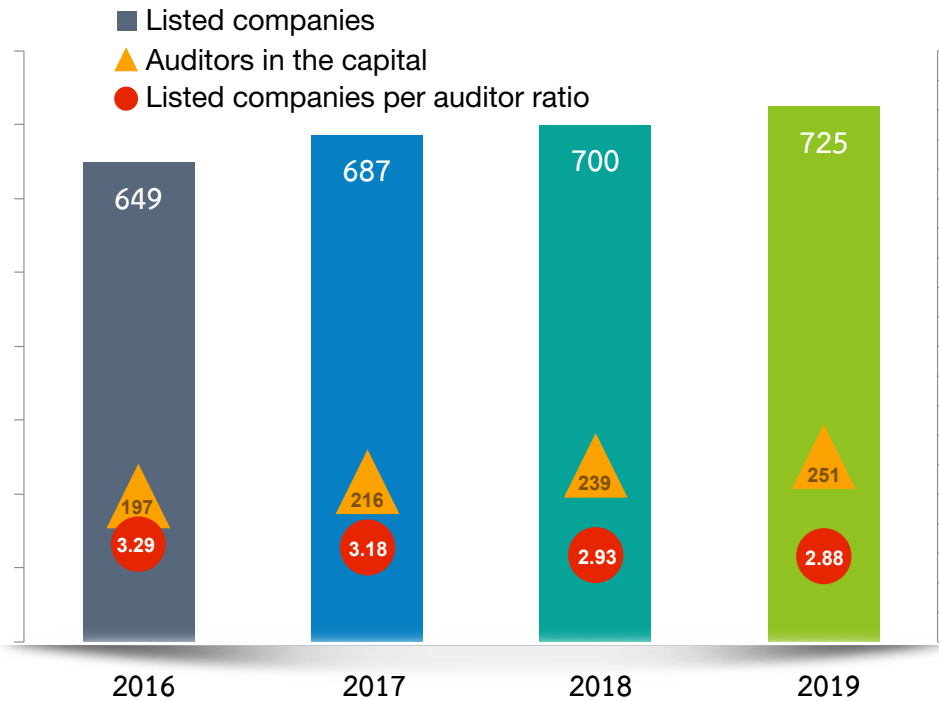


Figure 2 Listed companies per auditor ratio from the end of 2016 to 2019

## Human resources of audit firms in the capital market

Human resources are significant factors to audit quality. Accordingly, retaining competent and capable human resources in the audit firms' rosters will contribute to high-standard audit quality. High-experienced individuals also likely to possess professional skepticism which will promote the appropriate exercise of judgment by the engagement team.

In 2019, the average years of experiences of partners, managers, and senior and junior staff of audit firms in the capital market, as illustrated in figure 3, are 24, 13 and 3 years respectively, which is approximate to the previous inspection cycle (2016-2018). However, the average turnover rate in figure 4 reveals relatively high staff turnover rate of audit firms in the capital market, i.e. 22.4 percent. The average turnover rate of staff in Big-4 firms also increase from the previous inspection cycle by six percent. These facts suggested that retention of competent and capable staff is always a challenge for the audit firms. Over the years, most audit firms paid special attention to this issue by rolling out numerous initiatives to maintain staff in the organization, e.g., defining clear career paths, establishing attractive compensation plans that reflect the quality and amount of tasks assigned to each staff, and opening to feedback from staff to cater their needs, for example, to improve working environment, to enhance benefit and to organize recreational activities.



Figure 3 Average experiences of staff in each level

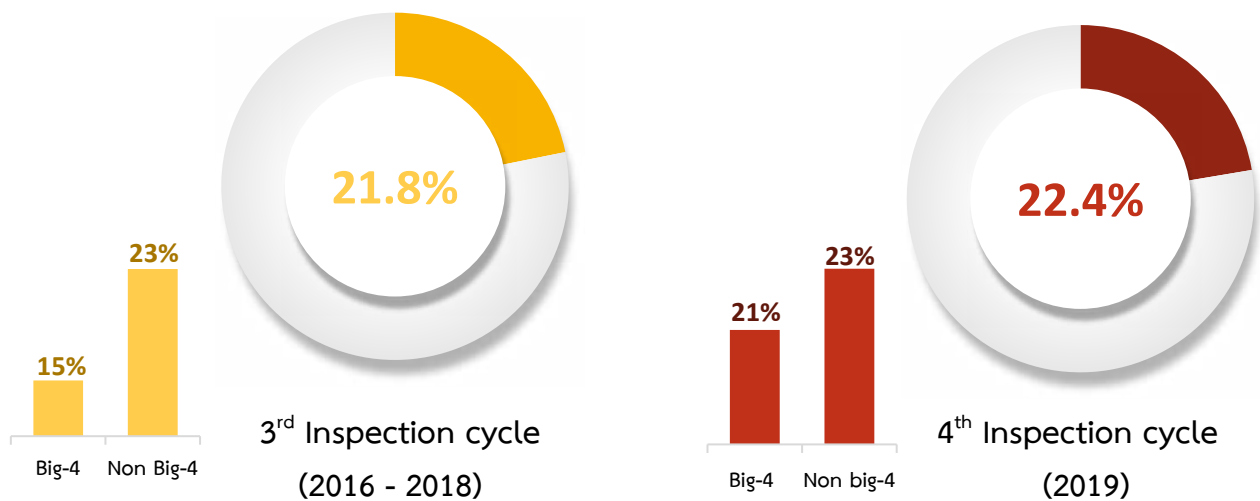


Figure 4 Turnover rate of audit firms in the capital market, grouped by type of audit firms

Figure 5 reveals that, in 2019, overall staff per partner and staff per manager ratio of audit firms in the capital market decreased, compared to the ratio from previous inspection cycle, due in part to the relatively high average turnover rate of staff in senior and junior level. It should be noted that in analyzing the appropriateness of these ratio, they should be considered in tandem with the volume of audit engagements of that firm, e.g., number of audit client, size, and complexity of audit engagement. Appropriate staff to partner and staff to manager ratio, given that the firms have adequate staff for performing engagement, will ensure that both partners and managers have sufficient time to supervise and review work of senior and junior level. On the other hand, should these ratios significantly decrease while the firm hold the same or even higher number of engagements, it may be the signal indicating insufficient staff within the firm.

Additionally, appropriate ratios for each audit firm may vary, depending on numerous factors, e.g., management system, the use of technology to assist in audit, procedures to manage human resources, as well as size and complexity of engagements. These factors affected differences in structures of human resources among audit firms, as evidenced by the contrasting staff to partner ratio between big-4 firms and non big-4 firms, which is 26 and 11, respectively.

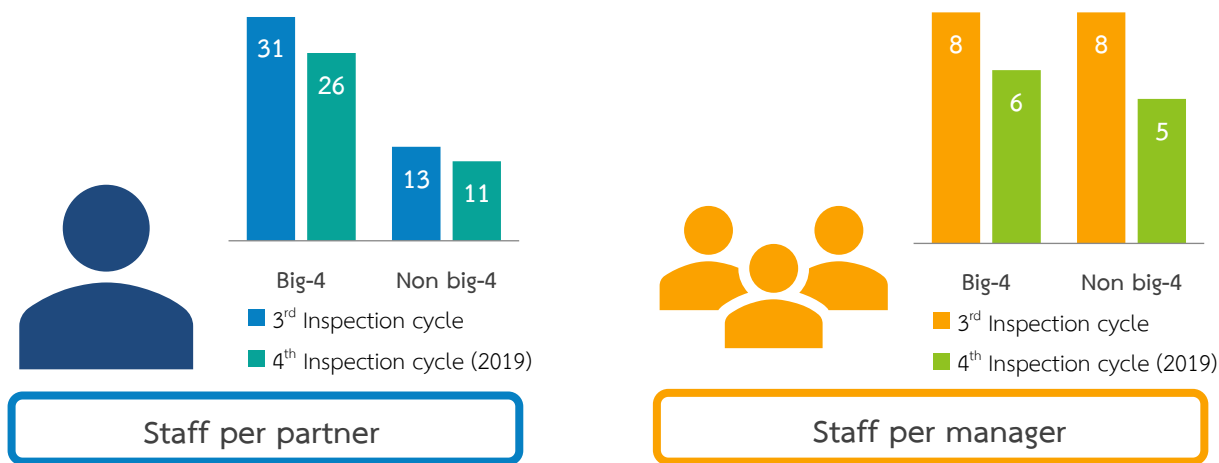


Figure 5 staff per partner ratio and staff per manager ratio, grouped by type of audit firms

Organizing training session to staff in every level contributes to the enhancement of staff competency. Many audit firms believe that education of auditing knowledge and skills will strengthen both newcomer and low-experienced staff to deliver higher quality work and in turn lighten the workload of managerial staff. Furthermore, as over the years several revisions have been made to the professional standards, building capacity for staff to be able to perform engagement proficiently and comply with requirements in the professional standards is therefore the focus of audit firms in the capital market. As can be seen in figure 6, every audit firm in the capital market paid attention to continuous organization of training sessions for staff in every level, as exemplified by number of hours of classroom training for staff in each level that exceed the minimum requirement set out by the TFAC (i.e. 40 hours). In the previous year, average number of training hours delivered in the classroom

format for audit assistant staff in Big-4 firms is higher than those of non Big-4 firms. The reason is partly because Big-4 adopted the use of data analytics and IT tools to facilitate more effective and efficient performing of engagement which in doing so requires certain number of hours for training. Conversely, non Big-4 firms may retain fewer staff and have lower staff per partner and staff per manager ratio, as such non Big-4 firms usually resort to on-the-job training – a method that can be more efficient given the nature and size of the firms.



Figure 6 Number of training hours for staff in each level

# Summary of Audit Inspection Results

## A. Firm Level

Promoting and supporting its auditors to excel at performing engagement are the significant role of audit firm. The SEC therefore places priority on the continuous inspection of quality control system of audit firms whose auditors are operating in the capital market. The results of quality control system inspection since the 1<sup>st</sup> inspection cycle (2010-2012) to 2019, which marked the first year of the 4<sup>th</sup> inspection cycle, displayed continuous improvement. The latest inspection results of 29 audit firms in the capital market, as can be seen in figure 7, reveal that audit firms in the capital market with quality control system inspection results of “acceptable” to “very good” rating collectively accounted for 79 percent.

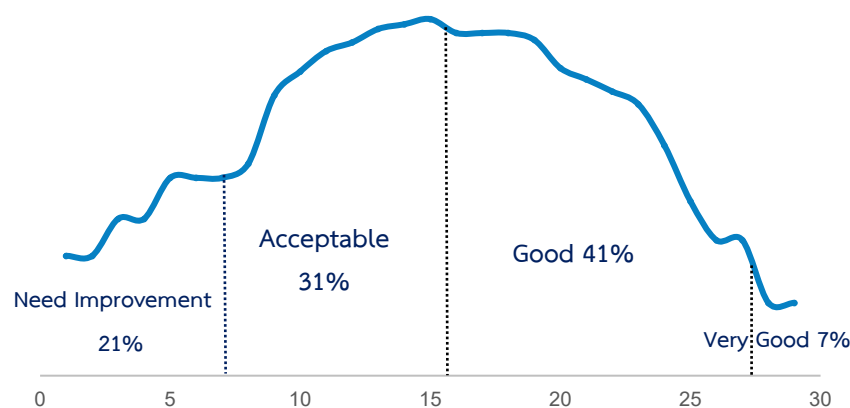
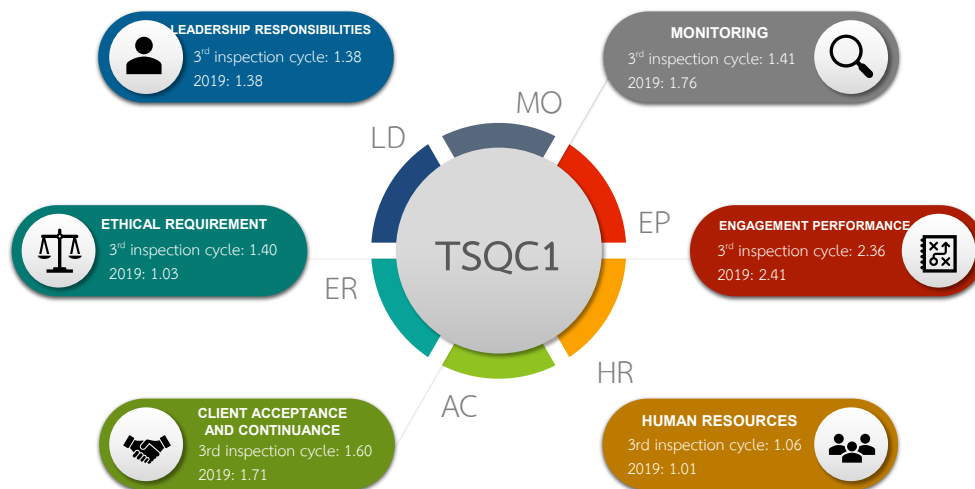


Figure 7 Latest quality control system inspection results of 29 audit firms in the capital market

Results of quality control system inspection in the 3<sup>rd</sup> inspection cycle (2016-2018) suggested that, aside from the priorities put by firm’s leader to promote an internal culture recognizing that quality is essential in performing engagements and ensure that such quality control system is consistently adopted by staff, another essential factors stimulating the continuous improvement of overall quality control system in several audit firms is the availability of efficient and effective monitoring process. Such process includes assigning fit and proper individuals to assume monitoring responsibility, establishing root causes analysis process and remediation plan, and timely following-up of remediation plan. Therefore, in 4<sup>th</sup> inspection cycle (2019-2021) the SEC will emphasize the inspection of monitoring process in areas mentioned above.

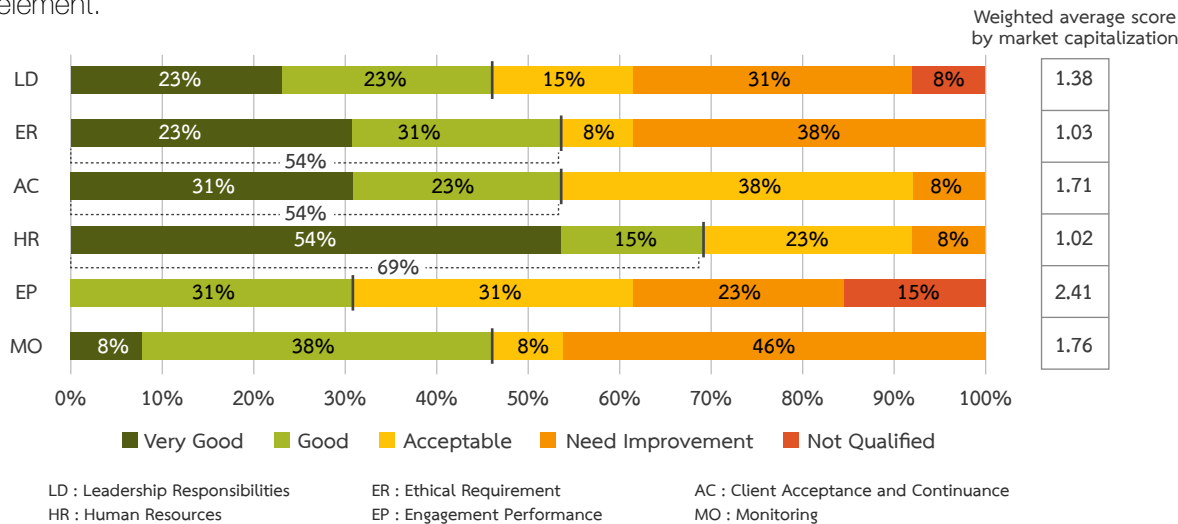
In 2019, we inspected quality control system of 13 audit firms: three Big-4 firms, seven non Big-4 firms and three audit firms that are yet to be in the capital market. It is interesting to note that, despite the SEC’s more intensive inspection program in several elements, the inspection results of quality control system, weighted average by total market capitalization of audit clients, are roughly around the score of those in previous cycles, as shown in figure 8. This revelation suggested that audit firms in the capital market progressively enhance

their system of quality control. Nonetheless, out of three inspection result of audit firms that are yet to be in the capital market, two didn't pass the quality inspection; because both audit firms didn't adequately establish the system of quality control in certain elements as required by Thai Standard on Quality Control 1 (TSQC1).



**Figure 8** Weighted average inspection results of quality control system by total market capitalization of audit clients, grouped by elements in TSQC1 and compared to results of 3rd inspection cycle (2016-2018)

When consider each audit firm's results of quality control system inspection grouped by elements in TSQC1, as can be seen in figure 9, it is revealed that more than 50 percent of audit firms attained "very good" and "good" rating in ethical requirements, acceptance and continuance of client relationships, and human resources element.



**Figure 9** Percentage of audit firms, grouped by rating in each element of TSQC 1 for 2019

When comprehensively consider inspection results of 2019 and proportion of audit clients of each audit firm, the frequency of each audit firm inspection as per the risk-based approach is outlined in figure 10.

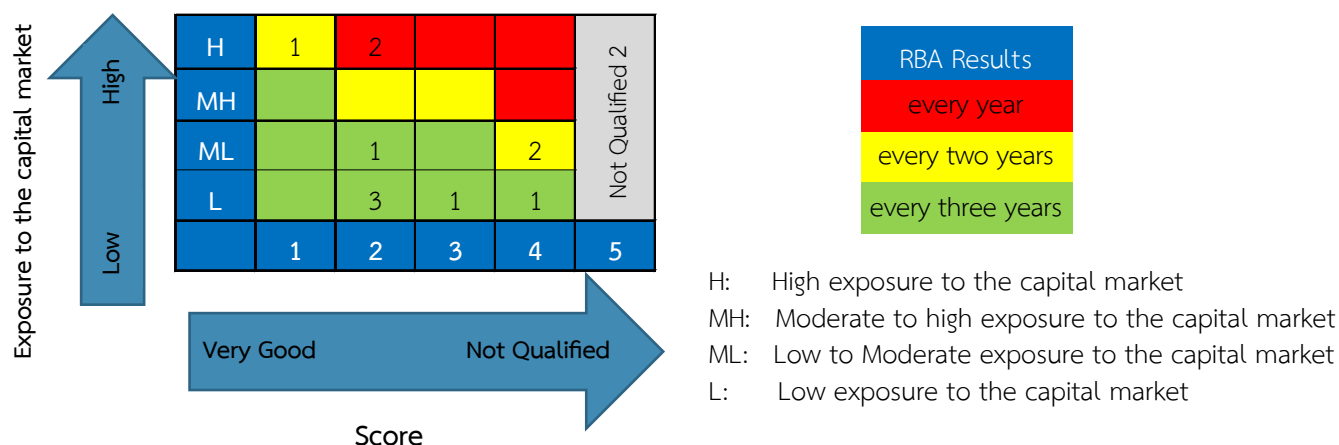


Figure 10 Frequency of each audit firm inspection as per the risk-based approach

In 2019, two audit firms in the capital market attained “good” rating, representing a significant improvement in their system of quality control, which sets up a good example for other audit firms. Essential factors contributing to both firms’ success in improving system of quality control are the fact that leaders promote an internal culture recognizing that quality is essential in performing engagements and assign responsibility in each quality control process to fit and proper individuals. Other factors include: special attention paid to attraction and retention of experienced, competent, and potential staff with the firm in a long term; the continuous revision of quality control manual and audit manual so that auditors are able to perform engagement as required by the professional standards; and importance given to the root cause analysis process, remedial plan, and the follow-up on alleviation of deficiencies by prioritizing and timely remedying deficiencies.

Furthermore, the SEC acknowledged every audit firm’s commitment to improve system of quality control by improving and developing the system of quality control according to most of SEC’s previous inspection findings, especially findings in ethical requirements element. Results of quality control system inspection in 2019, however, revealed that there may be some recurring findings in each element, as shown in figure 11. Therefore, the SEC further suggests and recommends on how to improve quality control system for audit firm’s consideration and adoption as detailed below.

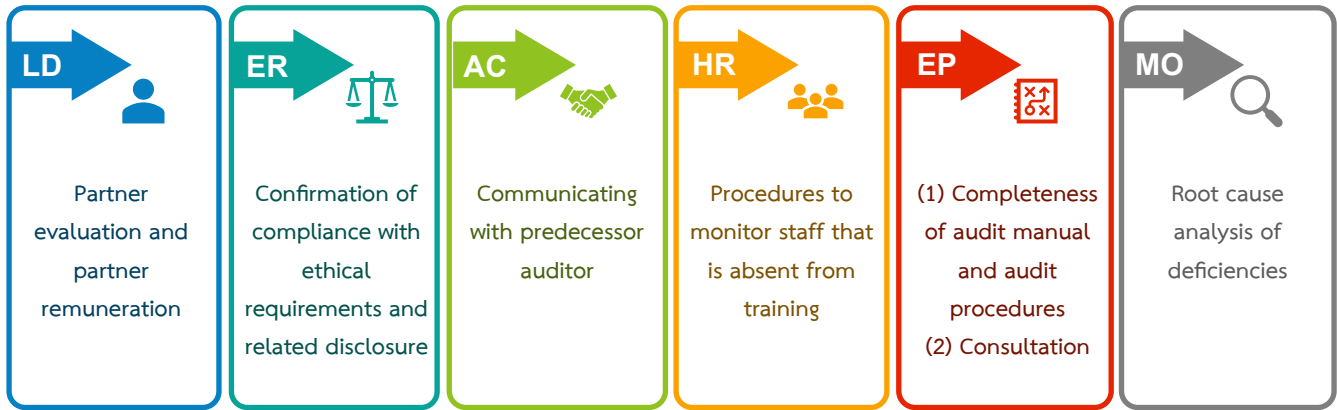


Figure 11 Recurring observations in each element from inspection in 2019

## 1. Leadership Responsibilities for Quality within the Firm

Audit firm's leader is a potent figure influencing the development of robust system of quality control within the firm. In this upcoming 4<sup>th</sup> inspection cycle (2019-2021), the SEC places importance on the succession plan and retention plan, As previous statistical information (figure 12) showed that auditors in the capital market whose ages are 50 or more accounted for 42 percent, these auditors therefore tends to retire in the near future. Additionally, in this inspection cycle the SEC also focuses on the appropriate partner compensation scheme. Should audit firm's leader designs structure and criteria of compensation scheme that give priority to the quality of partner's engagement performance, it will encourage the firm's personnel that quality is important, which in turn further elevate the audit quality

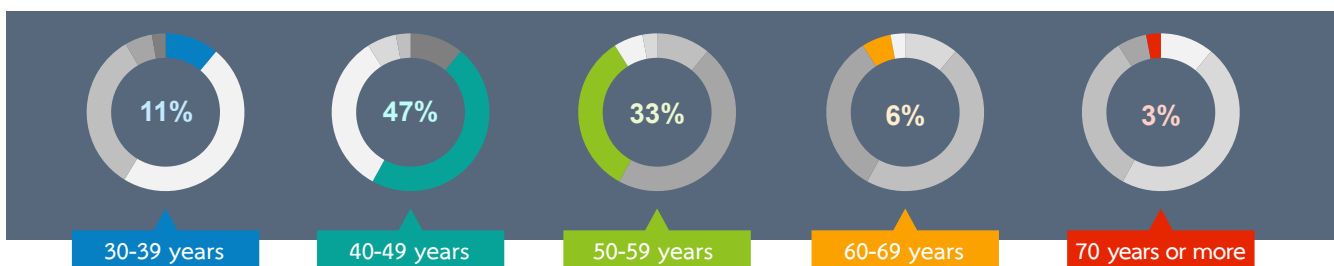


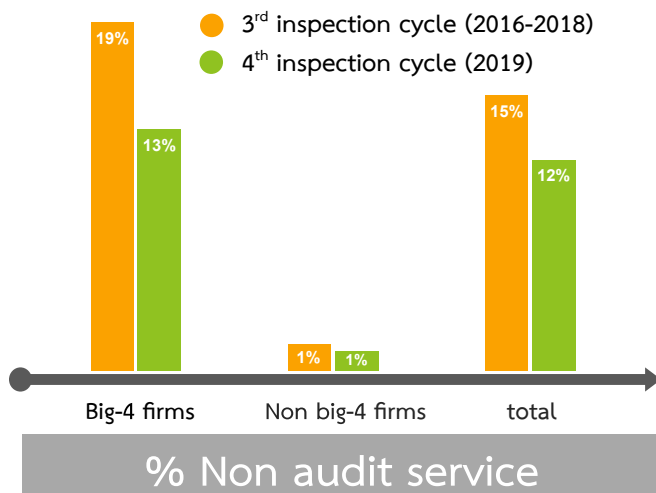
Figure 12 Age structure of auditors in the capital market in 2019

Results of quality control system inspection in 2019 showed that majority of audit firm's leader already focused on partner's performance evaluation and compensation by considering the quality of engagement performance. Findings on partner portfolio allocation are also alleviated. The SEC, however, still identified some findings; particularly that partner's performance evaluation and compensation in certain firms may not clearly reflect the extent of qualitative factors being considered by the firm's leader in their evaluation and compensation.



## 2. Relevant ethical requirements

Ethical requirements are important matters on which staff of audit firm in every level should put priority, especially for independence-related issue that is considered a cornerstone of audit professions. Therefore, in the 4<sup>th</sup> inspection cycle the SEC has continuously focused on the policies and procedures employed by the audit firm to ensure its auditor's independence, which include rotation of auditors and the confirmation of compliance with ethical requirements and relevant disclosures. Additionally, the SEC placed importance on the reviewing of substance of services other than assurance services ("non-audit service") provided to audit clients. Especially for Big-4 firms whose ratio of non-audit services fees provided to listed companies to audit fees equal 13 percent, compared to the non Big-4 firms' counterpart ratio of just one percent, as can be seen in figure 13. The SEC also paid special attention to the quality control system related to the maintaining of clients' confidentiality.



**Figure 13** Average ratio of non-audit services fees provided to listed companies to audit fees in the 3<sup>rd</sup> inspection cycle (2016-2018), compared to 2019, grouped by type of audit firms

Moreover, the result of the quality control system inspection in 2019 revealed that several audit firms in the capital market had already increased auditors within its firm to facilitate the rotation of key audit partners as required by Code of Ethics for Professional Accountants promulgated by International Federation of Accountants (IFAC). As shown in figure 14, audit firms in the capital market whose auditors exceed four in 2019 (69 percent) increased from 2018 (61 percent). Most of audit firms also revised its policies on the rotation of key audit partners to reflect the current requirement of Code of Ethics for Professional Accountants. The up-to-date records of key audit partners rotation in each audit firm had also been established, along with the continuous monitoring of such records. Furthermore, our reviews of selected non-audit service whose fees represented substantial amount displayed no issues regarding independence. Finally, each audit firm established

adequate policies on the restriction and access control to the database of audit workpapers, by allowing only individuals with necessities to access those workpapers. Unfortunately, however, in the current inspection cycle some audit firms still did not establish policies and templates to disclose information regarding close family members in their independence confirmation forms as required by the Code of Ethics, e.g., a significant position held by close family members in the audit client.

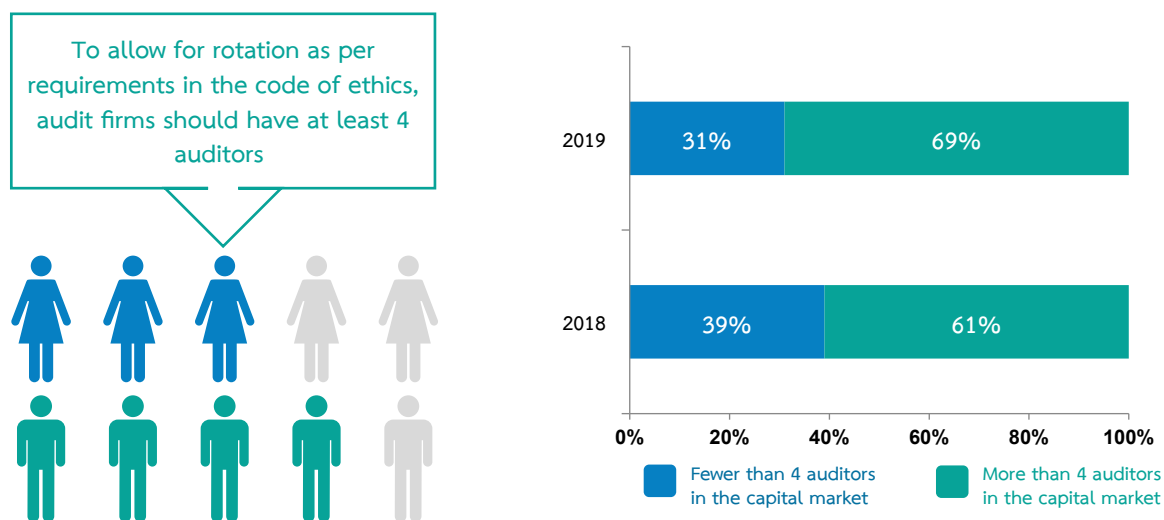


Figure 14 Proportion of audit firms whose auditors exceed four as of the end of 2019

### 3. Acceptance and Continuance of Client Relationships

Process of acceptance and continuance of client relationships that is supported by the intrinsic and inclusive risk assessment will enable audit firm to design audit procedures that appropriately response to risks. Likewise, the consideration process whether the firm has the human resources that is sufficient and commensurate with the complexity of audit engagement will ensure that individuals responsible for the engagement can comply with professional standards and relevant ethical requirements. In the 4<sup>th</sup> inspection cycle, the SEC focuses on the risk assessment process as part of client acceptance procedures, especially for assessment associated with the readiness of accounting personnel, accounting system, and internal control systems of audit clients. These factors play an important role in driving the quality and reliability of the entity's financial reports, particularly in view that should the financial reports preparer possess sound understanding in an entity's nature of transactions, and should an entity possess decent accounting system and internal control system, the financial reports in turn will reflect the true economic substance of an entity and the reliability of entity's financial reports will be promoted.

Results of quality control system inspection in 2019 showed that recently most audit firms already highlighted importance of risk assessment in client acceptance process by taking into account essential factors, including the integrity of management, and completely considered relevant information to perform risk assessment. Unfortunately, however, in the current period some issues are still identified, e.g., audit firm prematurely issued letter of engagement before receiving professional clearance letter from the predecessor auditor whereas no alternative procedure is performed to ensure that audit firm completely obtain all information as it considers necessary before accepting an engagement.

#### **4. Human Resources**

Human resources are important factor driving audit quality. Thus, audit firms should establish policies and procedures designed to promote and support staff in every level to ensure that they have sufficient competence, capabilities, and time to perform engagement. Also, the firm should establish performance evaluation system that promotes a quality-oriented internal culture. In the current inspection cycle, several new financial reporting standards became effective, e.g., IFRS 15 — Revenue from Contracts with Customers, IFRS 9 — Financial Instruments, and IFRS 16 — Leases. Additionally, several professional standards are currently being revised and will become effective, e.g., International Standard on Quality Management 1 (ISQM 1), International Standard on Quality Management 2 (ISQM 2) and ISA 220 — Quality Management at the Engagement Level. In this regard, for this inspection cycle the SEC focused on training sessions of the new financial reporting standards or standards on auditing arranged by audit firms. This is to ensure that staff in every level will be equipped for application of those professional standards when performing engagement.

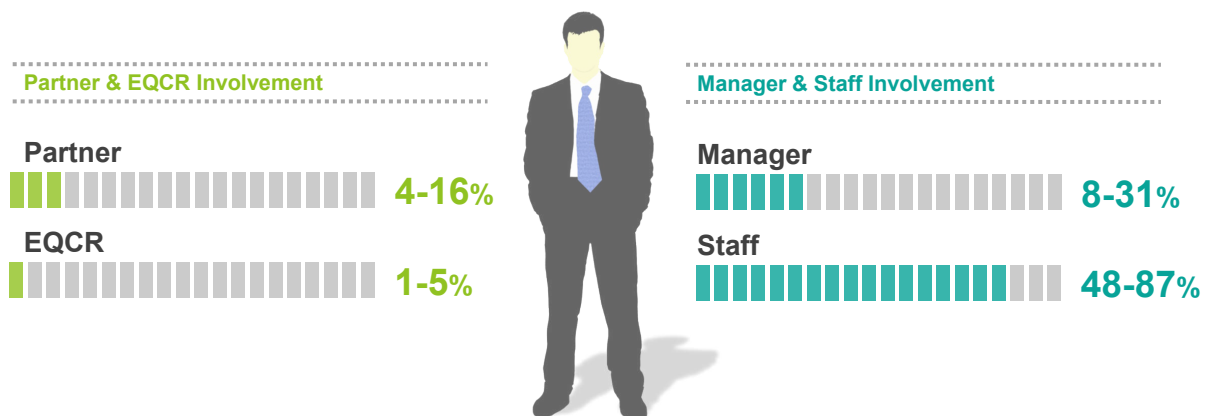
Results of quality control system inspection in 2019 showed that several audit firms revisited and adjusted their compensation plans to be more appropriate. Clearer career paths are also established not only to attract potential staff but also to retain competent and capable staff with the firms. Furthermore, in an effort to serve the lifestyle of younger generations, some audit firms introduced alternative training methods, e.g., virtual classroom training, aimed to facilitate participation from all staff and promote interaction among participants. This in turn reinforces more effective and efficient training sessions. Unfortunately, however, in the current inspection cycle the SEC found that some audit firms hadn't established clear standard operating procedures in cases where staff was absent or incompletely attended training sessions, which are necessary to ensure that the staff in question have adequate understanding in the subject matter.

#### **5. Engagement performance**

Engagement performance plays an important role in the firm's system of quality control in that it provides assurance to the audit firm that engagements performed by its auditors and staff will be in accordance with professional standards and applicable legal and regulatory requirements, which in turn enables the firm or the engagement partner to issue reports that are appropriate in the circumstances. As established earlier in the human resources element, in this 4<sup>th</sup> inspection cycle several financial reporting standards will become effective; therefore, aside from our inspection whether those standards are communicated to staff in every level, the SEC

will also place importance on the revision of audit manual, audit program, and audit template that adequately reflect those standards. This is to ensure that staff in all level are able to apply the audit manual and audit program appropriately and correctly in performing engagement.

Shown below in figure 15 is a percentage of staff involvement in each level. Audit assistants, while having relatively low experiences, are the major and important workforce in engagement performance as they have the highest involvement in audit engagements. Their average involvement is between 48 percent and 87 percent of total audit hours. Therefore, the firm is required to establish sufficient appropriate audit manual, audit program, and audit template that can assist its staff in performing engagement. Upon the quality control system inspection in 2019, the SEC found that several audit firms already amended their audit manual, audit program, and audit template so that they are in accordance with relevant professional standard. Moreover, the amended and revised audit manual, audit program, and audit template are communicated to staff in every level to promote an effective and consistent implementation. Unfortunately, however, in the current inspection cycle the SEC found that some audit firms hadn't specified sufficient detail in certain audit manual and audit program. Also, there are some cases in which audit firms hadn't provided example, in quality control manual, of situations or matters that would require consultations, e.g., business acquisition, and impairment of assets.



**Figure 15** Percentage of staff involvement in each level in 2019

Analysis of inspection result in the current period illustrated that both average experiences of auditors and involvement of engagement partner, EQCR, and manager are important factors promoting and supporting audit quality. Particularly, should auditors have more experiences, they also tend to possess higher professional skepticism, which in turn enable auditors to timely pickup anomaly over the course of audit and timely provide consultation to the engagement team. Additionally, an adequate involvement of engagement partner, EQCR, and manager in significant tasks from beginning to completion (for example, planning and risk assessment phase, supervision of high risk account, audit of account related to accounting estimation, or the exercise of professional judgment) will support engagement team so that they can perform thorough risk assessment, as well as appropriately and accurately plan and design audit procedures that responded to the assessed risks. All of which will support the engagement team in obtaining sufficient appropriate audit evidence required to complete the audit and express opinion in auditor's report which in turn drive audit quality and overall quality of audit firm.

Statistics of the current cycle revealed that audit firms whose inspection result in engagement performance element is “good” have average involvement of engagement partner, EQCR and manager of 11 percent, 4 percent, and 38 percent, respectively, as shown in figure 16. Over the years, we recognized the commitment of engagement partner, EQCR, and manager to involve in the audit engagement consistently and adequately, as evidenced by the approximate involvement of engagement partner and EQCR in 2018 and 2019, i.e., number of engagements with engagement partner involvement of 49 hours or more accounted for 78 percent, number of engagements with engagement partner involvement of five percent or more accounted for 44 percent, and number of engagements with EQCR involvement of 13 hours or more accounted for 57 percent, as can be seen in figure 17 to 19. Moreover, we identified rising trend of manager involvement in 2019 from those in 2018, i.e., number of engagements with manager involvement of 145 hours or more increase from 48 percent to 70 percent, and number of engagements with manager involvement of 10 percent or more increase from 58 percent to 60 percent, as shown below in figure 20 and 21.

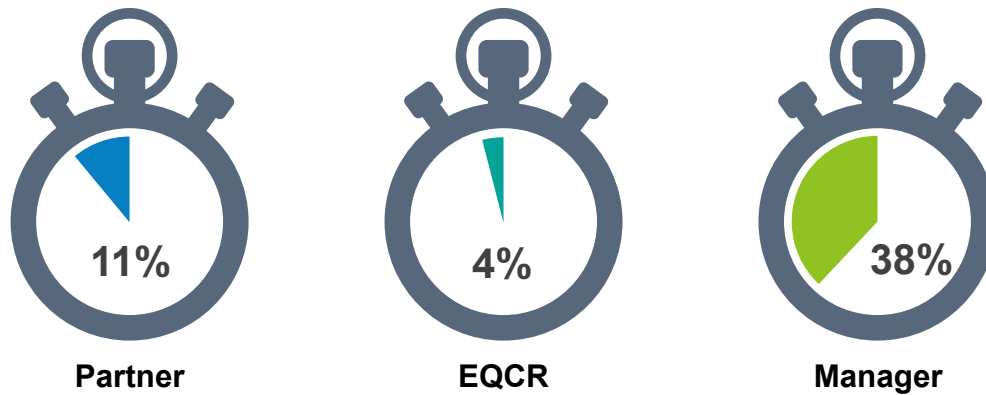


Figure 16 Average involvement of engagement partner, EQCR, and manager of audit firms whose inspection result in engagement performance element is “good” or better in 2019

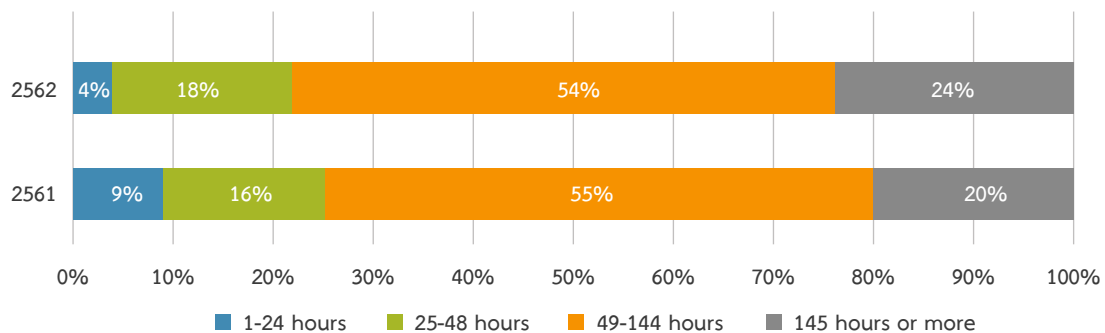


Figure 17 Engagement partner involvement in 2018-2019

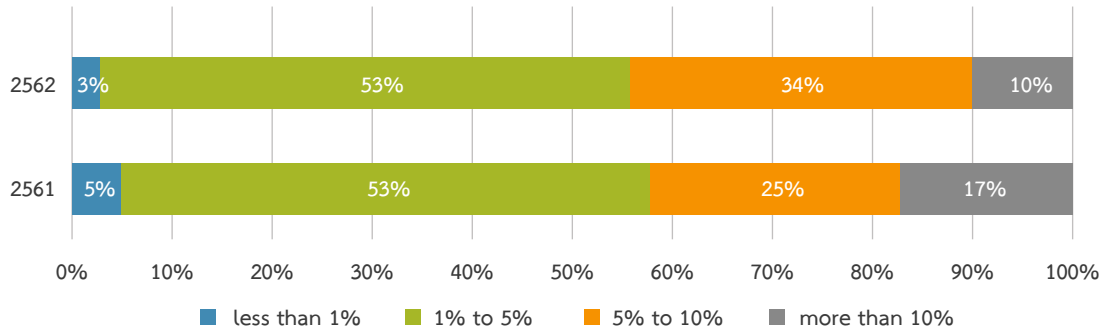


Figure 18 Percentage of engagement partner involvement in 2018-2019

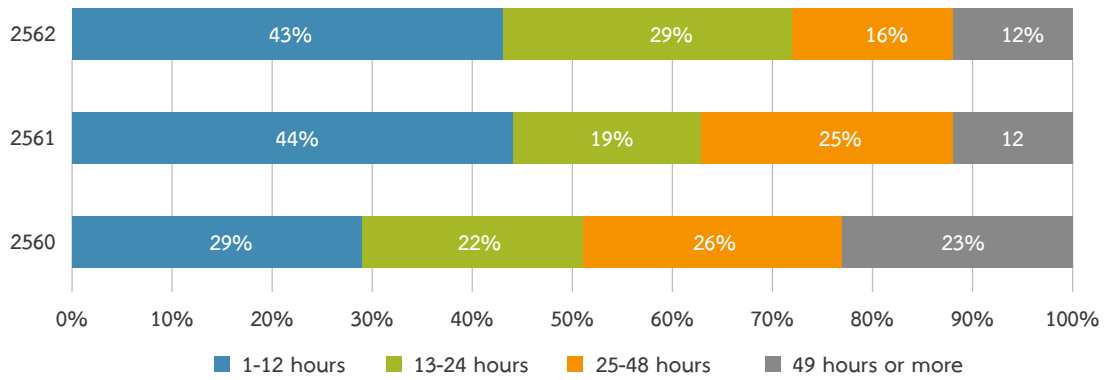


Figure 19 EQCR involvement in 2018-2019

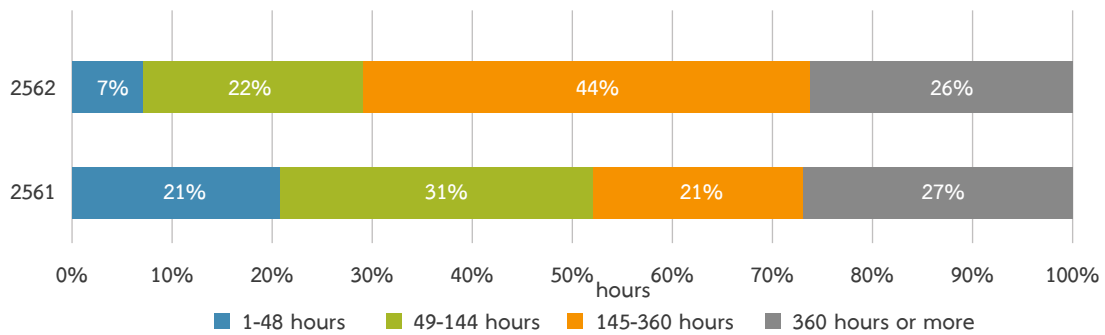


Figure 20 Percentage of manager involvement in 2018-2019

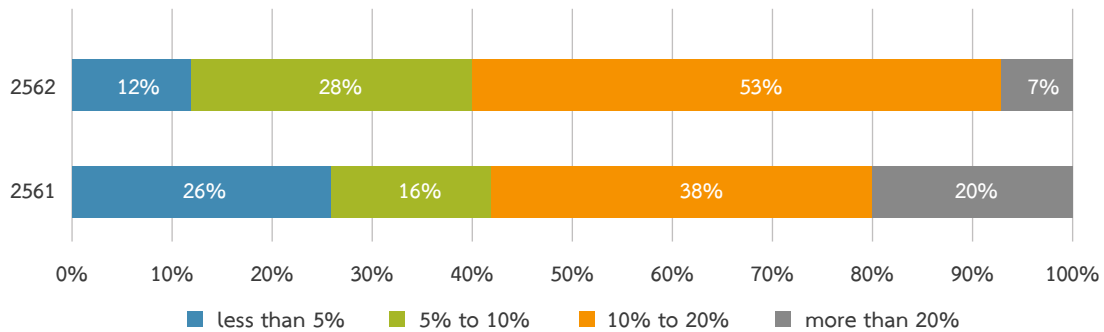


Figure 21 Percentage of manager involvement per total engagement hours in 2018-2019

## 6. Monitoring

Monitoring process is another essential element that drives and assists audit firms to timely and accurately identify and alleviate significant deficiencies, which in turn will result in improved system of quality controls for both firm and engagement level. For the 4<sup>th</sup> inspection cycle, special attention is paid to the evaluation of result from implementing root cause analysis and remedial plan; because an appropriate root cause analysis process employed by the audit firms will reinforce the firms to establish accurate remedial plan, and to properly and timely prioritize the alleviation of deficiencies.

Engagement level quality control system inspection result of 2019 showed that most audit firms already improved their monitoring policies and monitoring program, both at firm level and engagement level, so that they are more comprehensive and precise. The SEC also found that some audit firms also employed “pre-issuance” or “hot review” process, in which the monitoring of engagement with higher-than-normal risk is performed prior to the issuance of audit opinion. This is to ascertain that monitoring team can identify and communicate, in a timely manner, observations to the engagement team to improve and perform additional audit procedures. Unfortunately, however, in the current inspection cycle the SEC found that there are certain instances where the root cause analysis and remedial plan employed by audit firms are not precise. Also, the follow-up on the alleviation of deficiencies is not continuous. Both of which results in somewhat unsuccessful alleviation of deficiencies.

## B. Engagement Level

As of 2019, there are 251 auditors in the capital market from 29 audit firms, a net increase by 12 auditors or a five percent increase from 2018. In 2019, 95 audit engagements were selected to be performed quality inspection.

In 2019, we approved 62 auditors in the capital market, comprising 39 auditors with renewed approval and 22 newly approved auditors, as shown in figure 22



Figure 22 Number of auditor approvals in 2019

The result of audit engagements quality inspection in 2019 (as shown in figure 23) reveals that audit engagements quality in the capital market has been continuously improved. This is substantiated by the fact that auditor approvals with findings to improve and next cycle mandatory follow-up have steadily decreased from 2017 to 2019. At the same time, proportion of auditor approvals without finding significantly increase. The success factors of this achievement are the perseverance and cooperation among the auditors, especially audit firm leaders, who devote and contribute internal resources in developing system of quality control in audit firms. The promoting of human resources and audit tools quality is also another success factor, as evidenced by local audit firms jointly researching and adopting information technology with aim to increase efficiency and effectiveness in performing audit engagements. Furthermore, several audit firms paid special attention to attracting personnel with experiences, knowledge, capabilities, and potential to be part of the firms. Moreover, we rolled out various projects and initiatives to support audit firm's continuous improvement of audit quality, namely, meetings with audit firms to perform root cause analysis of the inspection findings and how to remedy them; organizing workshops on the recurring findings so that auditors and audit firms can amend and improve their audit manual and audit program; and organizing seminars to prepare for the new financial reporting standards, new international standard on quality management and the impact of technology advancement upon auditing. Additionally, in order to ensure that auditors in Thai capital market are well-equipped and prepared, we built awareness and educate on the technology advancement and newly effective regulations, e.g., Personal Data Protection Act B.E. 2562 and Cybersecurity Act B.E. 2562.



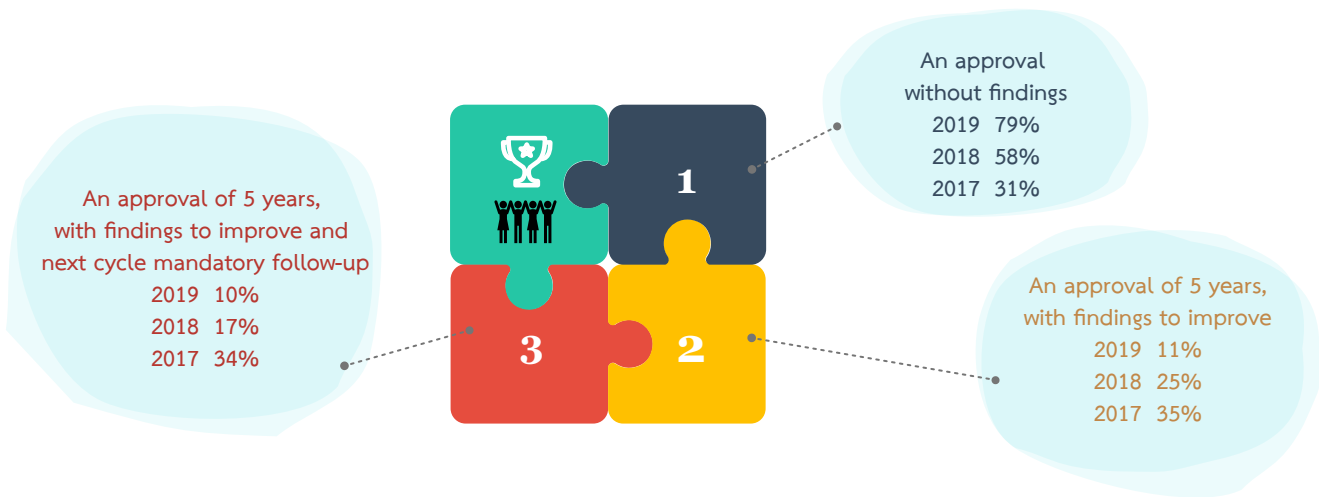


Figure 23 Inspection results of individual audit engagements, categorized by type of approval during 2017-2019.

When classifying the findings identified from the inspection of auditors' workpapers in 2019 by each phase of audit, as shown in figure 24, it is found that 36 percent of the engagements with findings in 2019 have an insufficient audit planning phase. One of the reasons was the risk assessment and identification of what can go wrong are not sufficient and appropriate to the nature of business and transaction of the entities. Additionally, 33 percent of the engagements with findings in 2019 are identified with issues on insufficient and inappropriate substantive procedures, audit conclusion, and forming of an opinion to the financial statements; in particular, substantive procedures, audit conclusion, and forming of an opinion to the financial statements of complex transactions or judgmental transactions that require experiences and professional skepticism to assess the true substance of transactions; all of which is crucial to the gathering of sufficient appropriate audit evidence to address the risks of those transactions. We also identified recurring findings on substantive procedures in some audit engagements. Most of them are in the substantive procedures of inventory, cost of sales and revenue. To address those findings, audit firms are in the process of continuous amendment to their audit manual and audit programs to be more adequately descriptive, to the extent that users are able to apply them appropriately. Consequently, from those efforts, the number of findings decrease in the current year.



Figure 24 Frequency of findings in each phase of engagement from audit inspection in 2019

Types of audit inspection findings, as identified in figure 25, shows that common findings are: risk assessment, test of internal controls, audit sampling, and the gathering of audit evidence in substantive procedures of significant account. It is noteworthy that the risk assessment process in planning phase requires audit experience and sound understanding in client's business. However, we still detected that in some cases key audit partner and engagement quality control reviewer are not adequately involved in such process to the extent that he or she could appropriately identify what can go wrong due to fraud and properly design audit procedures in responses to the identified risks. Additionally, in test of internal controls process we found that the procedures to obtain an understanding on the entity's internal control system were not sufficiently detailed, which resulted in incomplete identification of key controls or identification of key controls that is not in line with nature of business transactions. Auditors, consequently, are not able to appropriately evaluate the effectiveness and efficiency of internal control process. As for the findings on audit sampling, they were still identified in both test of controls and substantive procedures. Even though several audit firms had already amended their audit manual, in some cases the application of the manual is not consistent. This is due in part to the clarity of the audit manual, as well as the adequacy of communication and training to the staff on this matter. Aside from the aforementioned audit procedures, we still detected that gathering of audit evidence in substantive procedures of significant account, especially those of complex or high judgmental transaction, is not sufficient. The details are outlined further below.

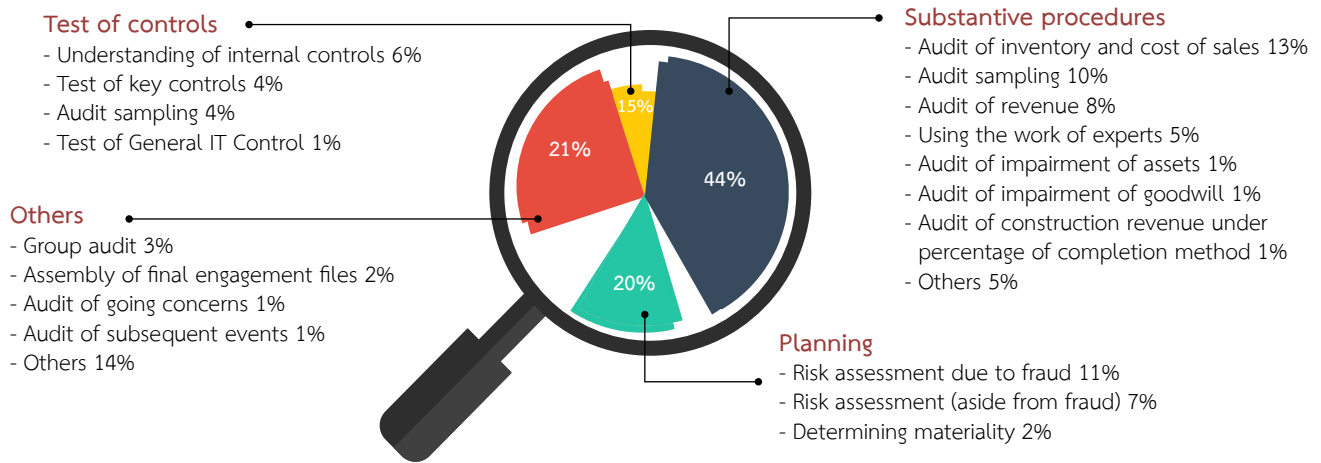
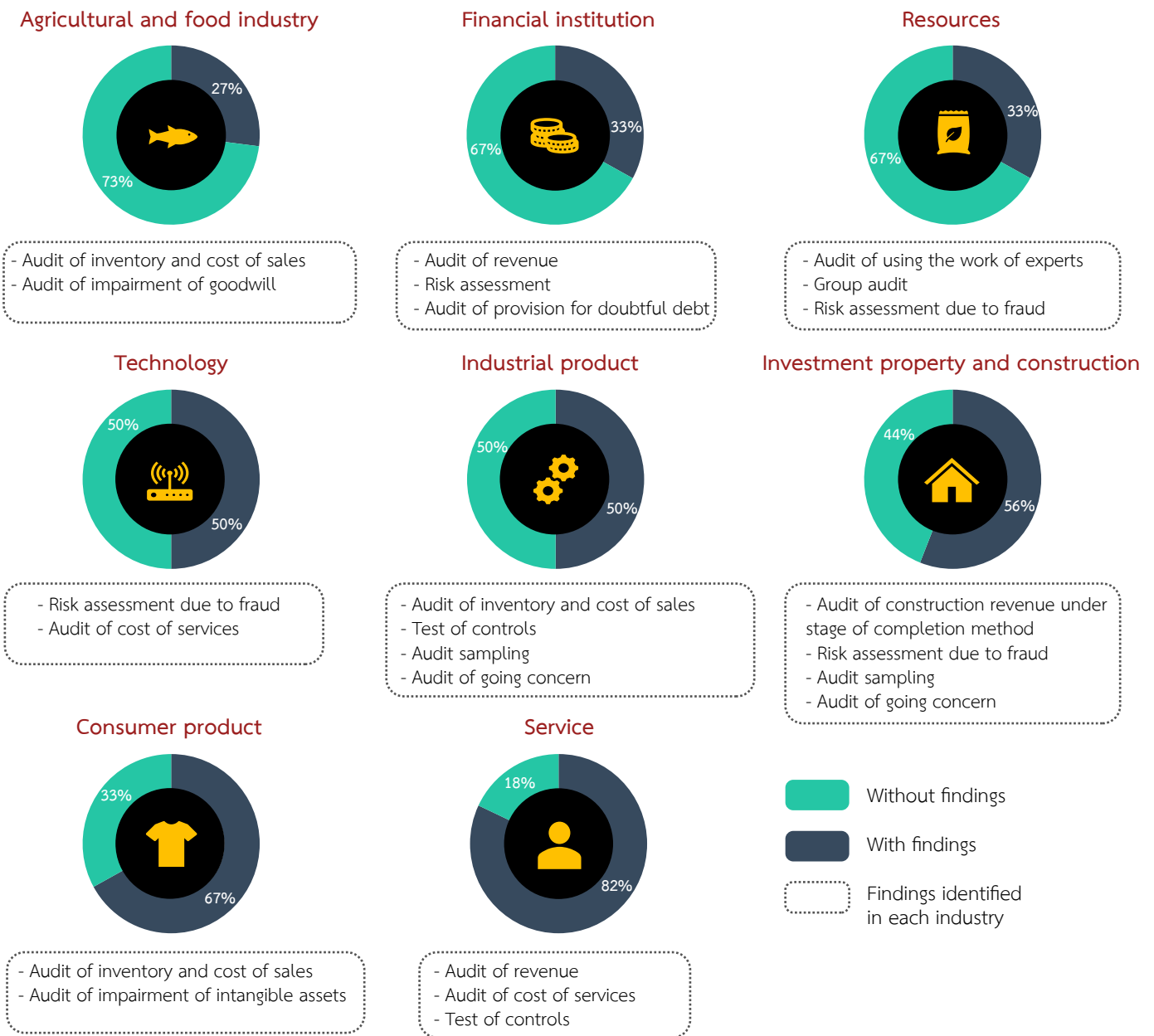


Figure 25 Proportion of findings from audit engagement inspection in 2019

The analysis of correlation between inspection findings identified in 2019 and type of audit clients' industry, as shown in figure 26, reveals that certain inspection findings are more common in some industry. Take service industry for example, more prevalent findings are: 1) audit of revenue recognition point and gathering of audit evidence that substantiate the occurrence of service, 2) audit of cost of service, particularly that auditors may not evaluate the appropriateness of cost allocation to each type of service and 3) understanding of key internal controls relating to the services, particularly that in each service entity the control points may differ, depending on nature of business transaction. On the other hand, findings in the audit of revenue under percentage of completion method are usually identified in construction business because audit of estimated construction cost requires specific expertise to determine the reasonableness of the estimation. Findings in the audit of inventory

and cost of sales are more common among agricultural and food industry, consumable product, and industrial product business because inventory represents their significant account. The findings usually associated with the audit of appropriateness of cost of sales allocation and consideration on net realizable value. Moreover, we also found that, due to the recent merger and acquisition trend of listed companies, audit engagements are becoming more complex and difficult. Therefore, there is an increase of findings relating to group audit and audit of goodwill impairment in large listed companies operating with many subsidiaries. This preceding fact suggests that when accepting audit engagement in each industry auditor should consider the availability of audit team with adequate competency and experience in that industry necessary for the gathering of sufficient appropriate audit evidence and issuance of appropriate auditor's opinion



**Figure 26** Proportion of audit engagements with and without inspection findings and list of findings, categorized by industry of audit clients

For audit engagement inspection in 2019, we selected engagement of entities in high-risk industry, entities that are large conglomerate or with business acquisition, and entities whose financial statements included material goodwill or intangible assets. Areas of interest to perform inspection are major accounts with findings identified in previous inspection cycle, matters that require high judgement, and business transactions associated with complex financial reporting standards. Transactions under complex financial reporting standards also include evaluation of appropriateness of judgment used by management, together with circumstantial fact and substance of the transactions to determine whether accounting treatment adopted by the entity is appropriate, doing so requires relatively high expertise and experiences of the audit team. Results of our audit inspection reveal findings on audit of impairment of goodwill, audit of going concern and audit of revenue as outlined below.

## 1. Audit of goodwill impairment

In 2019, we found that most of auditors already alleviated findings on the audit of impairment of assets as identified in the prior inspection results. However, book value of goodwill recorded in financial statements of some group entities represented high portion compare to their total assets, despite the fact that their business performance may not seemingly reflect the preliminary forecast due to the recent economic situation. This may call into question the possibility of goodwill impairment of those group entities. Insufficient and inappropriate consideration on recognizing goodwill impairment may cause the financial statements not to reflect intrinsic performance of the entities. As a result, we paid special attention to the audit of goodwill impairment in 2019 and designated it as our primary focus when performing audit inspection. We identified findings relating to audit of goodwill impairment, i.e., identifying cash-generating unit, allocating goodwill to cash-generating units, and evaluating reasonableness of information received from management.

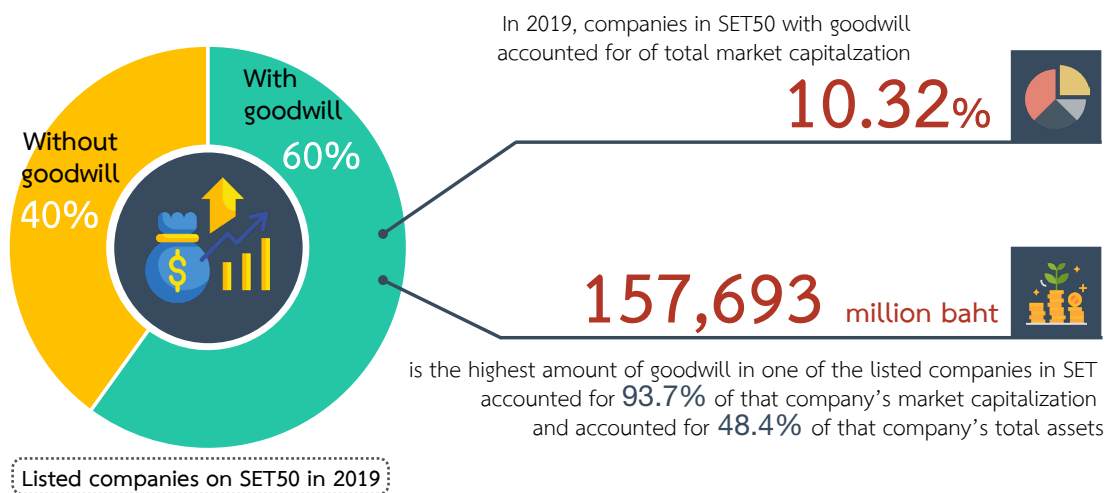


Figure 27 Proportion of listed companies in SET50 with goodwill and related interesting fact

### Identifying the cash-generating unit and allocating goodwill to cash-generating units

Thai Accounting Standards 36 – *Impairment of Assets (TAS36)* requires that an entity shall test goodwill acquired in a business combination for impairment annually and, in the same way, a cash-generating unit to which goodwill has been allocated shall be tested for impairment annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit (i.e. the higher between its fair value less costs of disposal (“FVLCD”) and its value in use. (“VIU”) If the carrying amount of the asset is higher than the recoverable amount, an entity shall recognize an impairment loss.

In this regard, auditor should consider whether a CGU as identified by the management is appropriate and in accordance with TAS36. Namely, a cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or other CGU. However, from the result of audit inspection we found that, in some instances, auditor did not document rationale supporting the consideration whether CGU used by an entity to test for impairment is appropriate under the definition delineated in TAS36, and how. For example, if an entity has multiple branches or operates under multiple trademarks, auditor shall consider which branch or group of branches can be considered as a CGU, and to which CGU trademarks belong, and whether they generate cash inflows that are largely independent from each other. Additionally, if an entity recognizes goodwill from business acquisition with multiple branches or trademarks, auditor shall consider whether an entity appropriately allocated that goodwill to each CGU.

### Evaluating reasonableness of information received from management

Auditors should consider whether VIU and carrying amount of assets used by an entity is appropriate as required by TAS36. In estimating the future cash inflows expected to be derived from a CGU to determine VIU, auditor should consider reasonableness of assumptions on which management has based its projections, e.g. growth rate of sales, cost of sales, selling and administration expense, or discount rate. Furthermore, auditor should consider whether carrying amount determined by an entity included the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the CGU and will generate the future cash inflows used in determining the CGU's VIU. Unfortunately, from the result of audit inspection we found that, in some instances, auditor neither evaluate the appropriateness of elements in calculation of VIU nor evaluate the correct and complete collection of carrying amount that belong to the CGU, particularly that it is in accordance with TAS36. We found that there were some cases where auditor did not consider appropriateness of the fact that an entity did not include goodwill that can be allocated into carrying amount. There were also cases where an entity used net assets, which incorporated the carrying amount of liabilities already recognized, to determine VIU. Moreover, in some cases auditor did not evaluate reasonableness of information received from management in calculation of VIU, e.g., method to determine VIU, circumstantial fact supporting assumptions, and data used in calculation of certain variables.

## 2. Audit of going concern

An entity's ability to continue as a going concern is an essential information that investors considered before making investment decisions. Accordingly, it is auditor's responsibility to design appropriate audit procedures to obtain sufficient appropriate audit evidence about the appropriateness of management's use

of the going concern assumption in the preparation of the financial statements. We found that auditors briefly assessed an entity's ability to continue as a going concern by considering events that may cast doubt on the entity's ability to continue as a going concern, e.g., current liabilities exceeding current assets or significant amount of operating loss. However, in 2019 we still identified findings related to the audit of an entity's ability to continue as a going concern that are not in line with requirements delineated in Thai Standards on Auditing 570 – Going concern (“TSA 570”). Upon reviewing auditor's workpapers on going concern, we found that in 2019 the significant deficiencies are audit of cashflow forecasting, and audit of continuous financial support from parent company.

### **Audit of cashflow forecasting**

When considering cashflow forecasting performed by an entity, auditor should take into account the reasonableness of assumptions used by management in preparing the forecasting, e.g., revenue growth rate, cost of sales or expense growth rate, and discount rate. However, from the workpapers inspection it is found that, in some instances, auditor did not assess the appropriateness and reasonableness of information provided by management in preparing the forecasting

### **Audit of continuous financial support from parent company**

In case where an entity receives financial support from its parent company to continue as a going concern, auditor should also take into account the financial position and the ability to provide financial support of the parent company. However, from the workpapers inspection it is found that auditor did not assess the financial position of the parent company and whether parent company is financially viable to provide continuous financial support to an entity.

Deficiencies on audit of going concern as mentioned above suggested that audit evidence obtained by auditor on audit of going concern is not sufficient to draw conclusion, particularly that whether use of the going concern assumption in the preparation of the financial statements is appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

## **3. Audit of Revenue**

Revenue is main account of an entity on which investors usually focus. Risk of fraud in revenue recognition is also a significant risk. Therefore, special attention should be paid to the audit of revenue. We found that in this cycle auditors mostly alleviated findings on audit of revenue. However, we still identified findings on sufficient appropriate audit procedures of revenue of an entity with complex business transactions, which requires the exercise of judgment in determining true substance of the transactions. Auditor should obtain evidence and documentation that indicate the transfer of risks and rewards in goods and services to the buyer. Professional skepticism should also be exercised in the audit of sales transaction that are not in the normal course of business, doing so requires designing relevant audit procedures to obtain audit evidence on significant and risky issues.

From the workpapers inspection of financial statement in 2018, we found that auditors did not perform sufficient audit procedures on complex sales transaction as outlined below.

### **Bill and hold sales**

The entity shall recognize revenue from the sale of goods when all of the conditions as delineated in the relevant financial reporting standards have been satisfied, e.g., the entity has transferred to the buyer the significant risks and rewards of ownership of the goods. In this regard, auditor should consider circumstances relevant to the sale transaction to determine when the significant risks and rewards of ownership of the goods was transferred, which may not coincide with the transfer of the legal title or the passing of possession to the buyer. The example is bill and hold sales in which the possession of goods is still with the seller as per the buyer's request, although the buyer received the legal title and accepted liabilities arising from the transaction. Therefore, the seller shall recognize revenue from bill and hold sales when it is probable that the seller will deliver goods to the buyer, the buyer requests the postponement of delivery, the credit term is normal, the goods sold are in the possession of the seller and are identifiable, and the goods were ready to be delivered at the revenue recognition date. However, from the workpapers inspection it is found that, in some cases, auditor did not obtain sufficient appropriate audit evidence to determine whether the sales transactions are bill and hold sales before drawing audit conclusion. In these cases, auditor did not perform alternative audit procedures, e.g., inspection of possession of physical goods, or confirmation of bill and hold sales to the client.

### **Consignment sales**

Consignment sales are arrangement in which the consignor delivers goods to the consignee who acts as an agent of the consignor in selling consignor's goods. In these circumstances, the seller, i.e. the consignor, can recognize sales revenue only when the consignee has delivered goods to the third party. Therefore, consigned goods are still recorded in the statements of financial position of the consignor throughout the consignment period. The consignee, in turn, shall recognize commission revenue. Note that determining whether an entity operates as principal or agent requires the use of judgment by considering relevant fact and circumstances. The entity operates as principal when 1) the significant risks and rewards of ownership of the goods and services has been transferred to the entity, 2) the entity is responsible for securing goods or services to the customers or fulfilling the purchase order, 3) the entity can freely determine the selling price, both directly and indirectly. Conversely, the entity operates as agent when 1) the entity possesses no significant risks and rewards of the ownership of the goods and services, or 2) the amount of revenue receivable to the entity is predetermined in form of fixed transaction fee or percentage of amount received from the customer. However, from the workpapers inspection it is found that auditors did not obtain audit evidence in determining whether the entity had consignment sales arrangement, particularly that whether the entity operated as a consignor. There are also cases where we found no evaluation whether sales or services provided by the entity fall under the act of principal or agent.

# Root cause analysis

Root cause analysis is an essential process that will help audit firms in formulating proper and precise remediation plan. Over the years, every audit firm in capital market has been continuously putting their efforts in carrying out such process. Factors that are the root causes of prior year's inspection findings are gradually alleviated by timely formulated remediation plan and regular monitoring the effectiveness of that plan. In 2019, several audit firms amended their strategies and policies in an effort to alleviate major problems, e.g., staff shortage, or lack of understanding in financial reporting and auditing standards. Among those efforts are: revising benefit compensation plan, rolling out policy on staff's career path, cultivating positive culture and environment within firms to retain competent staff, preparing staff in every level to be equipped for future financial reporting standards, issuing guidance or more description in audit manual so that it can be used correctly and consistently, as well as establishing a thorough monitoring process and improving remediation plan.



Figure 28: factors contributing to the root causes of inspection findings

By performing root cause analysis, we found that the reasons which may prevent some audit firms from effectively alleviating deficiencies stem from four main factors. Each of the factors is interrelated and has impact to one another, resulting in continuous time and resources required by firms to remedy the problems. They are outlined as follows:

## Audit Firm Leader

Policies and strategic directions set forth by the audit firm leader and top management of the audit firm are considered as the “tone at the top” which is essential to the overall quality control systems of the audit firm. Not only do audit firm leader and top management assist with creating the value and organizational culture for audit staff to recognize the importance of the audit quality, but they are also the decision-makers in resource allocation to establish the sufficient appropriate quality control systems. In 2019, we found that majority



of the audit firm leaders in the capital market were already accountable for creating value and organizational culture that audit quality takes priority by setting up the policy emphasizing quality and communicating to staff at all levels. Moreover, they also acted as a role model of audit quality awareness. However, we found that some audit firms still have resource constraints in high experiences human resources and auditing tools, resulting in an inability to concisely implement quality control systems and significant processes; as a result, they are unable to enhance their overall audit quality. Envisioning this issue, during the past year the SEC encouraged small and medium-size audit firms to collaborate and share their resources, in an effort to help them to improve their audit quality under the resource limitation. Examples are academic and technical knowledge sharing by training sessions and practical issues discussion, development of audit manual and adoption of technological tools in auditing to elevate efficiency of audit engagement and audit quality. Consequently, we anticipate that all available resources will be utilized to the maximum extent which will be beneficial to small and medium-size audit firms to deal with the difficulty and sustainably enhance the audit quality. Furthermore, based on the analysis of past inspection result , we found that there are currently 15 out of 27 audit firms that have noticeably improved scores from the 1<sup>st</sup> inspection cycle. 11 audit firms that previously fell into 'Need Improvement' score with a requirement to conduct an immediate rectification have achieved an improvement to 'Acceptable' and 'Satisfactory' score. The success factor responsible for the continuously improved overall audit quality is the adaptability of audit firm to cope with the rapid changes both in information technology and the development of accounting profession standards. Therefore, the attitude and vision of the audit firm leader towards the adaptability and never-ending learning, investing in information technology tools and attracting talented and potential staff to work with the firm are the key factors enabling audit firms to timely tackle changes and continuously strengthen audit quality.

### **Manpower in audit profession**

Human resources are considered as the key element to enable audit firm to provide quality auditing services. Several audit firms have performed root cause analysis and found that the main obstacle preventing audit firms from improving audit quality was the lack of human resources, especially the experienced and knowledgeable staff to perform final review of audit work for auditors in the capital market. This subsequently introduced impacts in other areas, namely an insufficiency of competent human resources caused the staff at all levels to work in an excessive load and, consequently, time spent on the job is insufficient to complete audit work with sufficient quality. Also, audit firms were not able to allocate adequately knowledgeable and experienced human resources to be in charge of revision and amendment of audit manual and audit procedures that are in line with changes in accounting profession standards, as well as to be responsible for the monitoring process. The audit firms, therefore, struggled to further improve their systems of quality control and overall audit quality. It is worth mentioning that the adequacy of human resources is an issue that takes time and requires intensive effort from audit firms to resolve. Over the years, several audit firms in the capital market were aware

of the importance of this issue and continuously put their effort on solving the problem in order to retain the staff in the organization and attract the competent person to work with the firms. In so doing, several strategies and operational plans were implemented to respond to the employee's needs and cultivate staff relationship with the firms, e.g., 1) performing employee's needs analysis to revamp the compensation and promotion policies by establishing an attractive, clear and reasonable compensation structure to retain employees, 2) setting up a career path and succession plan to make staff feel secured in their vocation and encourage them to establish a long-term growth plan in the audit firm, 3) creating culture in which employee's objective is aligned with the firm's and employee feels engaged to the firm, and 4) establishing a working environment and operational tools that suit younger generation's needs. Furthermore, the SEC has continuously cooperated with the Thailand Federation of Accounting Professions to explore an approach to lay the foundation for the audit profession as an attractive career and induce interested individuals to work in the profession. Over the past year, the SEC organized sessions for knowledge and experience sharing to attract students to become more interested in the accounting profession with expectation that this will alleviate the shortage of human resources in the audit profession over time.

### **Audit manual, audit procedures, and auditing tools**

Preparing staff to perform quality work and properly comply with requirements of the standards is considered as the key factor in enhancing audit quality. To assist staff with understanding audit objectives and procedures in each area and to enable them to efficiently perform work in accordance with professional standard requirements, an essential tool is the availability of the sufficiently detailed audit manual and audit procedures, including auditing tools, that supports performing of efficient work. Over the years, the SEC found that some audit firms have not yet amended their audit manuals, audit procedures and auditing tools to cover key auditing areas and conform to the Thai Financial Reporting Standards and the revised Thai Standards on Auditing, which are an inherent result from a lack of human resources. The firms therefore do not have sufficient human resources to improve and communicate audit manual and audit procedures as well as to provide adequate training on the revised audit manual and procedures for staff at all levels on a timely basis. Without sufficient knowledge and understanding, it was unlikely that the staff would be able to apply audit manual or audit procedures accurately and appropriately. In addition, audit firms' failure to attract the younger generation into the workforce is a result of a lack of auditing tools availability. Thus, the SEC has encouraged the sharing of technical support among small and medium-sized audit firms, e.g., developing the audit manual, organizing training session and implementing technological tools in the audit. As the accounting professional standards development tends to stipulate more rigorous requirements, audit firms need to be adaptive and the never-ending learning system should be established in their firms. The cooperation among small and medium-sized audit firms will facilitate the integration of competent human resources to cope with the rapid changes and to effectively enhance the efficiency of audit performance and audit quality.

### **The continuity of quality control and monitoring processes**

Having the continual quality control and monitoring processes, the audit firm can ensure that compliance with its policies and procedures is consistent. In turn, the firm can discover and alleviate deficiencies in due time. In the past years, the SEC found that all audit firms in the capital market already gave precedence to the improvement of quality control and monitoring processes, as per the observations raised by the SEC. To that end, they revised the quality control policies and improved the monitoring program to be more comprehensive. However, the human resources constraint in some audit firms impeded the continuity of quality control and monitoring processes, causing a delay and ineffectiveness in a root cause analysis, an arrangement of accurate remediation plan, and the communication of recommendations to alleviate the deficiencies to the relevant parties; accordingly, the same deficiencies still recurred. Moreover, the realization of benefits derived from quality control and monitoring processes of management and staff in the audit firm by aiming at the enhancement of audit quality rather than mere compliance with professional standard requirements will truly bring the highest benefits from those processes to the firm. In the current inspection cycle, the SEC gives priority to the close monitoring processes of root cause analysis and remediation plan prepared by the audit firms whose inspection results are unsatisfactory. Those audit firms are required to regularly report the progress of their alleviating actions to the SEC and the SEC also works closely with audit firm leaders to ensure that such monitoring processes of the firms are implemented effectively.

# Framework and Focuses in 2020

In 2020, the SEC will continue to strengthen the proficiency of key stakeholders in the financial reporting preparation, enabling all sectors to cooperate and perform their respective duties to enhance the quality of financial reports. Proactive actions will also be taken to sufficiently increase the number of auditors in the capital market in support of capital market growth and continuous improvement of audit quality. Furthermore, the SEC will propose amendment to the laws relating to the supervision of auditors to increase supervisory efficiency and effectiveness. A focus will also be given to the preparation of auditors and the SEC staff for handling rapidly changing technology. These plans aim to build a strong foundation of the financial reporting system and drive the sustainable growth of the Thai capital market. The key framework and focuses in 2020 are summarized below:

## **Framework for enhancing the quality of the preparer of financial reporting and annual reports of listed companies**

Preparers play an essential role in shaping the quality of financial reports from the beginning of the process. The SEC, therefore, continuously includes the quality enhancement of financial reporting preparer in its strategic plan. In 2019, the SEC conducted a study on audit adjustments proposed by auditors to be rectified by listed companies for the fiscal year 2018. The results of the study suggested that most accounting transactions that preparers considered to be difficult and complex were often related to the use of management judgment when making accounting estimates such as impairment of assets and income tax. Moreover, the study recommended arranging a comprehensive training course on financial reporting standards for each industry or a session for knowledge and experience sharing on relevant accounting treatment by accounting experts in each industry. To that end, the SEC consequently plans to organize training sessions on these particular matters for preparers to increase the quality of the financial reporting process as well as to communicate with the Thailand Federation of Accounting Professions regarding the areas where incorrect accounting records were made by listed companies in order to provide further training and communication for preparers to have further accurate understanding.

In 2019, the SEC conducted a public hearing on the incorporation of Annual Registration Statement (Form 56-1) and Annual Report (Form 56-2) into one report ("One Report"), including the disclosure of Environmental, Social and Governance (ESG) information, and the extension of the disclosure scope of non-audit service fees payable from the group of listed companies to the audit firms with which the auditors or other related parties are affiliated. Such disclosure will promote the transparency of One Report and provide more useful information to investors. The SEC will accordingly publish One Report Form to be adopted by listed companies.

## **Framework for promoting the roles of company directors and audit committees**

Company directors and audit committees are key stakeholders who play a significant role in enriching the quality of financial reporting of listed companies. The SEC, therefore, has a policy to develop tools for assisting them in discharging their duties more effectively. In 2020, the SEC will encourage the Thai Institute of Directors (IOD) to disseminate and publicize knowledge on good practices for audit committees in accordance with the "Good Practices for Audit Committees in Supporting Audit Quality," issued by the International Organization of Securities Commissions (IOSCO). The good practices serve as a guideline for selecting competent auditors and reviewing the accuracy of financial statements. Additionally, the IOD will be encouraged to publish media for knowledge sharing about coordination and communication with auditors to be circulated

among company directors and audit committees to raise their awareness on this matter. Furthermore, the SEC will inform company directors and audit committees of the recommendations based on the results of the audit adjustment study, which covers the important topics as follows: 1) the necessity of sufficient allocation of resources to the accounting department, 2) giving precedence to the internal audit department as well as having a robust internal control system of listed companies, and 3) setting executive's KPI for recurring audit adjustments.

### **Framework for increasing the number of auditors in the capital market and developing the audit quality**

The adequacy of quality auditors in the capital market plays an important role in supporting the growth of the capital market and the national economy. In 2020, the SEC will, therefore, establish a strategic plan for proactively increasing the number of auditors in the capital market along with improving the audit quality in an effort to allow investors to obtain quality, accurate and reliable financial reports. The action plan includes the followings:

1. Arranging sessions to regularly educate auditors on practical issues emerging from the implementation of financial reporting standards and auditing standards, newly issued professional standards and laws, and the necessary knowledge for auditing in the digital age. The SEC will deploy training technology in arranging online sessions and electronic training materials will also be used for the first time. The online training will mitigate the limitations on location and time as well as enable the staff of audit firms to participate in the training more widely;

2. Encouraging small and medium-sized audit firms to cooperate and share their technical resources and audit techniques, collaborate on improving audit manual to be in line with changes in accounting professional standards, as well as utilize IT infrastructure and IT tools to elevate the effectiveness and efficiency of auditing. Moreover, the SEC will promote the adequacy of audit firms' quality human resources to perform an EQCR role and be responsible for the monitoring process, by taking the Certified Engagement Quality Control Reviewer and Monitoring (CEQCRM) course, held by the Thailand Federation of Accounting Professions;

3. Closely monitoring the progression of audit firms' remediation plan and establishing theme inspection for workpapers inspection in 2020. Theme inspection will focus on common issues arising from preceding years and the adoption of new financial reporting standards. The inspection will also focus on the quality control system in audit firms, particularly on the topics that will help mitigate risks and promote robust and sustainable growth of audit firms, namely: 1) formalizing the succession plan and staff retention plan, 2) maintaining the confidentiality of audit clients in accordance with the requirements in the Personal Data Protection Act B.E. 2562 (2019), 3) the assessment and responses to risks in audit client acceptance that consider internal controls system and the preparedness of client's accounting staff, and 4) the proper arrangement of root cause analysis and remediation plan;

4. More integrating collaboration and cooperation with the Thailand Federation of Accounting Professions (TFAC), as TFAC is the SEC's essential alliance organization with whom we share common goals in building a robust foundation for enhancing the quality of financial reporting and audit quality in Thailand in accordance with the international standards. In the current year, the SEC and TFAC have a joint plan to increase the number of competent auditors in the capital market to support the country's economic growth by rolling out projects to develop and prepare both auditors and audit firms outside the capital market to be ready to perform engagement as auditors in the capital market. In so doing, the potential audit firms outside the capital market will be invited to join the project. Participating auditors will have the same privilege for joining the training session organized by the SEC as other auditors in the capital market. The participants will also have the privilege to be assessed and receive continuous consultations from the TFAC and SEC staff in preparation for operating in the capital market until they are successfully qualified to perform as auditor in the capital market. Furthermore, the SEC and the TFAC will constantly initiate projects that benefit the ongoing development of the financial reporting quality and audit quality, in an effort to promote sustainable growth of Thailand's capital market and economy;

5. Organizing open house events for accounting students from universities covering all regions of the country, to educate and attract them with the benefits and opportunities for the audit professions. These events aim to encourage those students to work in the audit professions after graduation, a measure to prevent the shortage of auditors in the future.

### **Framework for reinforcing the efficiency and effectiveness in law enforcement**

1. In the 4<sup>th</sup> quarter of 2019, the SEC engaged the Thailand Development Research Institute (TDRI) to conduct academic research on the regulatory framework governing auditors and audit firms in overseas capital markets in order to be used as reference in considering the amendment to the Securities and Exchange Act B.E. 2535 (1992) (“the Securities and Exchange Act”). The amendment aimed to enable more efficient and effective supervision of the audit firms and auditors in the Thai capital market in accordance with the Financial Sector Assessment Program’s recommendations (FSAP). When such research outcomes and recommendation are launched in 2020, the SEC will accelerate the proposal to amend the Securities and Exchange Act and inform the research outcomes to the Department of Business Development under the Ministry of Commerce as reference information in considering the amendment to the related Section of the Accounting Professions Act B.E. 2547 (2004). These processes will lead to the holistic enhancement of audit quality supervision;

2. The SEC plans to issue a notification of the Capital Market Supervisory Board as a guideline for facilitating auditors’ compliance with Section 89/25 of the Securities and Exchange Act, which requires that auditors who witness suspicious activities of directors, managers or individuals responsible for the operations of securities companies and listed companies immediately notify such issues to the companies’ audit committee. In this regard, the SEC will clearly specify the extent of suspicious activities to be notified, along with the procedures for obtaining such fact. This guideline will enable the auditors to better discharge their duties in protecting investors from potential exposure to management’s fraudulent activities;

3. The SEC plans to review the suitability of the notification regarding the approval of auditors in the capital market, particularly in the section related to the qualifications and prohibited characteristics of auditors to conform with the requirements imposed on other professions in the capital market. The review will also include the consideration of the need to relieve certain requirements that hinder access to audit profession in the capital market.

### **Aligning the operations to be in line with digital transformation**

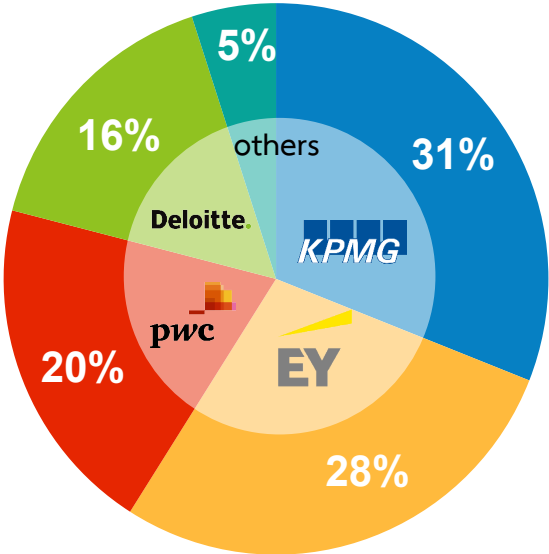
Nowadays, digital technology plays an important role in transforming business models, financial reporting preparation processes of entities in the capital market, and the audit processes. The SEC, as a regulatory organization, is therefore required to restructure the organization and build competency of its staff in response to these changes in a timely manner. In 2020, the SEC will give precedence to the development of IT knowledge and IT competency to the staff at all levels. The SEC continues its project to develop capabilities of IT expert staff (IT Champion) by sponsoring them to attend training courses and secondment arrangement on technology with both domestic and international agencies and, in turn, share the knowledge and experiences gained from such participation with the SEC staff regularly. The SEC also sponsors the training course and examination fee for the Certified Information System Auditor (“CISA”) certification for its staff as well as develops additional audit quality inspection program regarding technology, i.e., general IT control, application control, and cybersecurity. Furthermore, the SEC will transform the workflow and database management systems relating to the supervision of auditors to be entirely in digital format. These systems will not only facilitate the auditors in filing application form and supporting documents online but also increase the SEC’s efficiency in auditor supervision. The SEC will acquire accurate, precise, fast, and reliable information to identify the risks so as to perform timely in-depth inspection. These systems will enable an off-site monitoring system to be more efficient and effective.

# Essential Statistics

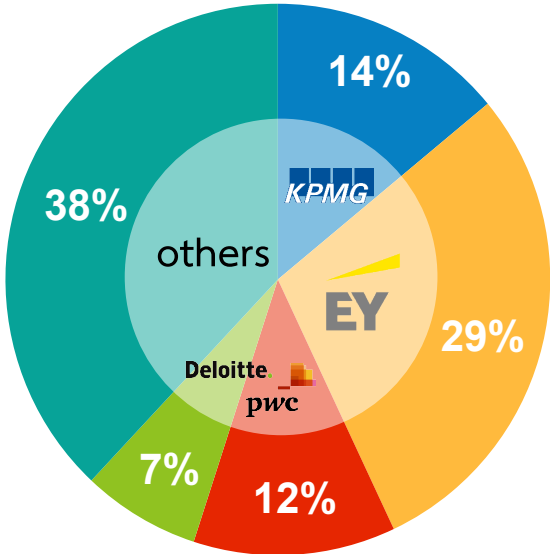
Record of audit firms' quality control inspection result and record of approval of auditors in the capital market

Year	Number of inspected audit firms	Number of applicants (excluding withdrawal of application)	Number of approved auditors		Number of rejections	Number of withdrawals
			New	Renewal		
2015	16	34	21	11	2	3
2016	13	65	26	39	-	-
2017	8	62	26	36	-	2
2018	16	53	28	25	-	4
2019	13	62	22	40	-	1

Proportion of the listed companies on the Stock Exchange of Thailand as audit clients of each audit firm, sorted by market capitalization as of December 30, 2019



Proportion of the listed companies on the Stock Exchange of Thailand as audit clients of each audit firm as of December 30, 2019



## Record of mandates to rectify listed companies' financial statements

unit : company

Reasons for rectification	2017	2018	2019
(1) Preparation and disclosure of financial statements not in accordance with relevant financial reporting standards	2	-	-
(2) Qualified or disclaimer of opinion in the auditor's report due to management-imposed limitation.	-	1	-

## Record of actions imposed on the listed companies' financial statements

unit : company

Action	2017	2018	2019
Special audit	3	-	-

## Record of sanctions imposed on auditors

unit : person

Wrongdoings	2017	2018	2019
Failure to fulfill his or her duty as auditor as required by professional standards	2 warnings		1 suspension

## Record of civil sanctions imposed on former audit assistant of audit firms in the capital market

unit : person

Wrongdoings	2017	2018	2019
Using draft audited financial statements not yet publicly disclosed to aid in securities and futures trading.	-	-	3



## CONTACT INFORMATION

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