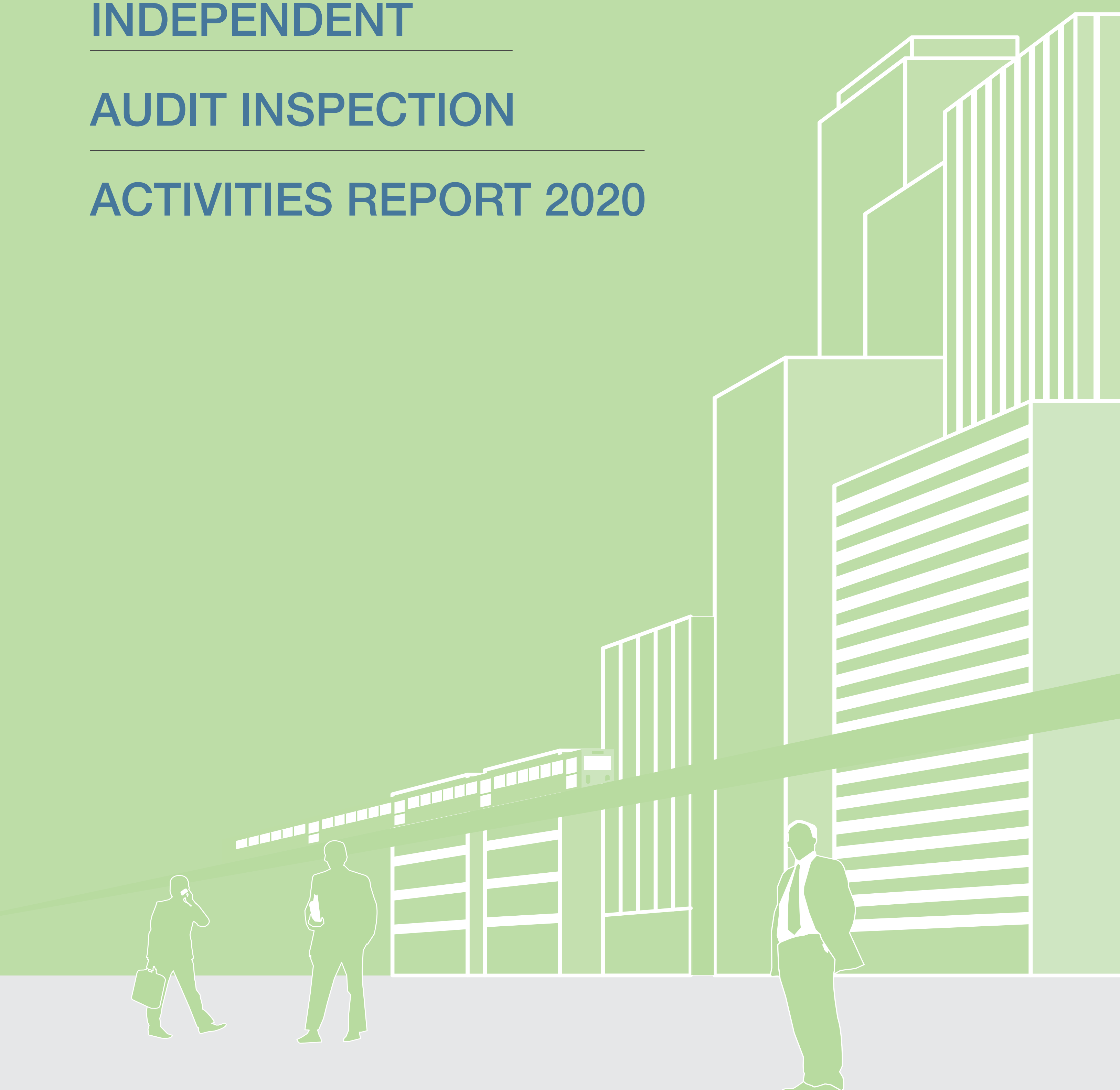
INDEPENDENT AUDIT INSPECTION ACTIVITIES REPORT 2020



SECURITIES AND EXCHANGE COMMISSION, THAILAND

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Executive Summary

Over the past year, the Thai capital market experienced tremendous volatility and uncertainty, ranging from the contraction of the world economy and the Thai economy to behavioral changes of investors and entrepreneurs as a result of technological influence, and most significantly, the global outbreak of the new Coronavirus (COVID-19), which casted widespread impacts on people's lives, society and the economy. Given such above circumstances, the Securities and Exchange Commission (SEC) reorganized the priorities, adjusted work processes and significant work systems, raised and allocated human and information resources, as well as collaborated with other organizations to mitigate the impacts on the business sector and personnel in the capital market. In addition, all mechanisms in the capital market were taken care of to ensure that they would be able to continue functioning seamlessly. In this regard, building a quality financial reporting system in compliance with international standards remains one of the SEC's primary goals that continues to take precedence and focus. This is to ensure that investors will receive quality financial information and proper protection, which in turn will help to establish credibility and strengthen competitiveness of the Thai capital market to promote stable and sustainable growth and propel the nation's economy.

In 2020, the SEC continued to carry out activities to enhance the quality of the financial reporting system. These included strengthening proficiency of all stakeholders in the financial report preparation process by promoting a better understanding of their roles and building their readiness for discharging duties more efficiently and effectively. Additionally, the SEC reviewed the accuracy of financial reports of listed companies, supervised the audit quality control system, and closely monitored the COVID-19 pandemic situation to adjust the oversight approach and communication with stakeholders to meet the changing situation. In so doing, the SEC adopted an online communication channel for the first time when organizing an educational event for stakeholders via Facebook Live, and issued relief measures to mitigate impacts of the COVID-19 outbreak on listed companies and auditors. For example, extending the deadline for submitting financial statements and facilitating the submission of applications and reports via electronic channels to assist stakeholders in coping with and getting through this crisis. Furthermore, when the government declared a state of emergency and introduced strict measures for preventing the spread of COVID-19 including the work-from-home cooperation, the SEC adopted a remote approach for inspection of audit firms' quality control systems, which enabled the SEC to maintain a regular inspection of such systems. In this regard, the SEC received kind cooperation from all audit firms in the capital market in submitting information and documents in an electronic form and using technology to enhance communication. This enabled the SEC to fully inspect the quality control systems of all audit firms as scheduled. As a result, users of financial statements can rest assured of the quality of the financial reports of the entities in the capital market on a continuing basis.

Moreover, the SEC carried on with the existing projects and initiated new ones to develop a sustainable growth of the capital market. One of the important projects was the project to enhance the quality of Thai audit firms in the capital market whereby the SEC assisted small and medium-sized audit firms that were not members of the international audit firms network in forming the Thai Capital Market Audit Firms Club (The Club). The SEC held meetings with the Club regularly and applied the received comments to the making of new projects. Many such projects were implemented with the collaboration from the Thailand Federation of Accounting Professions (TFAC). For example, the preparation for the implementation of the International Standard on Quality Management 1 (ISQM 1) and the support for audit firms in the Thai capital market to acquire audit software and audit tools to help them perform the audit work. In addition, the SEC launched a hotline consultation project and continued to provide training on professional standards to ensure that the auditors in the capital market will be able to perform their duties appropriately in accordance with relevant professional standards. The SEC also continued to focus on the project to increase the number of auditors in the capital market by cooperating with the TFAC in arranging training sessions and providing advice to audit firms outside the capital market on how to prepare for entry into the capital market. Additionally, the SEC organized educational activities for university students in the Accounting field nationwide to demonstrate opportunities and attractiveness of the accounting profession. Moreover, the SEC worked closely with the TFAC by delegating representatives to participate in various committees and working groups of the TFAC to collaborate in the development of the Thai accounting profession. In 2020, the SEC met with the TFAC President and the TFAC Committee to discuss directions and future joint work plans to enhance the quality of financial reporting and audit work.

Regarding the enhancement of regulatory frameworks imposed on auditors and audit firms, the Thailand Development Research Institute (TDRI) conducted a study and analysis on the legislations and mechanism of the oversight of audit firms and auditors in the Thai capital market in comparison with those of foreign countries. TDRI subsequently proposed recommendations and principles for amendment to the Securities and Exchange Act B.E. 2535 (1992) (the Securities and Exchange Act) in significant areas. For example, the granting of approval for audit firms and auditors in the capital market and the determination of penalties which cover a wide range of enforcement measures and are commensurate with the degree of wrongdoing. In 2020, the SEC made a significant progress in implementing the recommendations of TDRI by organizing a focus group and a public hearing on the proposed amendment to the Securities and Exchange Act. Moreover, the SEC communicated the TDRI's recommendations related to the proposed amendment to the Accounting Profession Act B.E. 2547 (2004) with all relevant entities for acknowledgement and consideration of further appropriate actions to establish consistency in the overall supervision of auditors and audit firms.

In the quality control system inspection in 2020, the second year of the 4th inspection cycle (2019-2021), the SEC stepped up the inspection on each element to conform with today's changing contexts. More in-depth inspections on the areas containing risks to audit quality and sustainability of audit firms were also conducted. For example, (1) succession plan and retention plan, (2) maintenance of independence of audit firms and auditors, (3) assessment on readiness of accounting personnel, (4) accounting system and internal control system of audit clients prior to accepting an audit engagement, (5) correlation between compensation and audit quality, and (6) root causes analysis and remediation plan. The SEC also encouraged audit firms to prepare for compliance with the International Standard on Quality Management 1 to drive the improvement of the quality control system of audit firms in the capital market. The results of this cycle's inspection revealed that in overall audit firms in the capital market had improved their quality control system. Most of them (86 percent) received "acceptable" to "very good" assessment result for their quality control system. The audit firms receiving "good" to "very good" assessment result accounted for 51percent of the total assessees. Three audit firms in the capital market received "very good" assessment result (10 percent), two of which were small-sized audit firms.
The above facts show a positive sign that audit firms in the capital market place a great emphasis on, and strive to improve, the quality control in every element on a continued basis. This will help to promote audit quality and build trustworthiness of the financial reporting system of the Thai capital market. Nonetheless, the SEC still identified certain deficiencies in the quality control system in this inspection cycle such as rotation of auditors, insufficiency of human resources, completeness of the monitoring and root cause analysis on such deficiencies, remediation plan preparation and the follow-up of the remediation plan. The SEC will continue to assist audit firms and follow up on audit firms' efforts to fully solve such deficiencies.

The results of the audit engagement quality inspection in 2020, compared with the previous years' results, showed that the quality of the audit engagements in the capital market has improved continuously, as seen from the fact that 93 percent of the approved auditors received "good" to "very good" assessment rating and the number of the auditors rated "Need Improvement" and subject to mandatory follow-up in the next cycle has dropped significantly. This progress was contributed by audit firms' continuing emphasis on quality improvement. Heads of audit firms allocated resources and various tools to support auditors in performing audit. Moreover, the SEC rendered additional support, e.g., training sessions to strengthen auditors' capabilities and initiatives to enhance the quality of audit firms in the Thai capital market. These efforts ensure that auditors in the Thai capital market can perform audit engagements of international quality.

Furthermore, in this inspection cycle, the SEC adjusted the scope and guidelines for planning workpapers inspection according to a holistic risk-based approach by gathering risk information from several sources, e.g., the SEC's internal database, financial statement analysis, annual report analysis, and news on listed companies. Under the holistic risk-based approach, workpapers inspection can cover risky issues and accounting transactions completely. In various cases, inspection on auditors' workpapers led to in-depth inspection concerning fraud and accounting fabrication of listed companies. Following the review of selected engagements which were in high-risk industries with focus on review of primary accounts affected by the adoption of new financial reporting standards, matters that required high judgement, transactions that were not in the normal course of business, and accounting transactions that required professional skepticism, the SEC found deficiencies in the inadequate gathering of audit evidence during a planning phase and a substantive test phase, especially in the audit of revenue, risk assessment and response to the risk of fraud. In this regard, the SEC will support and closely monitor audit firms and auditors in order for them to alleviate their deficiencies successfully in the future.

By performing root cause analysis, the SEC found that some audit firms were unable to alleviate their deficiencies effectively because they took on audit engagements in excessive quantity and complexity beyond the capability of experienced personnel to perform quality audit work in accordance with the professional standards. Other causes included a scarcity of knowledgeable personnel with specific expertise such as financial reporting standards and auditing standards, insufficiency of clear and detailed audit program for auditing difficult and complex areas, staff training limited to theoretical lectures and lack of case study on issues requiring professional judgement and professional skepticism, particularly with regard to businesses with specific characteristics and accounting transactions requiring different audit procedures and approaches from general audit procedures to obtain audit evidence, audit clients with more complex transactions and more accounting transactions, adoption of electronic information storage, and the increasing use of information technology in the preparation of financial reports while audit firms still lacked audit software and data analytic tool to enhance the effectiveness and efficiency of audit execution amid the changing technological environment. The SEC recognizes the significance of these problems and plans to support audit firms in providing training for auditors to gain knowledge and keep abreast of changes on a continuing basis as well as assisting audit firms in establishing the technological infrastructure necessary to further enhance the quality of audit performance.

In terms of future focus, the financial reporting system quality that meets international standards is still a primary goal as it can enhance credibility and competitiveness of the Thai capital market. In 2021, the SEC will, therefore, continue on the road map to strengthen the proficiency of all key stakeholders in the ecosystem of financial reporting preparation in order for them to discharge their duties more efficiently and effectively. Meanwhile, the SEC will continue on the core mission to supervise and enhance audit quality to meet international standards and promote the potential for small and medium-sized audit firms to grow with stability, sustainability, and competitive edge. In doing so, the SEC will undertake proactive actions to increase the number of auditors in the capital market to be sufficient to support the growth of the Thai capital market. The structure of laws and regulations relevant to the accounting profession will be revised to provide an effective supervisory mechanism for auditors in the capital market and a robust foundation will be built for the Thai capital market to thrive and compete in the future. In addition, the SEC will transform the supervisory framework to be in line with global changes in the digital era by deploying information technology and paperless systems to support the full-fledged operations of the SEC. This is to enhance the ecosystem that facilitates sustainable development of the Thai capital market and support continuous functionality of the capital market mechanism in accordance with the SEC Strategic Plan.

Quality Assurance Review Panel

Mr. Prasan Chuaphanich

Positions:

- Advisor to the Prime Minister
- Expert Member of Office of Public Organization and Other Government Agency
- Commissioner of the Public Sector Development Commission - National Research Council of Thailand
- 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)
- Board Member of Life Insurance Fund
- 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
- Commissioner of the State Enterprise Policy 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, 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:

- Commissioner (Accounting) of the Office of Insurance Commission (OIC)
- Independent Director and Chairman of the Audit Committee, PTT Global Chemical Public Company Limited
- 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 Auditing Profession Committee, 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:

- 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
- ASEAN Chartered Professional Accountant

Ms. Chongchitt Leekbhai

Positions:
- 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
- Consultant of the Auditing Profession Committee, Thailand Federation of Accounting Professions on Auditing under the Royal Patronage of His Majesty the King

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

Education:
- Honorary Doctorate Degree in Accounting, Chulalongkorn University
- Fellow of the Institute of Chartered Accountants in England and Wales

Mr. Ayuth Krishnamara

Positions:

- Chairman of the Subcommittee, Regulations Consideration Subcommittee on Sales Conduct and Provision of Investment Advice, the Securities and Exchange Commission (SEC)
- Chairman 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)
- Member of The Financial Institution Policy Committee, Bank of Thailand
- 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 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, CA, U.S.A.
- Bachelor of Science – Chemical Engineering, Lehigh University, Bethlehem, PA, U.S.A.
- Advance Management Program, Harvard Business School, Boston, MA, U.S.A.
- National Defense Academy (NDA), Class of 2004
- Capital Market Academy Leadership Program, 6th Batch

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. Piyapong Sangpattarachai

Position:

- Chief-Product Management, Kasikorn Bank Public Company Limited
- Board Member and Public Relation, Thailand Federation of Accounting Professions Under the Royal Patronage of His Majesty the King

Work Experience:

- 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
- Investment Consultant Complex Product 1
- Treasury Dealer Certification

Activities for Enhancing Financial Reporting Quality

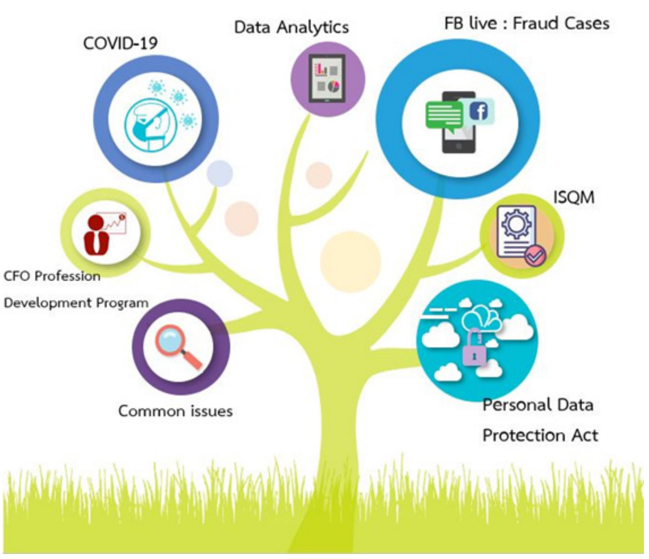
Over the past year, the SEC continued to develop various activities for enhancing the quality of the financial reporting system in order to develop stable and sustainable growth of the Thai capital market. The SEC has been focusing on regularly building capacity of stakeholders in the financial reports preparation process and closely monitoring the situation of the new Coronavirus outbreak (COVID-19) in order to adapt the forms of oversight and communication with stakeholders to the changing situation appropriately. These included using online communication and launching relief measures to mitigate impacts on listed companies and auditors, e.g., extending the financial statements submission deadline and facilitating the submission of requests and reports via electronic channels to enable stakeholders to cope with and get through this crisis.

Throughout the year 2020, the SEC continually applied tools and technologies to strengthen and develop stakeholders' potential. This ensures that the undertakings involved in the enhancement of financial reporting quality are performed on an ongoing basis and still maintain the quality of supervision of the financial reporting system to be on par with international counterparts. In addition to supervising the work quality of auditors and audit firms, the SEC cooperated with both local and international relevant organizations in many aspects. This included applying technologies and various online media to organize educational seminars on the development of standards in the accounting profession and risk issues during the past year such as fraud cases. Moreover, we organized meetings with relevant organizations regularly to exchange opinions and experiences among stakeholders as well as to enhance our staff's knowledge and competence in performing their work efficiently according to the defined work plan.

Building Capacity of Stakeholders

The quality of the financial reporting system in the capital market depends on the fact that relevant stakeholders – e.g., chief executive officer (CEO), chief financial officer (CFO), bookkeeper, managing director, audit committee and auditor – emphasize the importance of the financial reporting processes and have an:

adequate understanding of their roles. Moreover, they should also be adaptive to the fast-changing environment. Volatility and various developments have occurred rapidly over the past few years. For example, the impacts of the COVID-19 situation, technological developments, development of financial transactions as well as the changes in professional standards and more stringent regulations. Such circumstances affected the effectiveness of stakeholders' performance. All sectors, as a result, need to keep abreast of and closely monitor the situations to get prepared and act promptly so that potential impacts can be properly addressed. Over the years, the SEC has rendered continued support to activities such as training sessions to enhance relevant stakeholders' knowledge and adaptiveness to ongoing changes and seminars to update developments of relevant standards or new regulations. The SEC also collaborated with the Thailand Federation of Accounting Professions (TFAC) in launching various projects to improve audit quality. Throughout the year 2020, the SEC organized training sessions and seminars on emerging issues with significant changes to ensure that stakeholders would be able to perform their duties efficiently in accordance with their responsibilities. The SEC's activities covered topics and issues such as:

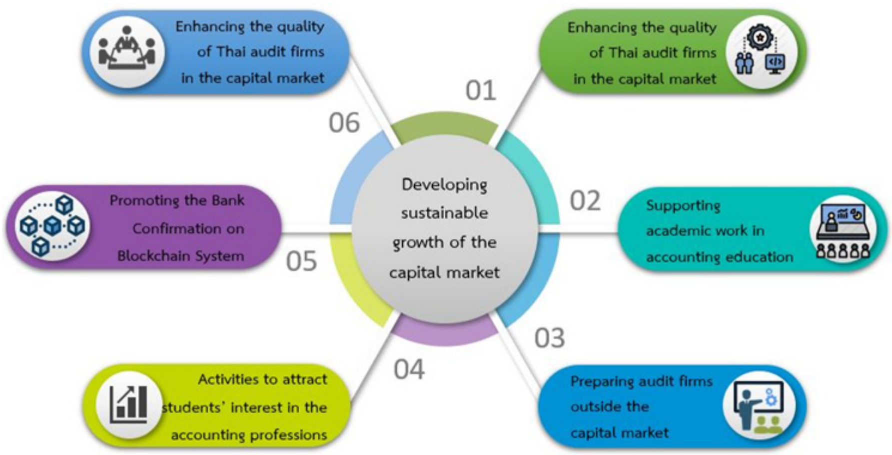


- Facebook Live Forum: Strengthening Good Corporate Governance by Audit Committee and Independent Director: Experiences from Fraud Cases
- CFO Profession Development Session (TLCA CFO CPD) 2020
- The Impacts of COVID-19 on the Auditor's Performance
- The Use of Data Analytics Techniques in Audits
- Common Issues from Audit Inspection
- Panel Discussion on the Preparation of International Standard on Quality Management 1 (ISQM1) and International Standard on Quality Management 2 (ISQM2) for Medium and Small-sized Audit Firms
- Preparation for the Personal Data Protection Act for Audit Firms in the Capital Market.

Online discussion via Facebook live on the topic, "Strengthening Good Corporate Governance by Audit Committee and Independent Director: Experiences from Fraud Cases" was of great interest to the live audience of more than 7,300 viewers. The SEC therefore summarized key takeaways from the forum and circulated them to the board of directors of listed companies. The professionals in both the accounting profession and the audit committee of listed companies participated in the discussion about fraud cases that occurred abroad by sharing their experiences on corruption prevention measures and the use of existing mechanisms and tools to support audit committees and independent directors in exercising their duties.

Developing sustainable growth of the capital market

The capital market is an essential fundraising channel and mechanism for propelling the nation's economy. Together with strengthening the capacity of stakeholders through communication and education, the SEC has continued to focus on creating an environment and ecosystem that facilitate the development and sustainable growth of the Thai capital market, while maintaining protection to investors at an appropriate level. Moreover, the SEC has continued on the existing projects and initiated various other projects and activities to promote an appropriate ecosystem and readiness for capital market growth in the future as defined in the Strategic Plan, as follows:



Enhancing the quality of Thai audit firms in the capital market (10 September 2020 and 21 December 2020)

The auditors in the capital market play a critical role in the financial reporting ecosystem. They are also key impetus to enable the financial reports of the entities in the capital market to reflect their economic substance and true performance. This is a protective mechanism for investors in the capital market and the reason why over the years the SEC has stressed the importance of continuous improvement of the audit quality of the audit firms in the capital market as well as supported and assisted medium and small-sized audit firms in the capital market that were not members of the international audit firm network to form "the Auditors in the Thai capital market Club". Knowledge and resources can be shared among members to achieve the growth with quality, stability and sustainability. The club can be a vital force in providing audit services to rapidly increasing entities in the capital market. The SEC held regular meetings with the club to discuss and exchange dialogue concerning opportunities and challenges in performing audits in the Thai capital market under the fast changing environment, and to explore ways to support the work of the club along with the guidelines for enhancing quality and promoting sustainable growth of the audit firms in Thai capital market. Key projects in many aspects were initiated such as:

(1) The project to prepare for the implementation of the International Standard on Quality Management 1 (ISQM 1) in collaboration with the TFAC;

(2) The project to support audit firms in the Thai capital market to have audit software and audit tools to help them perform the audit work efficiently, also in collaboration with the TFAC;

(3) The project to provide training on accounting, auditing, and audit quality control issues for partners and employees at all levels of the audit firms in the capital market;

(4) The project to provide consultation on accounting, auditing, and audit quality control issues for the auditors in the capital market (hotline project). There were more than 25 consultation cases raised by auditors during the previous year.

Supporting academic work in accounting education (24 July 2020)

The SEC gave the keynote speech on the topic, "Rethinking Accounting Education for Global Competitiveness" to develop accounting professors and enhance learning-teaching standards and the development of academic performance in accounting education in Thailand. This session could help to produce graduates equipped with necessary skills and knowledge for the modern era.

Preparing audit firms outside the capital market

The quality improvement of audit firms outside the capital market is another important factor to support the rapid increase in the number of listed entities in the capital market. Realizing the importance of this matter, the SEC cooperated with the TFAC, under the support of the Capital Market Development Fund (CMDF), and initiated a project aiming to prepare the audit firms outside the capital market. In August 2020, the SEC provided a training session for TFAC staff, enabling them to inspect and advise audit firms outside the capital market on audit quality control to be in line with quality control standards, and to plan for quality improvement of audit firms outside the capital market. Moreover, in December 2020, the SEC gave a lecture on the topic of observations on audit quality control system inspection to audit firms outside the capital market to get them ready for working as auditors in the capital market in the future.

Activities to attract students’ interest in the accounting professions (25 September 2020)

The SEC organized educational activities to students of Rajamangala University of Technology Suvarnabhumi, Suphanburi province. The event attended by 80 students aimed to disseminate knowledge and share working experiences in the accounting professions in the capital market, and to attract students into the accounting professions. This could help increase the number of auditors in the capital market and prevent the shortage of workforce in the accounting professions in the future.

Promoting the Bank Confirmation on Blockchain System Project

On 9 October 2020, the SEC participated in the launch of the Bank Confirmation on Blockchain System Project. The SEC's delegates attended a meeting with the Bank of Thailand, the TFAC, audit firms, commercial banks and BCI (Thailand) Company Limited, the developer of blockchain-based products and services for financial institutions and business sector in Thailand. The meeting aimed to develop a bank confirmation system on blockchain technology to enhance efficiency of the work of auditors and banks. Thanks to the system, the auditors will receive audit clients' information from the banks more quickly and with greater accuracy than the current process.

Strengthening regulatory frameworks on auditors and audit firms

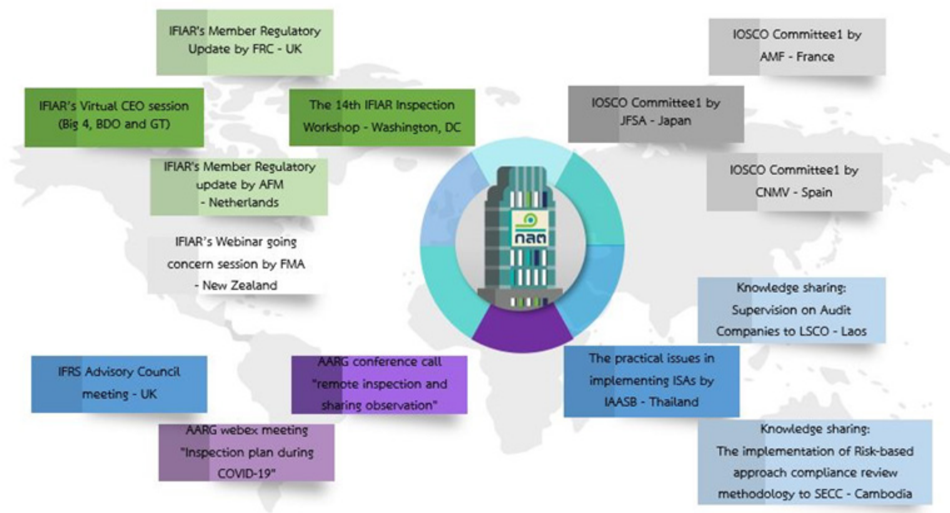
According to its comparative study and analysis between the Thai capital market's legislation and mechanism on the oversight of auditors and audit firms and those of foreign countries, Thailand Development Research Institute (TDRI) issued the proposed principles for amendment to the Securities and Exchange Act B.E. 2535 (1992). In August and September 2020, the SEC held a focus group meeting and a public hearing on the proposed amendment to the Act. Suggestions were taken into consideration for improving the Act regarding the approval of audit firms and supervision of audit quality. This will be an important mechanism for driving the audit firms to be responsible for, and give priority to, the thorough quality control of every auditor in their firms, as well as support resources in various areas sufficiently and appropriately to ensure that their auditors will be able to perform their duties in accordance with relevant professional standards and ethics. It also strengthens audit firms and promotes their sustainable growth. In any case, audit work cannot be accomplished by the auditor alone; it requires an audit team, tools and work systems. Therefore, the audit firm plays an important role in supporting the auditors to perform their work with greater quality and efficiency. In addition, the proposed revision of the Securities and Exchange Act in the matters above will enable the SEC to supervise and enhance the quality of audit work effectively. This will result in maintaining transparency and trustworthiness as well as stability and investors' trust in the Thai capital market. In addition, to enhance the efficiency of audit quality supervision, TDRI also recommended all relevant entities consider amendments to the Accounting Profession Act 2004 in support of a consistent oversight of auditors and audit firms. The SEC informed the Department of Business Development, the Ministry of Commerce about such recommendations and presented them to the Accounting Profession Regulatory Commission for consideration of amendment to the Accounting Professions Act in the relevant sections.

Moreover, the SEC has worked closely with the TFAC by sending representatives to various committees and working groups of the TFAC to collaboratively develop the Thai accounting professions. In 2020, the SEC met the President of the TFAC and the Federation of Accounting Professions Committee to discuss plans for improving the quality of financial reporting and audit quality, which will increase the public trust and contribute to a sustainable growth of the Thai capital market and economy. For example, enhancing potential and strengthening the financial reporting system of the Thai capital market to be on par with other countries, guidelines for supporting high quality and promoting sustainable growth of the audit firms in the Thai capital market, proposal to amend the Accounting Professions Act regarding promotion of the accounting professions, etc.

Prosperous growth with international recognition

The SEC is a member of the International Forum of Independent Audit Regulators (IFIAR) and the ASEAN Audit Regulators Group (AARG) organization, which are international organizations comprising global members who are independent audit regulators. This implies that the SEC is recognized as an organization with an audit regulatory system comparable to international standards. Furthermore, being a member of both IFIAR and AARG facilitates the promotion of international cooperation in exchanging information, knowledge and experiences on oversight of auditors and audit firms as well. The SEC is also a member of the International Organization of Securities Commissions (IOSCO), the international organization of securities regulators around the globe. Throughout the year, the SEC assigned delegates to attend the IOSCO Committee 1 Accounting, Auditing, and Disclosure Meeting (IOSCO C1) to exchange dialogue on the exposure draft of international financial reporting standards, international standards on auditing, and international ethical standards for professional accountants. Our staff members were also delegated to the IFRS Advisory Council whose responsibility is to provide counselling on the strategy and direction of the International Accounting Standards Board (IASB). Such active participation and contribution to the global forums indicate the international recognition of the SEC.

In 2020, due to the COVID-19 pandemic situation, various international conferences and seminars were held online instead. Such conferences and seminars aimed to discuss and exchange dialogues on regulators' practical issues, as well as to monitor the situation and impacts on the auditing profession. The SEC attended seminars relating to accounting and auditing as follows:



Expanding knowledge of staff

The SEC pays special attention to the regular development of capacity and knowledge for its staff. This is to ensure that they have sufficient professional knowledge to discharge their duties efficiently and effectively in the advancement and surveillance of listed companies' financial statements and supervision of auditors'

work. Hence, the SEC regularly arranges internal training sessions on financial reporting standards, auditing standards, emerging regulations, and the development in the accounting professions. The SEC is aware of the importance of technological disruption which plays a vital role in the operations of both listed companies and auditors. In 2020, the SEC organized staff training and also sent delegates to attend external training sessions in such areas as data analytics, the audit procedures for clients that rely on complex IT system, the basic knowledge of digital assets, crowdfunding, digital banking, and financial technology. Besides, under the COVID-19 outbreak, the SEC provided training on the topics related to the risks arising from the COVID-19 situation to prepare the staff for handling future changes and uncertainties from COVID-19 and developing appropriate audit procedures.

Auditing Landscape in Thailand

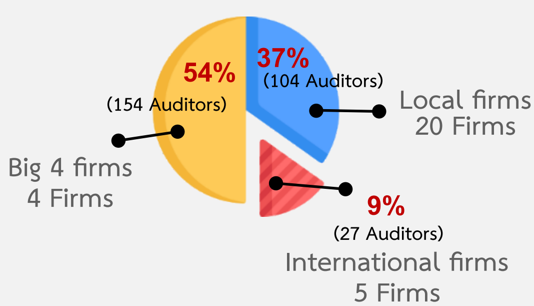
Approximately 769,000 juristic persons are registered with the Department of Business Development

743 listed companies had the total market capitalization of 15.64 Trillion baht, accounting for 101 percent of Thailand's gross domestic product (GDP) at the end of 2020.

10,481 active CPAs from the total of 13,744 CPAs in Thailand (76%)

At the end of 2020, there were 288 auditors in the capital market This total number increased by 40 auditors or 15 percent from the previous year

285 Thai auditors



3 Foreign auditors

1 International firm

Remark: 'International firms' refers to audit firms that are members of international audit firms baring the same names and complying with the policies and procedures of the international audit firms consistently, excluding the Big 4 firms

Figure 1: Auditing landscape in Thailand: Auditors in the capital market grouped by type of audit firm and foreign auditors approved by the SEC, as of December 31, 2020.

Auditors and audit firms in the capital market

Previous statistical information as shown in Figure 2 reveals that 117 auditors in the capital market are 50 years old or older (accounting for 41 percent) and thus approach retirement in the near future. However, in 2020, the SEC approved 40 new auditors including 15 auditors aged between 30 and 39, 20 auditors aged between 40 and 49, and five auditors older than 50. If the number of auditors in the capital market continues to rise at this rate, there should be enough auditors to replace those who will retire soon. In 2021, the SEC will propose amendment to the regulations on approval of auditors in the capital market, particularly in the area related to qualification requirements, which include reducing the number of experience years of performing audit work from 10 to 7 years to be consistent with the current average number of years wherein auditors are entrusted to be in charge of audit work and affix signature in giving opinions on behalf of the audit firms. Such amendment will allow capable and knowledgeable auditors to apply for approval as auditor in the capital market sooner, which will result in a smaller proportion of soon-to-retire auditors and a relief of auditor shortage to a certain degree.

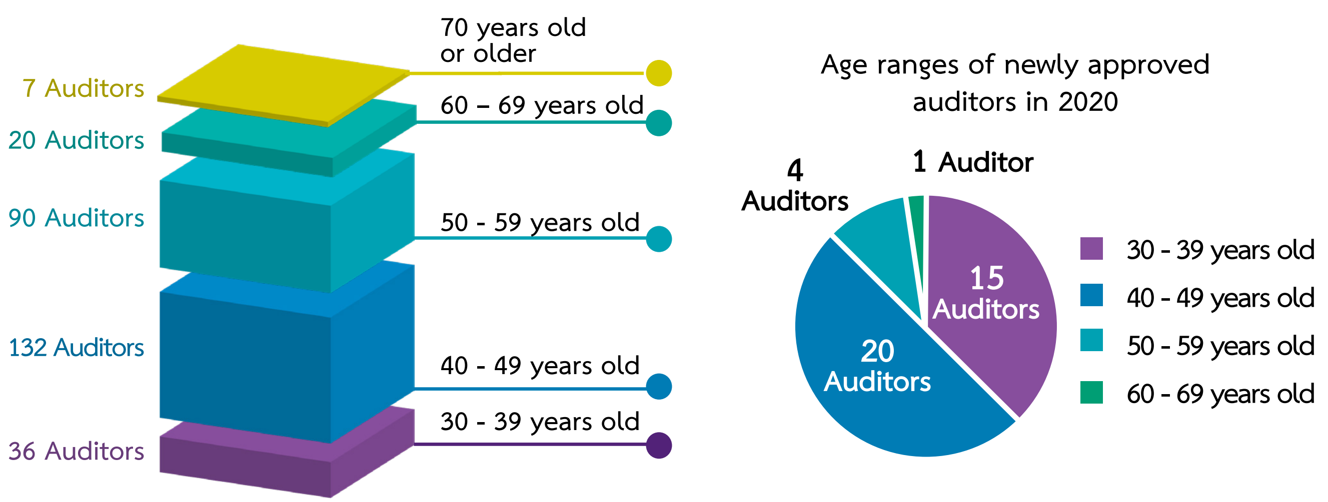


Figure 2: Age ranges of the auditors in the capital market and the newly approved auditors in 2020.

Listed companies per auditor ratio from the end of 2016 to 2020

The analysis on the ratio of listed companies per capital market auditor from the end of 2016 to 2020, as shown in Figure 3, reveals a constant decrease of the ratio from 2016 to 2020. At the end of 2020, the listed companies per auditor ratio was 2.61, reflecting sufficiency of approved auditors in support of the demand of listed companies. Comparing with Malaysia and Singapore, the ratio of listed companies per auditor of Malaysia is the highest (3.49), while that of Thailand and Singapore are 2.61 and 1.93, respectively. However, when considering the size of listed companies in terms of market capitalization, it is noted that the average market capitalization (billion baht) per listed company of Malaysia (0.38) was lower than that of Thailand (0.70) and Singapore (0.95), as shown in Figure 4. Consequently, on average, auditors in the capital market of Malaysia are able to perform more listed company engagements than auditors in Thailand and Singapore, respectively.

Therefore, a consideration of the sufficiency of auditors in the capital market needs to take into account relevant contexts of each country.

For Thailand, to ensure that the number of quality auditors in the capital market will be adequate for the ever-increasing listed companies in the near future – a result of an economic growth and the government policy to promote the capital market to be an important source of funding for the business sector, both large companies and small and medium-sized enterprises – the SEC plans to proceed with several initiatives according to the SEC Strategic Plan to increase auditors in the capital market on a continuing basis and encourage more knowledgeable and capable auditors to perform audit engagements in the capital market. Examples of the initiatives are as follows:

Amending the Notification on Approval of Auditors in the Capital Market in the part of qualification requirements imposed on auditors in the capital market to lower barriers as a result of certain excessive requirements, and to adjust regulations in line with the context of the current audit profession.

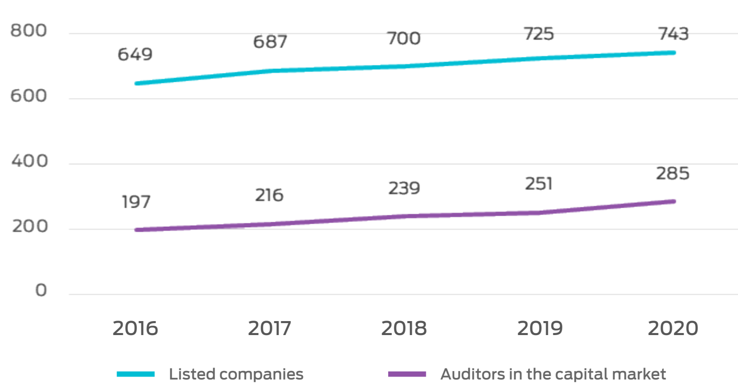
Collaborating with the TFAC in helping audit firms outside the capital market prepare for entering the capital market by inspecting and providing consultations regarding the quality control system in compliance with the quality control standard

Closely cooperating with relevant bodies to alleviate the shortage of auditors

Supporting work of small and medium-sized audit firms (local audit firms) as well as improving their audit quality and enhancing their sustainable growth in various ways, e.g., preparing for compliance with the International Standard on Quality Management 1 and reinforcing the use of audit software and audit tools to facilitate more effective and efficient engagement performance

Allowing auditors of audit firms outside the capital market to attend all training sessions held for auditors in the capital market

Arranging lectures and activities for university students to attract them into the audit profession, which could lead to an increase in the number of auditors in the capital market and prevent the shortage of workforce in the audit profession in the future.



Listed companies per auditor ratio	3.28	3.18	2.93	2.89	2.61

Figure 3: Ratio of listed companies per auditor in the capital market at the end of 2016 and 2020

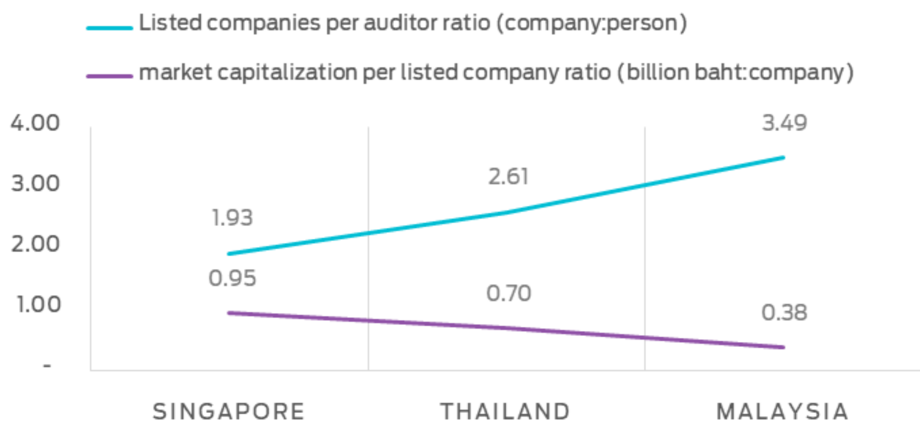


Figure 4: Ratio of listed companies per auditor in the capital market and ratio of market capitalization per listed company in Singapore, Thailand and Malaysia at the end of 2020.

Number of listed companies' financial statements onto which auditors in the capital market affix signature in giving opinions.

Auditors who affix signature in giving opinions on auditing in 2020, grouped by number of financial statements

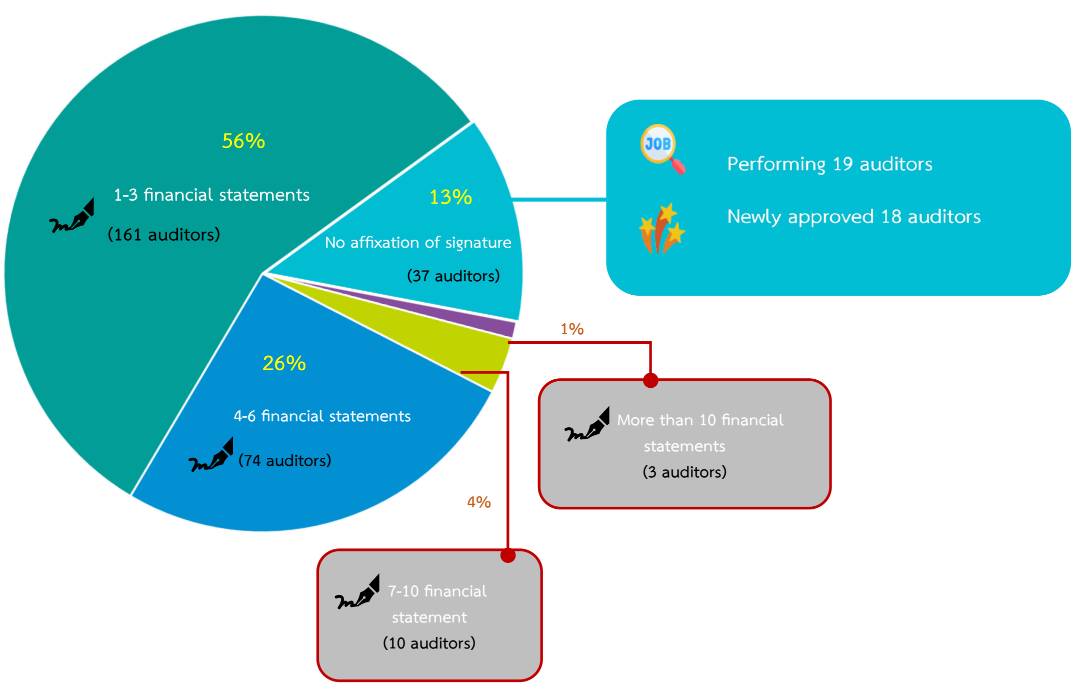


Figure 5: Number of listed companies' financial statements for the fiscal year 2020 onto which individual auditors in the capital market affixed signature in giving opinions in the auditor's report.

The number of listed companies' financial statements for the fiscal year 2020 on which each auditor in the capital market affixed signature in giving opinions, as shown in Figure 5, reveals that most auditors in the capital market (56 percent) signed the auditor's reports of 1-3 financial statements of listed companies for the fiscal year 2020, which approximates to the average ratio of listed companies per auditor in the capital market at the end of 2019, as shown in Figure 3. However, the information above indicates that some auditors in the capital market were appointed to perform audit engagements and sign the auditor's reports of more than 10 financial statements for the year 2020. Such number is significantly higher than the average ratio of listed companies per auditor in the capital market. Therefore, the audit firms to which the auditors are attached should consider the suitability of portfolio allocation to ensure that the auditors have sufficient time to get involved in the key process regularly and supervise audit quality thoroughly. This will drive the audit quality towards a satisfactory level accordingly. In this regard, the audit firms should take into account the workload of each auditor, e.g., the size and complexity of the entities, audit workloads of entities in the same group that each individual auditor is in charge of, the accounting period and the timeframe of financial statements submission, and the workload of other responsibilities of each auditor assigned by the audit firms. In any case, if the auditor holds an excessive workload in overall, he or she may fail to oversee the quality of listed companies' audit engagements thoroughly. Hence, when allocating work to auditors in the capital market, audit firms should ensure that each individual auditor is assigned proper workload by considering his or her capabilities, experience and important factors as mentioned above.

In 2020, there were 37 auditors in the capital market (13 percent) who did not affix signature in giving opinions on the auditor's report of listed companies. This is because some auditors were recently approved by the SEC during the year and thus were not appointed to perform audit engagements for listed companies for the fiscal year 2020. Moreover, some auditors in the capital market were assigned by their audit firms other duties instead of performing audits and affixing signature in giving opinions on listed companies' financial statements, e.g., being an engagement quality control reviewer (EQCR) for audits of listed companies' financial statements, being an auditor for non-listed companies' financial statements, and being responsible for managing and supervising their audit firms' quality control system for various elements.

Number of listed companies audited by the Big 4 firms and Non-Big 4 firms

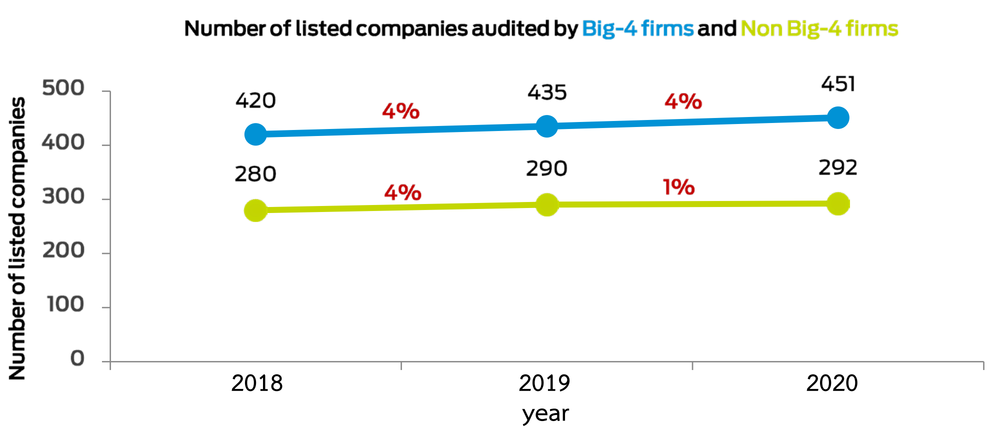
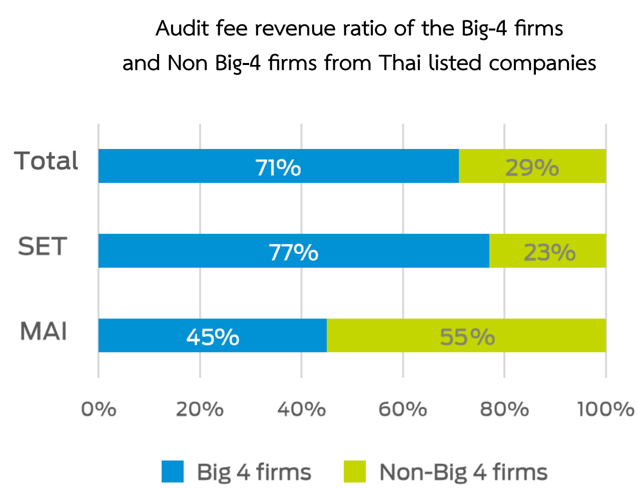


Figure 6: Number of listed companies audited by auditors of the Big 4 firms compared with auditors of Non-Big 4 firms.

Figure 6 indicates that the Big 4 firms accept more audit engagements of listed companies continuously with an average growth rate of 4 percent per year. The Big 4 firms have prepared various resources, both human resources and technology, to support the growing number of audit clients and enable the audits to be more effective and efficient. On the other hand, the increase in the acceptance number of listed company clients of small and medium-sized audit firms ("Non-Big 4 firms") tends to decline, as seen from the increase rate of listed company clients in 2020, which dropped from that of 2018 and 2019. Therefore, over the past year the SEC supported and assisted Non-Big 4 firms in several aspects, e.g., coordinating with the TFAC in supporting audit firms in the capital market in deploying IT infrastructure and IT tools to enhance the effectiveness and efficiency of audit performance, and launching the quality management manual project. Moreover, we provided consultation on accounting, auditing, and audit quality control as well as organized training sessions on knowledge regarding professional standards and practical issues. These efforts aim to strengthen Non-Big 4 firms' competence in various aspects and support their important role in providing audit service to rapidly increasing listed companies in the future.

Audit Fee of Listed Company

Audit fee for audits of listed companies' financial statements for the year 2020[1]



SET-listed companies total audit fee amounted to 1,451 million Baht

- Big 4 firms accounted for 1,112 million Baht or 77 percent.
- Non-Big 4 firms accounted for 339 million Baht or 23 percent.

MAI-listed companies total audit fee amounted to 299 million Baht.

- Big 4 firms accounted for 136 million Baht or 45 percent.
- Non-Big 4 firms accounted for 163 million Baht or 55 percent.

Figure 7: Audit fee ratio for auditing financial statements of SET-listed and MAI-listed companies of the Big 4 firms and Non-Big 4 firms.

[1] Information in this topic refers to the results of the Thai Institute of Directors' Survey on Audit Fee and Service Usage of Audit Firms by Listed Companies in 2020 (http://www.thai-iod.com/th/publications-detail.asp?id=718). The audit fee information above specifically refers to the audit fee of audit firms, excluding the audit fee of subsidiaries.

The Thai Institute of Directors (IOD) has conducted a survey on audit fee and service usage of audit firms by Thai listed companies in 2020. The total 692 listed companies participated in the survey, consisting of 534 SET-listed companies (SET) and 158 MAI-listed companies (MAI). The survey results showed that the audit fee for the year 2020 paid by listed companies[2], both on SET and MAI, amounted to 1,749 million Baht in total. The Big 4 firms accounted for 1,248 million Baht or 71 percent of the total audit fee, and Non-Big 4 firms accounted for 502 million Baht or 29 percent, as seen in Figure 7.

Factors relating to the audit fee

Based on an initial analysis on the information concerning the audit fee of SET50 listed companies for the audit of financial statements for the year 2019 and the company size, the SEC found that the audit fee often directly correlated with the size and the operating results of the companies, as shown in Figure 8, 9, and 10. These figures show that if a company is large, in other words, the total assets, the total revenues and the market capitalization are at a high level, the audit fees of the company tend to be high as well. This is because, generally, auditors determine the audit fee based on the estimated budget hours required to perform the audit, which frequently varies according to various important factors such as the size and complexity of the enterprise as well as the audit risks.

In addition, an analysis on the information on the auditor selection of 399 listed companies during 2014 – 2017, as part of the research on the topic of "Auditor Choices and Audit Fees: Do clients select their audit firms or do audit firms choose their clients?" published in Journal of Accounting Profession of Thammasat University, Volume 44 in December 2018, shows that 37 percent of the listed companies are willing to pay audit fee at a high rate because they believe in the audit service quality of the selected audit firm. However, some listed companies still believe that audit service is a commodity product and therefore consider selecting an auditor based on audit fee only regardless of audit quality. This may adversely affect the capital market as a whole because poor quality financial reports will affect reliability, competitiveness and growth of the Thai capital market[3]. Besides, the fact that listed companies paid less audit fee than it should have been may also result in lower audit quality. This information is consistent with the research results in foreign countries which show that on average high audit fee likely reflects high quality of audit as well.

Audit fee reflects the amount of work or working hours and the expertise of the audit team.[4] Therefore, to establish investors'confidence in the financial reports of listed companies, the management and the audit committee of the companies should select an auditor by taking into consideration the audit quality as reflected in, for example, the auditor's knowledge, expertise and experience in relation to audits of the entity's business, and the inspection results of the audit firm quality control system as shown in the audit firm quality control system inspection report, and the inspection results of the auditor's performance as shown in the letter of approval of auditor in the capital market. In addition, the audit committee should consider whether the auditor is paid at an appropriate fee level to ensure that the auditor has adequate resources to perform quality audit and the financial reports of the companies released to the public truly reflect their financial position and operating results. This will be useful for the users of financial reports in their decision making.

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2 Information on audit fee above refers to audit fee of companies only, excluding audit fee of subsidiaries.

3 Research on " Auditor Choices and Audit Fees: Do clients select their audit firms or do audit firms choose their clients?" by Weerapong Kitiwong, PhD., and Associate Prof. Sillapaporn Srijunpetch, published in Journal of Accounting Profession, Volume 44, December issue, 2018, (http://www.jap.tbs.tu.ac.th/index.php?page=Article-List&sub=1&txt=528).

4 Research on "What do we know about audit quality?" by Jere R. Francis, published in the British Accounting Review, Volume 36, Issue 4, December 2004, Page 345 – 368.

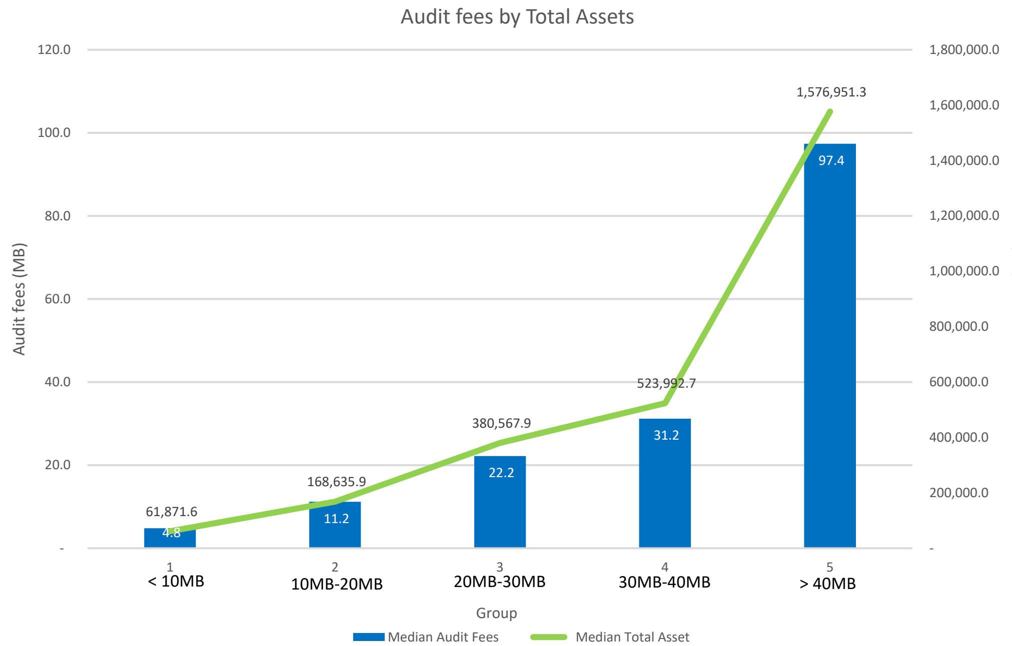


Figure 8: Audit fees of SET50 listed companies for the year 2019 compared to the total assets.

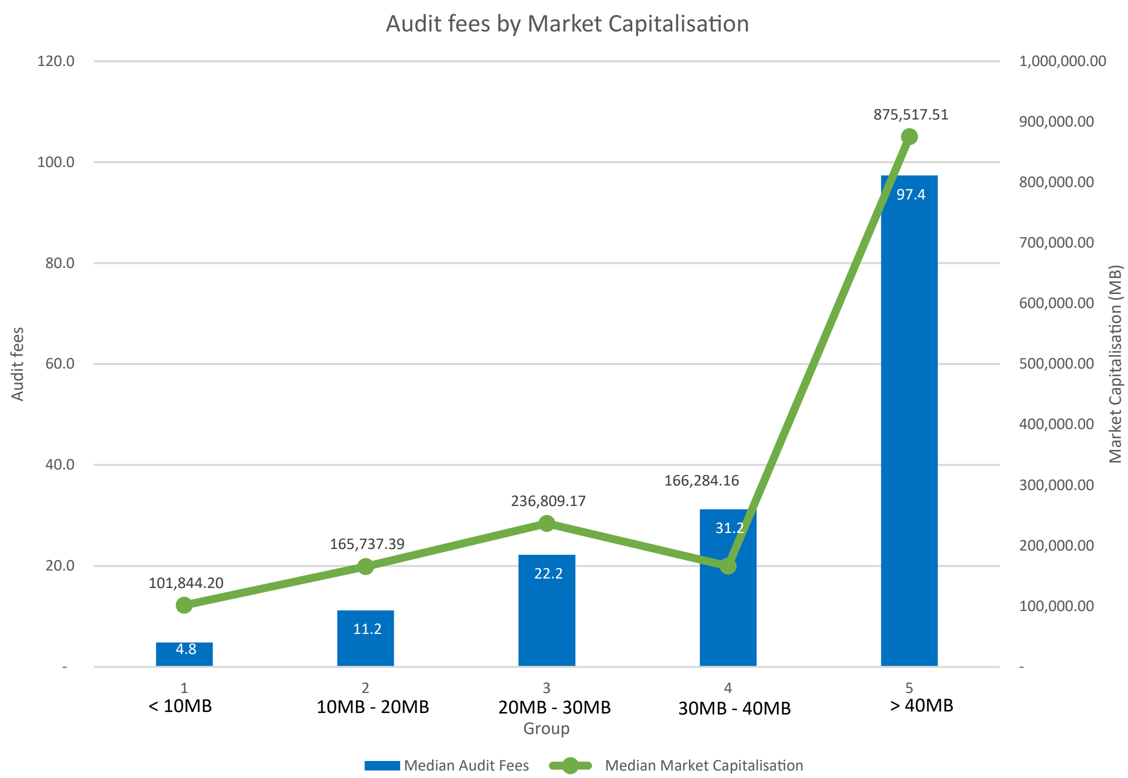


Figure 9: Audit fees of SET50 listed companies for the year 2019 compared to market capitalization

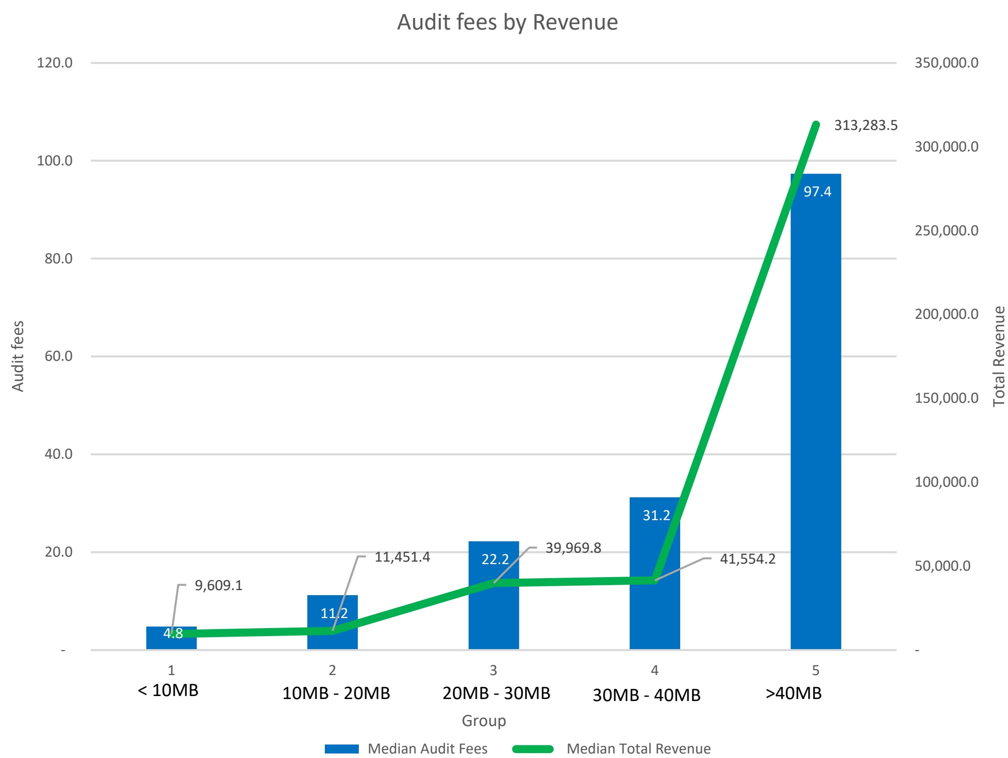


Figure 10: Audit fees of SET50 listed companies for the year 2019 compared to total revenue

Statistical Data as Audit Quality Indicators ("AQIs")

AQIs are useful statistical data for the audit firm initial quality assessment. Taking into account AQIs together with other in-dept information, the audit firm's management is able to analyze and identify risk factors that may affect audit quality. Hence, the audit firm can explore preventive measures or problem-solving solutions in a timely and accurate manner. AQIs are not only useful for the audit firm to use as supporting information in the audit firm's presentation of the quality control system to the audit committee, but they are also useful for the audit committee in initiating inquiry about the quality of the audit firm when selecting an appropriate auditor for the company.

A higher or lower AQIs numbers, when compared with other audit firms, may not lead to the conclusion that the audit firm has higher or lower quality than their peers because too high or too low AQIs numbers may be caused by relevant factors varying from firm to firm. Thus, AQIs should be considered in conjunction with other relevant factors in an audit firm quality assessment because AQIs alone cannot conclude the quality of the audit firm.

Examples of AQIs are partner portfolio allocation, audit hours of senior members of the audit team, auditing experience of partners and audit staff, turnover rate, audit staff supervision (audit staff per partner and audit staff per manager ratio), and number of training hours for staff in each level. Some of the AQIs are described further in the audit inspection results – engagement level section. AQIs pertinent to human resources of the audit firm in the capital market, which are crucial factors for promoting audit quality, are as follows:

Audit experience and staff turnover rate

The average years of experience of staff in each level may reflect an audit firm's overall capacity and human resource readiness. Audit quality tends to increase when the audit team members have more audit experience. If the audit firm has employees with long, diverse audit experience in complex areas, the audit team will have adequate audit expertise and sufficient professional skepticism to appropriately determine the substance of complex transactions or transactions requiring discretion. However, the audit quality assessment should consider the average audit experience of staff in each level along with in-depth analysis at the engagement level. Audit quality will be attained when the audit firm assigns work suitable for the level of knowledge, competence and experience of the audit team, allocates sufficient time to support quantity and complexity of work, conducts adequate review and supervision on engagement performance of the staff with more audit experience, and organizes knowledge development training for staff on a continued basis.

Turnover rate demonstrates the ability of the audit firm to retain knowledgeable, competent, and experienced staff in audit work with the audit firm. When the turnover rate is higher than the audit firm's expectation without a replacement of staff with equivalent knowledge and experience, it might somehow have an impact on the audit quality. In the consideration of audit quality, statistical data on the turnover rate should be analyzed in combination with other AQIs and surrounding contexts of each audit firm. Additionally, root causes analysis on the staff resignation at each level should be performed. Normally, the resignation of highly experienced staff is more likely to affect the audit quality than that of less experienced ones.

In 2019 and 2020, the SEC found that the average years of experience of partners, managers, and senior and junior staff of audit firms in the capital market were 25, 12 and 3 years respectively, as illustrated in Figure 11, which approximated to the average years in the previous inspection cycle (2016-2018). However, the average turnover rate of staff in audit firms in the capital market, as presented in Figure 12, reveals in overall a relatively high turnover rate (21 percent) in 2019 and 2020, similar to the average turnover rate in the 3rd inspection cycle (22 percent). Moreover, the average turnover rate of staff in the Big 4 firms also increased from 15 percent in the 3rd inspection cycle to 20 percent in 2019 and 2020. The above facts indicate that a retention of competent and capable staff is always a challenge for all audit firms in the capital market although over the years the audit firms in the capital market have rolled out numerous initiatives in an effort to maintain their staff with the organization in the long run. Such initiatives include defining a clear career path, establishing fair and attractive compensation plans, and improving working styles and environment to better fit the needs of the vast majority of new generation staff. Therefore, every audit firm in the capital market still have to seek ways and adjust strategies to attract and retain knowledgeable and competent staff to work with the audit firm in the long term, e.g., deploying technology to assist in audit performance to improve working efficiency, and reducing the amount of routine tasks and/or tasks that do not require professional judgement to make audit work more challenging and responsive to the needs of young generation staff who also prefer a work-life balance.

Figure 11: Average experience years of staff in each level in 2019 and 2020

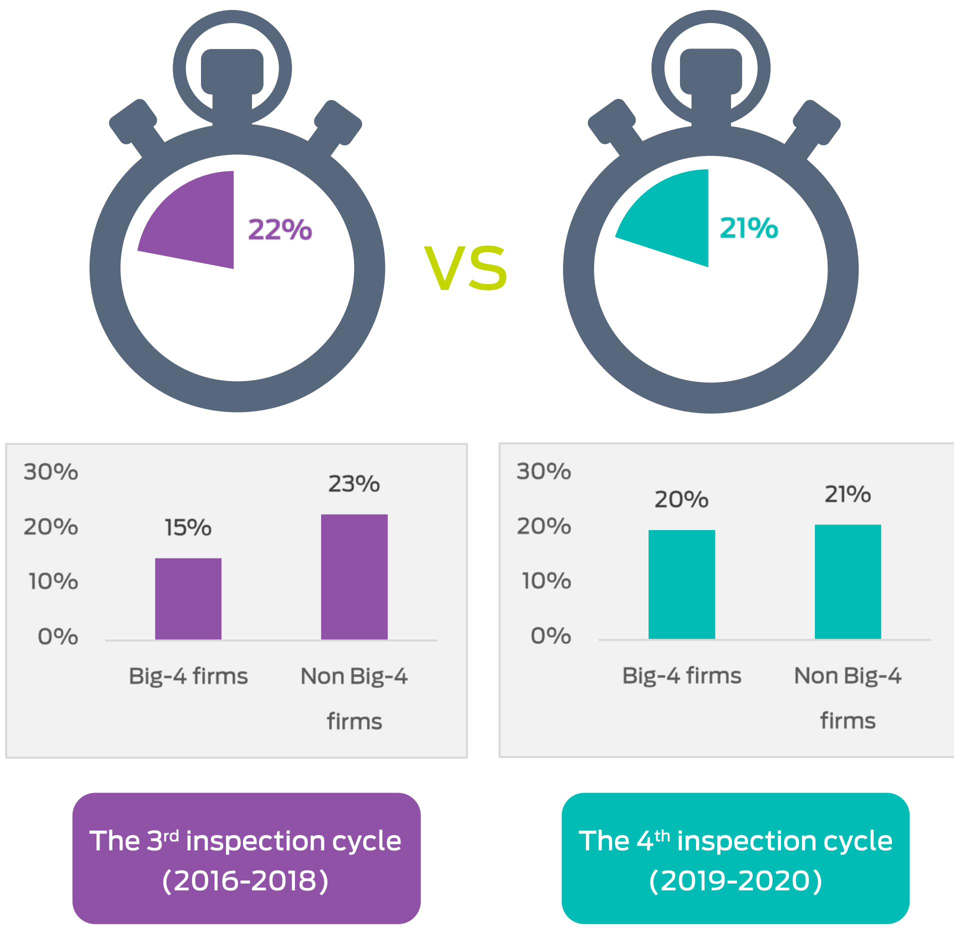


Figure 12: Turnover rate of audit firms in the capital market in the 3rd and 4th inspection cycles, grouped by type of audit firms

Supervision of audit staff

The number of audit staff per partner (staff per partner ratio) and the number of audit staff per manager (staff per manager ratio) reveal the extent to which experienced senior auditors are able to supervise the performance of inexperienced auditors. The audit quality tends to increase when the staff per partner ratio and the staff per manager ratio are low because engagement team members with less experience are supervised, advised, and closely controlled by those with more experience.

The staff per partner ratio and the staff per manager ratio in Figure 13 reveal that, in 2019 and 2020, the overall staff per manager ratio of audit firms in the capital market was close to the ratio in the 3rd inspection cycle, while the overall staff per partner ratio of audit firms in the capital market decreased compared with the 3rd inspection cycle. The reason was partly due to the relatively high average turnover rate of staff in the assistant level and the increase in the promotion rate of manager to the partner level. However, the appropriate staff per partner and staff per manager ratios may vary from firm to firm, depending on numerous factors, e.g., management system, the use of technology to assist in audit work, procedures for managing human resources, as well as the size and complexity of engagements. This can be seen in the significant difference between the staff to partner ratio of the Big 4 firms (25) and that of Non-Big 4 firms (11). Additionally, an in-depth analysis on these statistical ratios should be performed at the audit engagement level to figure out the level of involvement in engagement of highly experienced partners and managers, together with audit experience of staff in each level. For example, in case there are a few partners in the audit firm but most of the staff at the lower level have many years of experience, the risk of audit quality may be lower than the case where the majority of non-partner staff are newcomers.

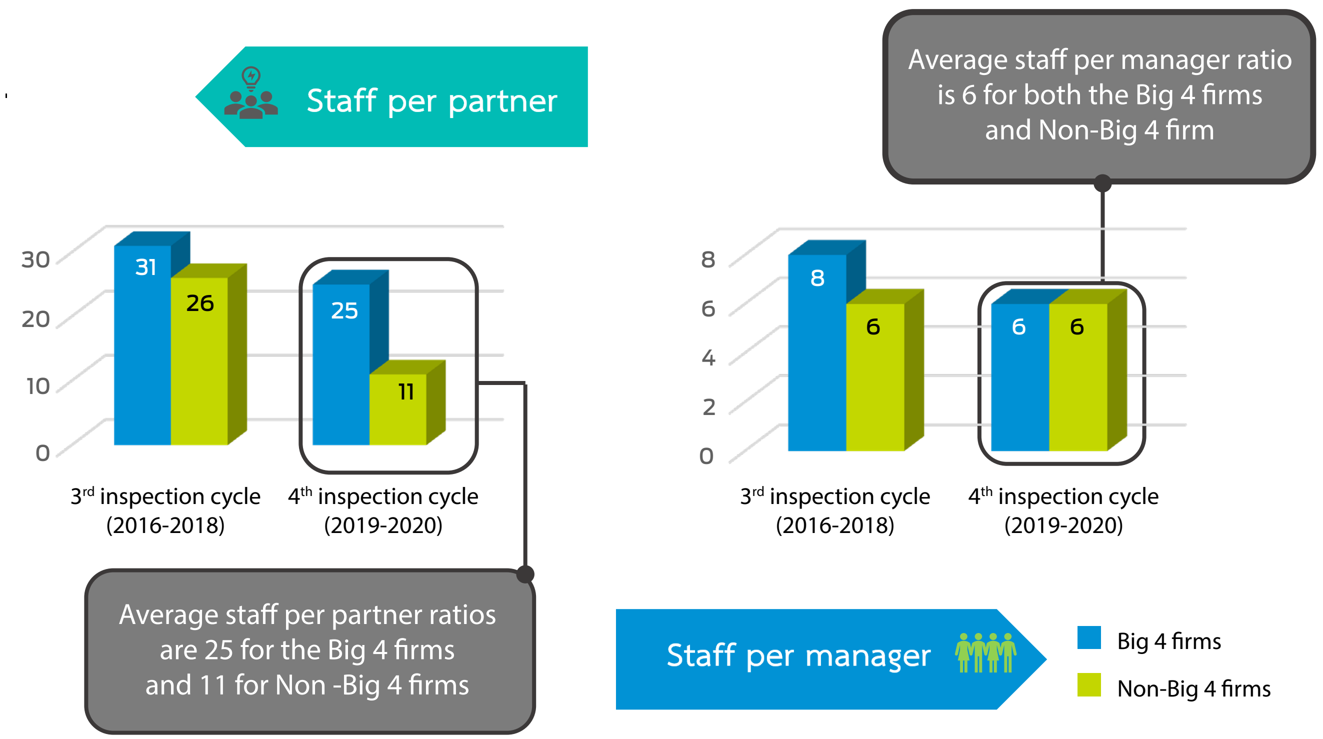


Figure 13: Staff per partner ratio and staff per manager ratio, grouped by type of audit firm

Organizing training sessions for staff in each level

Organizing adequate, appropriate and consistent training sessions for staff in every level is an important factor that ensures that audit firms will be equipped with skilled, knowledgeable, and competent staff to perform quality audit engagements in accordance with the same standard. In the past, the SEC found that in overall audit firms in the capital market gave a priority to regular arrangement of training sessions for staff in every level, as seen in the fact that the number of training hours for staff in each level exceeded the minimum requirement of 40 hours set out by the TFAC.

Figure 14 reveals that, in 2019 and 2020, audit firms in the capital market (both the Big 4 firms and Non-Big 4 firms) provided more training to their staff in each level than in the previous inspection cycle, especially training on newly issued professional standards, such as the Thai Financial Reporting Standards 15 - revenue from contracts with customers, the Thai Financial Reporting Standards 16 – leases, and Thai Financial Reporting Standards relating to financial instruments, etc. The training sessions also included risk assessment guidelines and procedures for response to risks arising from the COVID-19 pandemic crisis, e.g., assessing and responding to the risks of material misstatement due to fraud, auditing of impairment of assets, and going concern. Additionally, some audit firms also introduced staff training sessions in the form of virtual/online classroom, enabling all staff to access the training and promoting more effective and efficient interaction among participants during the severe situations of the COVID-19 outbreak.

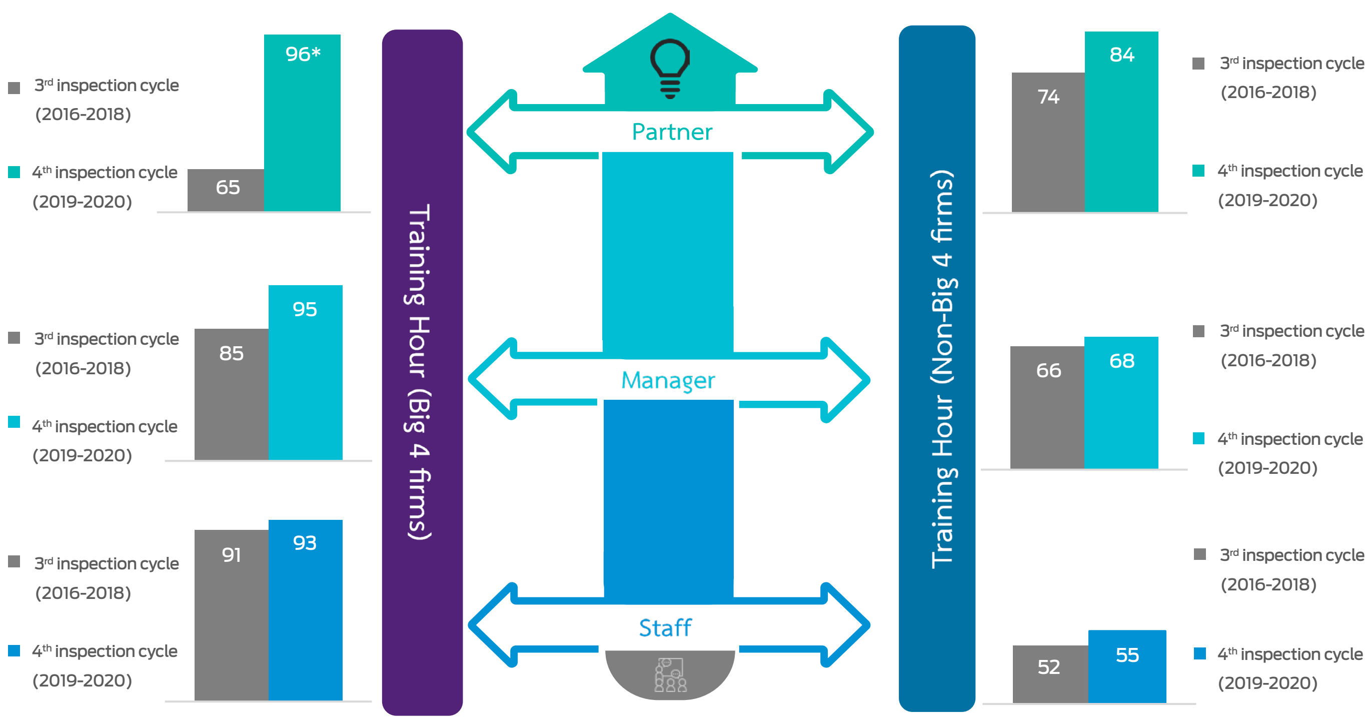


Figure 14: Number of training hours for staff in each level

Summary of Audit Inspection Result

A. Firm Level

Audit firms play a crucial role in propelling the quality of audits. Adequately and appropriately supporting and establishing resources in all aspects as well as putting priority on a thorough quality control of their auditors' performance will ensure that auditors are capable to perform their work in accordance with professional standards and relevant ethics. A good quality control will assist in reducing errors in their auditors' performance, resulting in greater accuracy of financial reports which provide important information used by financial statements' users to make well-informed investment decisions. Consequently, the SEC has placed great importance on a regular inspection of quality control system of audit firms in the capital market from the 1st inspection cycle (2010-2012) to 2020, which was the second year of the 4th inspection cycle. Overall, the SEC found that audit firms in the capital market have displayed a continuous improvement in their quality control systems. Currently, the majority of audit firms in the capital market (86 percent) are rated "Acceptable to Very good" for their quality control system assessment. The proportion of audit firms in the capital market with the assessment rating "Good to Very good" is 51percent, as illustrated in Figure 15.

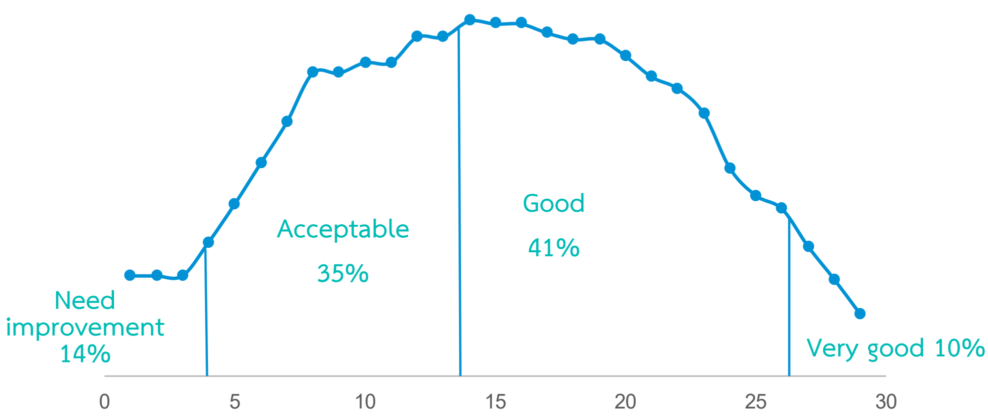


Figure 15 Latest quality control inspection results of 29 audit firms in the capital market

In 2019 and 2020, we inspected quality control systems of 25 audit firms: four Big-4 firms, 18 small and medium-sized firms, one small-sized audit firm which was inspected for the first time, and two audit firms that failed to meet the criteria for audit firms in the capital market. We found that most audit firms in the capital market have remediated deficiencies in their quality control systems in accordance with the SEC's suggestions, especially improving audit manual, audit program, and forms used in audits to be clearer and in line with current auditing standards. Monitoring process has also been enhanced to be more efficient and effective by improving monitoring program to cover significant matters, and determining sampling criteria and monitoring frequency more appropriately. Root cause analysis and remediation plan were done in a more detail-oriented and effective way. When comprehensively consider inspection results of 2019 and 2020 together with a proportion of each audit firm's listed company audit clients, the frequency for each audit firm's inspection as per the risk-based inspection approach is outlined in Figure 16.

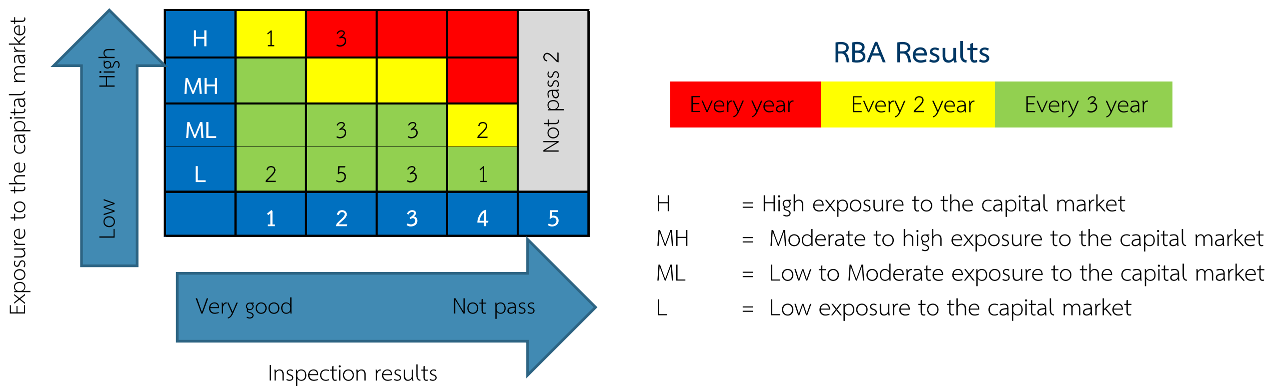


Figure 16 Frequency of each audit firm inspection as per the risk-based approach

Audit firm	Number of inspected firms	Rating "Very good"
Big 4 firms	4	1
Non-Big 4 firms	21	2

Overall result of quality control inspection of audit firms reveals that previous findings were remediated and rectified. In 2019 and 2020, three audit firms in the capital market attained "Very good" rating, two of which are non-Big-4 firms. However, the inspection results of quality control system, weighted average by total market capitalization of audit clients for each element for the year 2019 and 2020, are almost on par with the average score of the 3rd inspection cycle (2016-2018), as shown in Figure 17. In 2019 and 2020, the SEC enhanced the audit firm quality control system inspection in each element to be more intensive, as described in the followings, in order to drive towards better development in quality control system of audit firms in the capital market. Furthermore, in 2020 there was an outbreak of the coronavirus disease (COVID-19) in most countries including Thailand. Audit firms have deployed technologies to continually improve quality control system and maintain quality in performing audits. For instance, staff training was held via virtual/online classroom which enabled all staff to access the training as well as efficiently and effectively participate in class; VDO call was also used in stock count observations.

	Leadership Responsibilities	Ethical Requirements	Client Acceptance and Continuance	Human Resources	Engagement Performances	Monitoring
2019 and 2020	1.42	1.70	1.87	1.03	2.19	1.72
3rd inspection cycle	1.38	1.40	1.60	1.06	2.36	1.41

Figure 17 Weighted average inspection results of quality control system by total market capitalization of audit clients, grouped by elements in TSQC 1 in 2019 and 2020 and compared to results of the 3rd inspection cycle (2016 - 2018)

When considering the inspection results in 2019 and 2020 grouped by elements in TSQC 1, as shown in figure 18, it is revealed that all audit firms attained "Acceptable" to "Very good" rating in acceptance and continuance of client relationships and human resources elements. Most of them were rated 75 percent and 92 percent for "Good" and "Very good", respectively for inspection results in those elements. In addition, most audit firms (more than 70 percent) were rated "Acceptable" to "Very good" in other elements including leadership responsibilities, ethical requirements, engagement performance, and monitoring. The aforementioned fact confirms that audit firms in the capital market have continuously placed great importance on enhancing their quality control systems which will promote the quality audits along with strengthen the trustworthiness of the Thai capital market's financial reporting system.

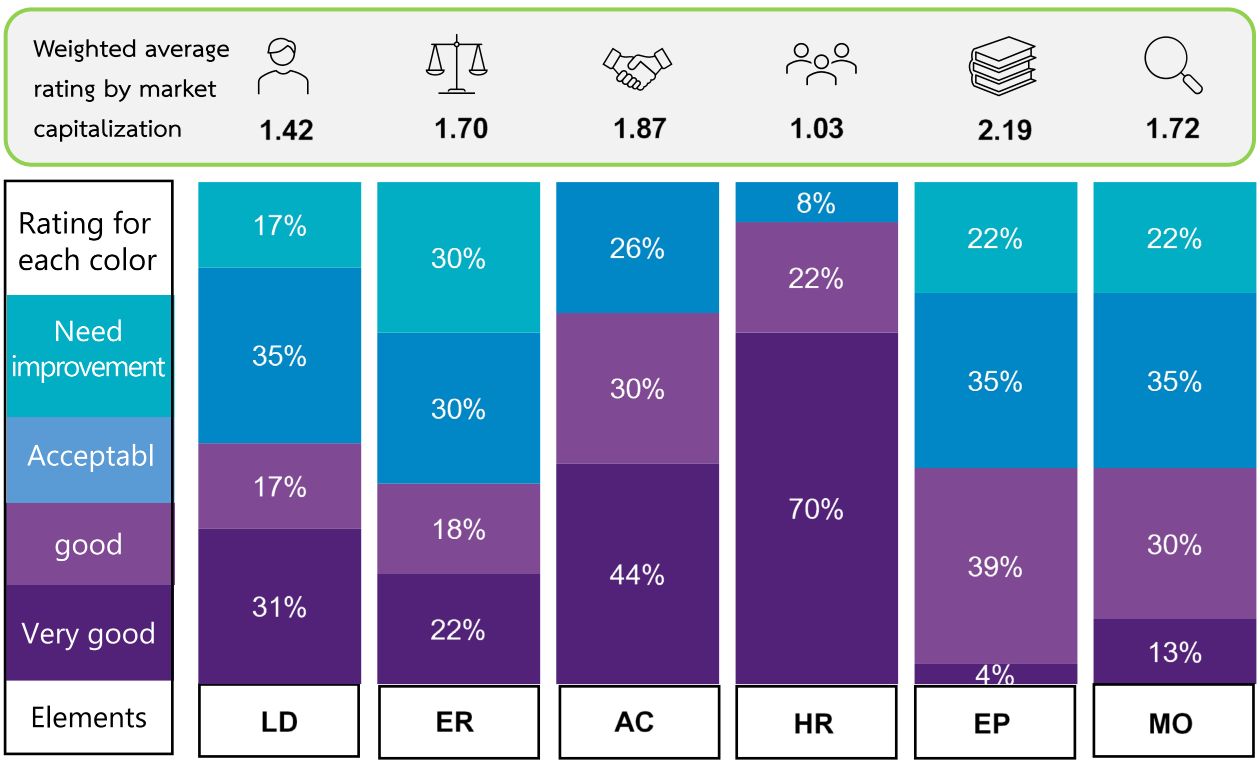


Figure 18 Percentage of audit firms, grouped by rating in each element of TSQC 1 for 2019 and 2020

However, in 2019 and 2020 inspections, the SEC identified some recurring findings in various elements, as detailed in Figure 19. Therefore, the SEC provided recommendations to improve quality control systems in each element, so audit firms can take them into account for better improvement and development of the audit firms' quality control systems.

LD

- Partner evaluation and renumeration
- Inadequate personnel in partner level
- Communication on quality and establishing culture within the firm, which encourages employees' awareness on quality

ER

- key audit partner rotation
- Policies and procedures in case that the professional fees generated from an audit client represent a large proportion of the revenue from professional fee of the firm (fee dependency)
- Self confirmation on compliance with ethical requirements and disclosure of relevant information

AC

- Risk assessment in audit client acceptance
- Procedures for acceptance and continuance of client relationships

HR

- Staff compensation and promotion

EP

- Completeness of audit manual, audit program, and forms used in audit
- Engagement quality control review
- Completeness of archived files

MO

- Completeness of monitoring program
- Criteria for monitoring assessment
- Root cause analysis, remediation plan preparation, and deficiency alleviation follow-ups

Figure 19 Recurring observations in each element from inspection in 2019 and 2020

1. Leadership Responsibilities for Quality within the Firm

> The audit firm leader is a highly important person in establishing organizational culture that quality is the first priority in performing audits.

In the 4th inspection cycle, the SEC places importance on the succession plan and staff retention plan to ensure that all audit firms could maintain adequate quality workforce. The SEC found that most audit firms have initiated succession plan for partners who will retire in the near future to ensure that the overall operation of the firms will continue without any disruption and audit quality will not be affected, as described in Figure 16. In the chapter "Auditing Landscape in Thailand", it is worth noting that in 2020 there were 35 new auditors aged between 30-49 applied for approval as auditors in the capital market. This results in a decrease in the proportion of auditors who will be retiring shortly, which partly relieves the shortage of auditors.

The SEC, moreover, puts priority on the role of the audit firm's leader in establishing sufficient quality control reviewing personnel e.g., those who account for audit firm's quality control system, technical committee, those who keep abreast with changes in professional standards and regulations, and monitoring team. The SEC also put emphasis on inspecting the appropriateness of partner remuneration to ensure that the compensation structure and criteria place significance on partner's performance according to the assigned role and responsibilities of individual partner. The inspection results revealed that some audit firms have adjusted criteria for partner remuneration to be clear enough for driving partners' quality performance. Furthermore, in 2020, the SEC places importance on preparing for International Standard on Quality Management (ISQM 1), which will become effective for the audits of financial statements starting from 15 December 2022 onwards, to ensure that all audit firms in the capital market have adequate systems and resources to accommodate effective implementation of ISQM 1. Most Big-4 firms have been preparing for adopting ISQM 1 in the future, some of which have already been in an early adoption. Non Big-4 firms, on the other hand, have cooperated with Federation of Accounting professions to prepare Non Big-4 firms, especially local firms for ISQM 1 adoption in various areas, e.g., developing manuals for audit firms quality management, organizing training and workshop, and pushing the adaptation of such manuals among local firms to fit the individual firm' context when ISQM 1 comes into effect.

In 2019 and 2020, the SEC acknowledged the determination and willingness of audit firms' leaders in enhancing quality control system in several firms. These included the effort in establishing organizational culture that put quality in the first priority and reinforcing employees to continually conform to the quality control system; improving and developing quality control systems according to the SEC's suggestions, e.g., improving audit manuals, audit programs, and audit forms; improving quality control monitoring programs at both firm level and engagement level; conducting root cause analysis and formulating efficient and effective remediation plans for deficiencies. These enabled two small-sized audit firms to attain "Very good" rating, which reflected an exemplary firm for the others.

Nonetheless, from audit firm quality control inspections in 2019 and 2020, the SEC identified observations in leadership responsibility element as detailed below.

1) Partner performance evaluation and partner remuneration

Observations	Recommendations for improvement
• Some audit firms did not comprehensively take monitoring result, both internal and external, into consideration for partner performance evaluation. • There was no clear linkage between partner remuneration and quality of their performance.	• Taking internal and external monitoring results into consideration for partner performance evaluation will reflect the quality of their performance as well as reinforce them to constantly emphasize on performance quality. • The basis for partner remuneration which has a clear linkage with performance quality will persuade partners to perform with quality, e.g., establishing profit sharing basis for partners by relying on their performance, considering audit quality rather than business profit. In case of other partner compensations without linkage with audit quality, for example, compensation for signing auditor's report, the proportion of such kind of compensation should not be too significant to induce an interest to sign excessively, disregarding the quality of audits.

2) Adequate personnel in partner level

Observations	Recommendations for improvement
• The number of personnel in partner level in some audit firms is not sufficient, compared to the number of listed companies audit clients. Also, in some audit firms there is a lack of staff in charge of overseeing the quality control system of the audit firm, technical committee, staff in charge of keeping pace with changes in professional standards and regulations, and monitoring team. The lack of these personnel affects overall audit quality.	• The audit firms should consider, when accepting audit clients, the workload and complexity of engagements to the extent that they are capable to perform quality audits in accordance with professional standards. In so doing, partners have sufficient time to perform quality audits in accordance with professional standards. • Aside from partners in charge of performing audits, the audit firm should consider establishing adequate personnel who oversee audit quality control system and support quality audits.

3) Communication on quality and establishment of culture within the firm to raise employees' awareness of quality

Observations	Recommendations for improvement
• The SEC has found the recurring observations as in the previous inspection cycle, revealing that some audit firms have not rectified and sufficiently communicated the issues sufficiently.	• The audit firm leader should place importance on improving policies and procedures for quality control in each element by conducting root cause analysis of deficiencies to determine precise remedial actions, along with to prioritize the deficiencies and constantly resolve them. Communication to employees regarding the improvement of policies and procedures for quality control should be made in an effort to create an understanding towards policies and procedures to perform their works in accordance with the audit firm's quality control policies. In addition, the firm should assign the role of overseeing a constant compliance with policies to experienced staff who have adequate time. Experts in diverse fields should also be available in order to rectify deficiencies concerning audit quality.

2. Ethical Requirements

Audit firms and auditors' compliance with relevant ethical requirements is the heart of audit profession.

In this 4th inspection cycle, the SEC places importance on maintaining independence and client's confidentiality by uplifting the intensity of inspection on non-audit services rendered to audit clients, key audit partner rotation, and data security of electronic information. Furthermore, in 2021, the SEC will highlight the inspection on a collaboration in responding to the letter of communication from the successor auditor.

The audit firm should pay attention on considering and verifying the types of non-audit services rendered to audit clients whether they create any threat to an auditor's independence. Those threats might be self-review threat, self-interest threat, and advocacy threat, especially in case that the ratio of fees from non-audit services to audit fee is significantly high. The audit firm should consider whether such fees create self-interest threat and impact the independence in performing audits.

Interesting statistics

Half of listed companies in "SET50" group have a ratio of non-audit fees to audit fee between 0-10 percent, and 6 percent of SET50 listed companies have a ratio of non-audit fee to audit fee more than 100 percent

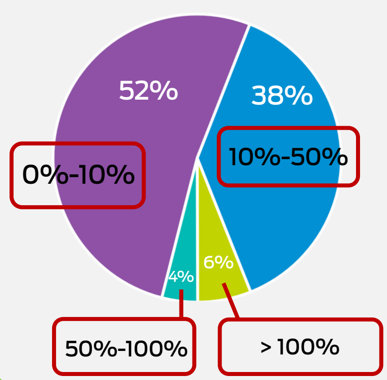


Figure 20 Ratio of non-audit service fee to audit fee in 2020 of SET50 listed companies

Interesting statistics

	3rd inspection cycle (2019-2020)	4rd inspection cycle (2019-2020)
Big 4 firms	19%	12%
Non-Big 4 firms	1%	3%
Overall	15%	10%

Figure 21: The average proportion of non-audit fees from listed companies audit clients to audit fees for the 3rd inspection cycle (2016-2018), compared with 2019 and 2020, grouped by type of audit firms

Furthermore, considering a ratio of non-audit fee to audit fee of Big-4 firms, compared with that of Non Big-4 firms for the year 2019 and 2020 as described in Figure 21, it is noted that Big-4 firms have a ratio of non-audit fee to audit fee at 12 percent, which is somewhat higher than that of Non Big-4 firms (3 percent). In the past, the SEC therefore placed great importance on non-audit fee consideration and substance of non-audit services of Big-4 firms.

Moreover, the SEC requires listed companies to disclose information about the types and scope of non-audit service on the form "56-1 One Report" in addition to the previous requirement in which only the amount of non-audit fee is disclosed. This will be effective on the submission for the year ended 31 December 2021, to establish a transparency and benefit financial statements' users in assessing the independence of auditors in performing audit.

In terms of key audit partner rotation, many audit firms in the capital market have continually been increasing the number of auditors in the capital market to be 4 persons or more, to comply with auditor rotation requirement as set out in the Code of Ethics. Consequently, in 2020, the majority of audit firms in the capital market (22 out of 29 firms, or 76 percent) have more than four auditors in the capital market, as illustrated in Figure 22. This number increases from the year 2018 (61 percent) and the year 2019 (69 percent), respectively. However, during the inspection in 2019 and 2020, the SEC identified observations regarding key audit partner rotation and relevant database storage in some audit firms as detailed in the followings.

Figure 22: Proportion of audit firms in the capital market which have 4 auditors or more, as of end of the year 2018-2020

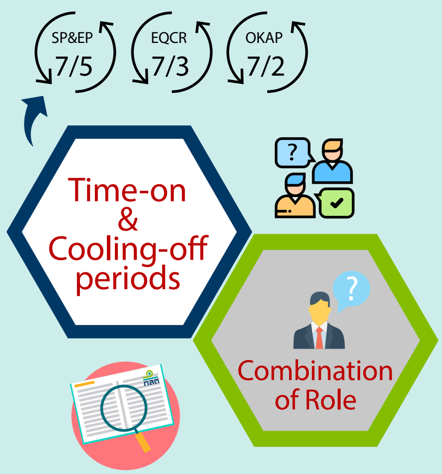
In addition, the SEC gives precedence to maintaining client confidentiality such as properly assigning access right to audit engagements in audit firms' database by restricting access rights to only those required to access the data; maintaining and protecting audit clients' information in accordance with Personal Data Protection Act, B.E.2562 (2019), which will come into force on 1 June 2021. This ensures that those data will be used on appropriate purpose and securely maintained. In 2021, the SEC will highlight the inspection on a collaboration in responding to the letter of communication from the successor auditor because previously the SEC found that in many cases the successor auditor did not receive reply letter concerning professional reasons from the predecessor auditor, although such information is important for the successor auditor in assessing risk when accepting new clients. Auditors should collaborate with peers in the profession by providing accurate, complete, and factual information about professional reasons that should be taken into consideration when accepting an engagement, as required by professional standards.

From the audit quality control inspections in 2019 and 2020, the SEC found the observations in ethical requirement element, as follows.

1) Key audit partner rotation

Observations	Recommendations for improvement
• Some audit firms did not clearly determine the definition of "other key audit partner". As a result, the database used for considering auditor rotation is not accurate and complete. In addition, audit firms did not clearly state the method to calculate the length of service period serving the role as key audit partners, in which the service period for serving as all different types of key audit partner roles should be taken into account.	• Audit firms should clearly determine the definition of "other key audit partner" and how to calculate the length of time of service period serving the role as key audit partner, in which the total service period serving all different types of key audit partner roles be counted. Also, they should create the database for such rotation data. In case that a cooling-off period of a key audit partner is shorter than the requirement as set out in a policy, years of service should be counted consecutively from the last time of service.

Observations	Recommendations for improvement
• Some audit firms determined policy on key audit partner rotation for only listed companies, not including public interest entities: PIEs.	The purpose of this is to make sure that partners and those in charge of partner rotation have the same understanding and to mitigate the risk that a key audit partner rotation database is not accurate and incomplete • Audit firms should establish policies and procedures with regard to key audit partner rotation to cover PIEs, by determining the definition of PIEs to cover entities specified by TFAC, e.g., non-listed public companies, entities whose core business is assets custodian of a broad public such as financial institutions, life and non-life insurance companies, and securities companies.



2) Policies and procedures in case that audit fee received from any individual client represents a high portion, compared with the audit firm's total professional fee (fee dependency)

Observations	Recommendations for improvement
• Some audit firms did not set a guideline for actions to be taken when audit fee received from any individual client is higher than 15 percent of total revenue for two consecutive years.	• The audit firm should set a policy and procedures in case that audit fee from any individual client represents more than 15 percent of total revenue, for two consecutive years, as set out in the code of ethics. The audit firm has to disclose such fact to those charge with governance and discuss about safeguards to mitigate self-interest threat or familiarity threat to acceptable level. In doing so, the firm shall engage external personnel to perform engagement control review prior to or after the issuance of auditor's report.

3) Confirmation on compliance with ethical requirements and relevant disclosures

Observations	Recommendations for improvement
• Some audit firms require their staff to sign letter of confirmation on compliance with ethical requirements and relevant disclosure of themselves, immediate family, and close family, e.g., information about financial securities and positions held in other companies, to use for the consideration of independence and conflict of interest. Such requirements are not determined to apply for directors, shareholder, as well as those who are non-staff but have a connection with an engagement (e.g. advisor, external expert). They are not required to sign letter of confirmation on compliance with ethical requirements and relevant disclosur of themselves, immediate family, and close family. • In some cases, it was found that staff do not completely disclose information about financial securities or positions held in other companies.	• The audit firm should require its directors, shareholders and those who are non-staff but have a connection with an engagement to sign letter of confirmation on compliance with ethical requirements and to accurately and completely disclose relevant information of themselves, immediate family, and close family to the extent of their knowledge. In addition, the audit firm should communicate policies and procedures to staff at all levels and relevant parties in order to establish the same understanding. • The audit firm should randomly verify the completeness of the disclosure of staff's information about their financial securities and positions held in other companies, e.g., verifying with Business online (BOL) database

3. Client Acceptance and Continuance of Client Relationships

Process of acceptance and continuance of client relationships is important for audit firms in considering risk of audit clients along with workloads and complexity of engagements, compared with an adequacy of expertise and time resources in performing audits. This is to ensure that auditors and audit teams will perform quality audit, as required by professional standards. In the 4th inspection cycle, the SEC focuses on audit firms' emphasis on assessment of audit clients in terms of accounting personnel, accounting system, and internal control system, in risk assessment process when accepting engagements. This is because such assessment is a fundamental factor that aid the audit firms in ensuring that audit clients will prepare quality financial reports in accordance with relevant financial reporting standards. The results of audit firms' quality control system inspection in 2019 and 2020 reveal that the SEC still identified deficiencies in Client Acceptance and Continuance of Client Relationships element, as outlined below.

1) Risk assessment in accepting audit engagements

Observations	Recommendations for improvement
• In case of accepting group company audit engagements (comprising parent company, subsidiaries and/or associated companies), the audit firm assessed risk for the overall group company, without any requirement to assess risk for each company in the group. • The audit firms put equal weight to each factor considered in the risk assessment process as part of client acceptance procedures, regardless of the importance for each factor. Qualitative factors were not also taken into consideration.	• The audit firm should require that the risk assessment be separately performed for each company in the group, to reflect true risk of individual entity. As a result, the audit firm will be able to design audit procedures that appropriately response to identified risks. • The audit firm should establish guideline in assessing risks for client acceptance, by emphasizing on certain topics, e.g., management's dishonest behavior, significant issues identified in predecessor auditor's report. It is worth noting that even an issue concerning these certain topics alone might lead to the high level of overall risk. In this regard, different weight given to each factor by importance will help reflect the true risk of the risk assessment result.

2) Process of acceptance and continuance of client relationships

Observations	Recommendations for improvement
• issuing engagement letter before receiving professional clearance from predecessor auditor	• In case that a professional clearance from predecessor auditor has not been received yet, the audit firm should clearly specify the policy and guidelines regarding actions to be taken in order to sufficiently obtain essential information concerning ethical requirements in accepting audit engagements, and ensure that those who approve a client acceptance acknowledged all reasons or circumstances relevant to the potential engagements in due time before approving the client acceptance and issuing an acceptance letter to audit client.

4. Human Resources

An adequacy of the audit firms' competent personnel will reinforce the overall audit quality. Audit firms should continuously give importance to skill and expertise development of staff at all levels.

Figure 23 shows that the score of human resources element directly correlates to that of engagement element. Specifically, audit firms with good rating in human resources element would potentially obtain good rating in the engagement performance as well. Hence, in the 4th inspection cycle, the SEC places greater importance on staff training for knowledge development, especially adapting training course to fit with the audit firm's context and level of individual's knowledge. For example, training on financial reporting standards relevant to findings identified by monitoring team or the SEC and training on knowledge regarding professional standards that will come into effect soon.

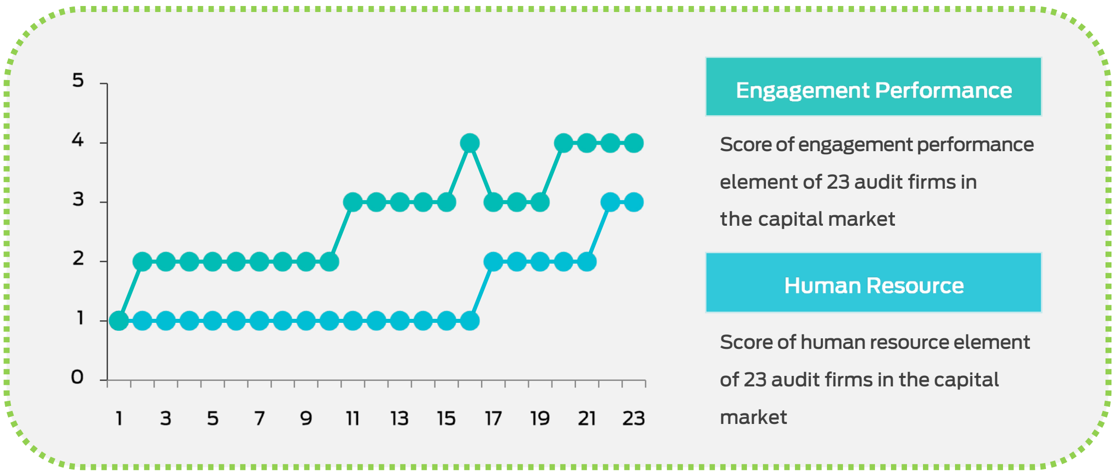


Figure 23 Inspection rating on human resources and engagement performance element of 23 audit firms for the inspection cycle in 2019 and 2020

From quality control inspection in 2019-2020, the SEC found that most audit firms had remedied observations according to the SEC's suggestion. Only findings with regard to staff compensation and staff promotion in some audit firms were found.

Staff compensation and staff promotion

Observations	Recommendations for improvement
• Salary increase, bonus payout, and staff promotion were not consistent with the result of performance evaluation.	• The audit firms should consider increasing salary, paying bonus, and promoting their staff in accordance with the result of performance evaluation. In case that there is a supportive reason for changes made to the result, such reason should be clearly recorded. Moreover, the audit firms should communicate policies and performance evaluation criteria to appraiser and all staff in the firm, creating employees' trust in a transparency and fairness of evaluation process and compensation determination as well as persuading staff to focus on audit quality.

5. Engagement Performance

Audit firms where policies, procedures in support of engagement performance, audit manual, audit program, and forms used in performing audits are well established can ensure that their auditors and audit teams will have guideline and tools to assist in performing quality audit in accordance with professional standards and relevant legal requirements.

In 2019 and 2020, several audit firms improved their audit manual, audit program, and forms used in performing audit to be more complete and clearer. This can be substantiated by the fact that the rating of engagement performance element for the year 2019 and 2020 improved from rating from 3rd inspection cycle, as illustrated in figure 17. However, overall inspection score of engagement performance in 2019 and 2020 are still higher than ratings of other elements. The above fact suggested that audit firms still had rooms for improvement on policy and procedures, especially more detailed elaboration of audit manual, audit program, and forms used in audits, and adequacy and appropriateness of partner and EQCR involvement. During the 4th inspection cycle, many financial reporting standards were effective (e.g.TFRS9 financial instrument, TFRS15 Revenue from contract with customers, TFRS16 Lease). Therefore, the SEC's inspection highlighted on the improvement on audit manual, audit program, and forms used in performing audit to be up-to-date, to ensure that auditors and audit teams have guidelines in performing their work, as required by professional standards. Additionally, the SEC gathered information from various sources (For example, news, data analysis in comparison with industry, M-score simulation) and bring it into holistic risk analysis in order to select engagements and accounts, which are exposed to high risk, difficult, or complicated, for effective inspection.

The SEC has analyzed a relationship between the result of inspection of engagement performance element and statistical data, which reflects audit quality, and found that the result of inspection of engagement performance element and a ratio of number of listed companies engagements to number of auditors in the capital market have some linkages with the number of findings per engagement, as described in figure 24 and 25. It is understood that audit firms with effective quality control in terms of engagement performance, and where acceptance of engagement and portfolio allocation are made properly with appropriate workload assigned to each auditor in the capital market, will supportively enable their auditors to perform quality audit. This can be proven by the fact that the average number of findings on each engagement decreases as a consequence of an availability of clear and complete audit guidelines, enabling staff at all levels to perform audit in accordance with professional standard and based on the single standard. Furthermore, by holding proper amount of workload, auditors in the capital market will have sufficient time to consistently involve in significant phases of engagements and will be able to comprehensively monitor the audit quality, which will uplift the overall quality of audit. Nonetheless, the appropriate workload for each audit firm is different, depending on relevant factors and supporting tools of each firm, i.e., size and complexity of audit clients, investment on resources in support of performing audit. Similarly, a proper quantity of audit engagements assigned to each auditor might depend on relevant factors such as whether the accounting period of audit clients on hand coincide; in addition to listed companies audits, to what extent the auditor has to discharge other duties such as non-listed companies audits and other internal management tasks.

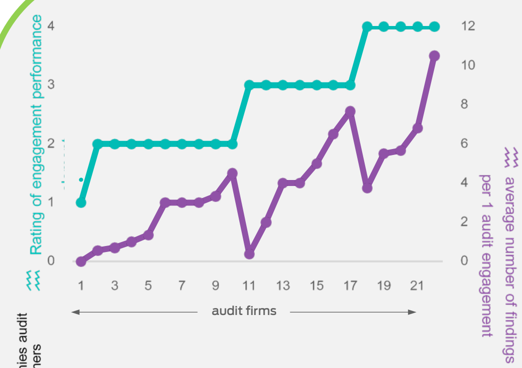


Figure 24 Inspection rating of engagement performance element in 2019 and 2020 of 22 audit firms that audited listed companies, compared with the average number of findings raised by the SEC from the review of workpapers of listed companies' financial statements audits.

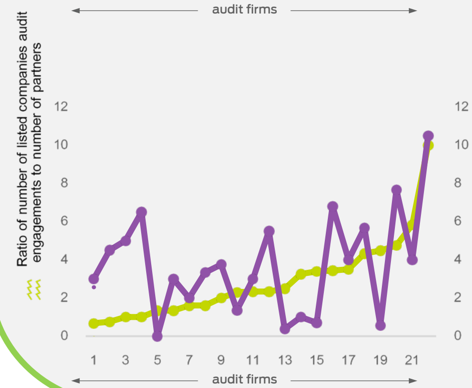


Figure 25 Ratio of number of listed companies audit engagements to number of auditors in the capital market, compared with the average number of findings raised by the SEC from the review of workpapers of listed companies' financial statements audits.

Moreover, the SEC found that the average experience of partner is one of the supporting factors for a good rating for engagement performance element of the inspection result, as shown in figure26. It reveals that audit firms with good audit quality tend to have highly experienced partners because they possess expertise and adequate professional skepticism to determine a true substance of complex accounting transactions and transactions requiring judgement, as well as providing appropriate consultation to the engagement team in a timely manner.

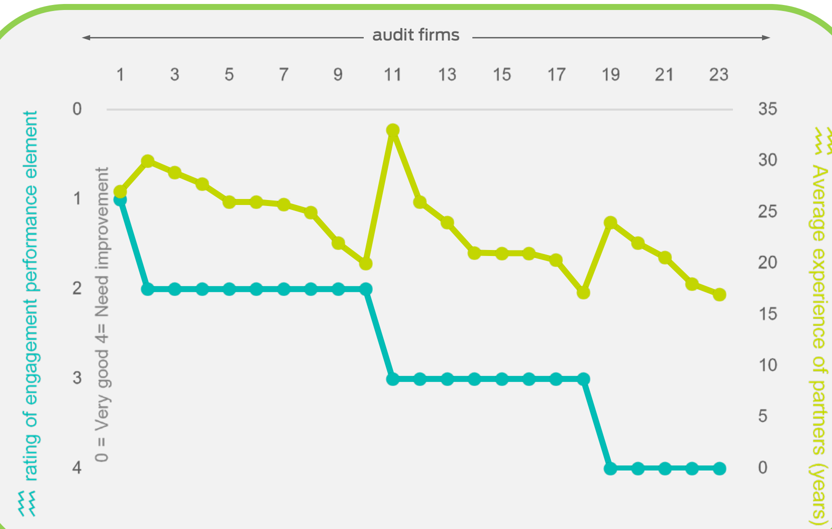


Figure 26: Weighted average score of engagement performance element in 2019 and 2020 of 23 audit firms in the capital market, compared to average years of experiences of partners

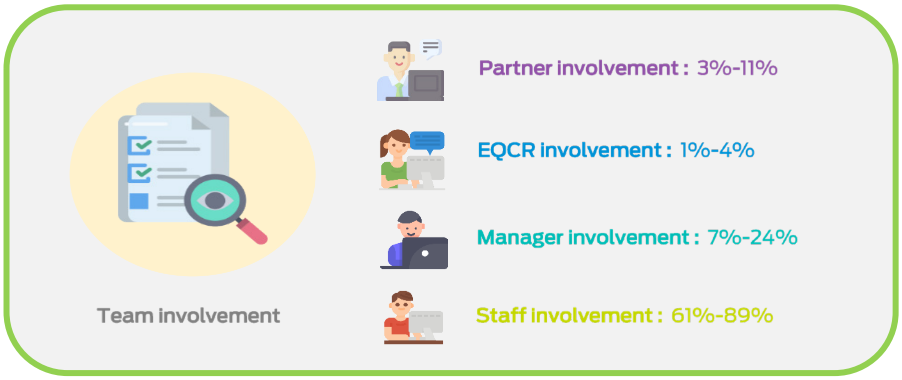


Figure 27 Average percentage of involvement in performing listed companies' engagement for the fiscal year 2019 and 2020

Figure 27 reveals average involvement of engagement partner, EQCR, manager and audit staff. The sufficient involvement of senior-level team member including engagement partner, EQCR and senior manager can ensure that the engagement team will obtain audit evidence and conclude the audit in key areas appropriately and completely. This results in high-quality auditor's reports, bringing the utmost benefit to financial statements' users. This is because senior team members are individuals with a level of knowledge and experience which is sufficient to provide consultation and ensure that the audit team can fully identify significant issues relevant to the audit, as well as to plan and design audit procedures to respond to the identified risks effectively and appropriately. Moreover, senior team members are capable of exercising their professional skepticism to detect irregularities and advise the engagement team in due time. The SEC has communicated to audit firms and auditors about the importance of involvement; as a result, in 2020 audit firms placed greater emphasis on the involvement of senior members in audit engagement as shown in the quality control system inspection result in 2020. Overall, we identified a rising trend of engagement partner and EQCR involvement from 2019, as shown in figure 28- figure 31. It is worth noting that the number of engagements with partner involvement of 49 hours or more accounted for 92 percent, and the number of engagements with partner involvement of 5 percent or more accounted for 52 percent. In terms of EQCR involvement, the number of engagements with EQCR involvement of 25 hours or more accounted for 75 percent. Moreover, we observed the high level of involvement of manager who oversees and reviews the work of the audit team prior to a review performed by engagement partner and EQCR, as illustrated in figure 32- figure 33. The number of engagements with manager involvement of 145 hours or more accounted for 80 percent and the number of engagements with manager involvement of 10 percent or more accounted for 59 percent.

Partner Involvement

92%

Year	1-24 hours	25-48 hours	49-144 hours	>145 hours
2020	4%	4%	48%	44%
2019	2%	13%	55%	30%
2018	4%	11%	60%	25%

Figure 28: Partner involvement in listed engagements

52%

Year	Less than 1%	1-5%	5-10%	>10%
2020	0%	48%	38%	14%
2019	2%	73%	21%	4%
2018	6%	65%	21%	8%

Figure 15: Percentage of partner involvement in listed engagements per total working hours

EQCR involvement

Year	1-12 hours	13-24 hours	25-48 hours	>49 hours
2020	15%	10%	37%	38%
2019	26%	40%	21%	13%
2018	27%	22%	33%	18%

75%

Figure 30: EQCR involvement in listed engagements

Year	Less than 1%	1-3%	3-5%	>5%
2020	38%	41%	19%	2%
2019	68%	30%	2%	-
2018	43%	49%	8%	-

Figure 31: Percentage of EQCR involvement in listed engagements per total engagement hours

Manager involvement

Year	1-48 hours	49-144 hours	145-360 hours	>49 hours
2020	4%	16%	37%	43%
2019	4%	15%	43%	38%
2018	2%	32%	23%	43%

80%

Figure 32: manager involvement in listed engagements

Year	Less than 5%	5-10%	10-20%	>20%
2020	12%	29%	49%	10%
2019	13%	32%	55%	-
2018	15%	19%	57%	9%

59%

Figure 19: Percentage of manager involvement in listed engagements per total engagement hours

According to the audit firms' quality control system inspection results in 2019 – 2020, the SEC found that findings related to engagement performance identified from several audit firms are as follow:

1. Completeness of audit manual audit, audit program and forms used in the audit

Observations	Recommendations for improvement
• Audit manual, audit program and forms used in the audit of some topics were not adequate or lacked clear details as required by auditing standards e.g., adjustment of materiality, guideline for identifying significant component for performing group audit, disclosure checklist, and audit program for difficult and complex issues such as impairment of assets, business combination and share-based payment.	• Audit firms should improve their audit manual, audit program, and forms used in the audit to have clear details and be in accordance with relevant auditing standards, particularly new financial reporting standards. Disclosure checklist should be improved to cover requirements of financial reporting standards and additional requirements issued by oversight body. Moreover, the firms should create adequately detailed audit program for audits of difficult and complex areas as well as issues relating to recurring

Observations	Recommendations for improvement
	findings from review of auditors' workpapers. The audit firms should also communicate such improvements to staff at all levels within appropriate timeframe and provide training sessions regarding amended audit manual, audit program, and forms used in the audit to staff at all levels to establish adequate knowledge and understanding to perform audit with quality and of the same standard.

2. Engagement quality control review

Observations	Recommendations for improvement
• EQCR checklist is not sufficiently detailed and does not cover areas relating to exercising professional judgement and significant risk.	• The audit firm should specify the scope of quality control review to be sufficiently detailed and comprehensive and to cover mattersrelating to exercising important judgement and significant risks. Moreover, to establish the same understanding for effective quality control review, the firms should communicate to all EQCRs about the topics and matters that they have to review.

3. Completeness of assembly of final engagement files

Observations	Recommendations for improvement
• Some significant workpapers were not completely assembled to final engagement files.	• The audit firms should establish a process for reviewing the completeness of a compilation of audit documentation and evidence in assembling final engagement files. For example, the firms should prepare a standard checklist for workpapers to be assembled in final engagement files so that auditors and audit teams can gather all audit evidence and complete workpapers to support auditor's opinion in due time.

6. Monitoring

Establishing an effective and detailed monitoring process will help support the monitoring team to detect significant deficiencies efficiently, so the audit firm is able to alleviate such deficiencies timely. The process of root cause analysis and remediation plan formulation are essential steps in monitoring process because if audit firms can perform root cause analysis accurately and completely, they will be able to establish an effective remedial plan. In the 4th inspection cycle, the SEC focused on root cause analysis and the success of formulating the remedial plan, to ensure that the audit firms have a complete list of deficiencies that need improvement, find the solutions, and prioritize alleviating actions appropriately and in a timely manner

From audit firms' quality control system inspection results of 2019 and 2020, the SEC found the observations in the monitoring element, as follows:

1. Completeness of monitoring program

Observations	Recommendations for improvement
• The firm-level monitoring program does not cover some significant areas such as partner portfolio allocation, key audit partner rotation policy in case of Public Interest Entities clients, reviewing the correctness and completeness of audit manual and audit program, and reviewing engagement partner involvement. • The engagement-level monitoring program does not provide adequately descriptive details for the monitoring team to determine the appropriateness of exercising auditor's significant judgement, especially in difficult and complex matters. Additionally, the monitoring program in some audit firms does not cover some significant areas such as audits of group financial statements (including the work of component auditors), audit sampling for test of controls and substantive test, and using the work of an auditor's expert.	• The audit firms should improve monitoring program, both at firm level and engagement level, to be sufficiently detailed and cover all important areas and communicate the revised monitoring program to those responsible for the monitoring process to be able to perform effective monitoring.

2. Criteria for measuring the monitoring result

Observations	Recommendations for improvement
• Some audit firms did not clearly establish criteria for measuring the level of monitoring results and assessing the impact of deficiencies for each element and each audit engagement.	• The audit firm should clearly establish criteria for measuring the level of monitoring results and assessing the impact of deficiencies for each element, criteria for measuring the level of impact on the financial statements misstatements for each deficiency, and criteria for concluding the overall result of each audit engagement. Additionally, such criteria should be communicated to the monitoring team, so they are can prioritize on the formulation of remediation plans and establishment of action plan for alleviating deficiencies in an appropriate and timely manner. For example, the audit firm should consider improving and rectifying observations that are serious and have a material impact on the audit firm's quality control system and overall audit quality of the audit firm urgently.

3. root cause analysis, remediation plan formulation, and the follow-up on the alleviation of deficiencies

Observations	Recommendations for improvement
• Some audit firms did not clearly establish a guideline for root cause analysis, remediation plan formulation, and the follow-up on the alleviation of deficiencies detected by the monitoring team.	• The audit firms should pay greater attention to the process of root cause analysis by clearly establishing guideline for root cause analysis, remedial plan formulation, and the follow-up on the alleviation of deficiencies. They should also assign the competent and independent individual(s) to conduct root cause analysis, prepare a remediation plan, and follow up on the alleviation of deficiencies, so effective remedial plan can be formulated, and the alleviation of deficiencies can be properly and timely prioritized.

B. Engagement Level

Summary of audit inspection in 2020 is as follows:

Auditors in the capital market as at the end of 2020

285 Persons

from **29** audit firms

Net increased from 2019

34 persons

or an increase of **14%**

Approval in 2020

62

New application **40** persons

Renewal **22** persons

Audit engagements selected to perform inspection

104 engagements

accounted for **10%** of total market capitalization

from the work of **92** auditors in the capital market

Or accounted for **33%** of total auditors in the capital market

Inspection results of individual audit engagements, categorized by approval rating during 2018-2020

Approval rating/year	2020	2019	2018
Level 1	77%	79%	58%
Level 2	16%	11%	25%
Level 3	6%	10%	17%

Remarks:

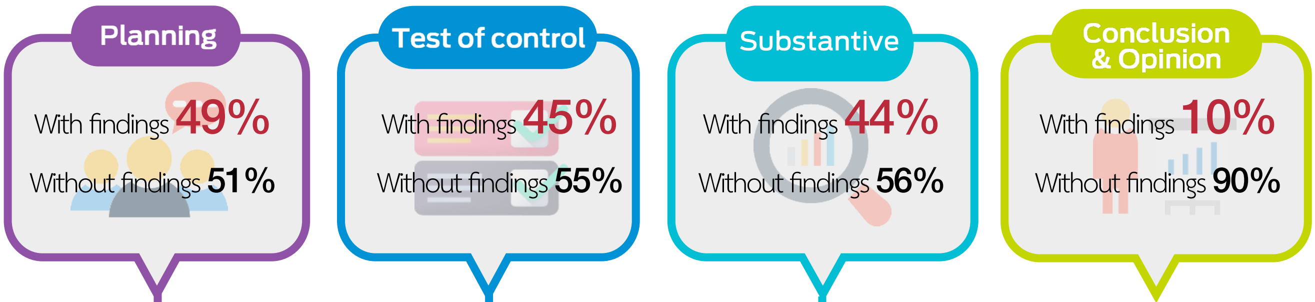
Level 1 = An approval of 5 years without findings

Level 2 = An approval of 5 years, with findings to improve

Level 3 = An approval of 5 years, with findings to improve and next cycle mandatory follow-up

The result of audit engagements quality inspection in 2020, compared with previous years, 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 ("Level 3") decreased. The success factor of this achievement is prioritization of continuous improvement led by head of the audit firms. They also established a variety of resources and tools to support engagement performance of auditors. Moreover, we provided additional reinforcement, e.g., training session to increase auditor's capabilities and initiation of project to uplift the quality of auditors in the Thai capital market. These efforts ensure that auditors in Thai capital market can perform audit engagement with international quality.

Proportion of findings identified in each phase of engagement from inspection of workpapers in 2020.



Majority of findings in **test of control** phase are:

1. Understanding and testing of internal control
2. Audit sampling for test of internal control
3. Understanding and testing of general IT control

Majority of findings in **planning** phase are:

1. Assessment of the risks of material misstatement due to fraud or error
2. Identification of what can go wrong that is relevant to nature of business and transactions of an entity

Majority of findings in **substantive procedures** phase are:

1. Substantive procedures for complex transactions and revenue recognition
2. Substantive test for fraud risk, e.g., how to respond to fraud risk and obtain relevant audit evidence
3. Audit sampling for test of details
4. Audit of inventory account, e.g., test of allowance for obsolete inventory

Core findings identified from audit engagement inspection in 2020

Audit sampling 12%

- The basis for sample size used by auditors is not identified. Also, sampling methodology for both test of control and substantive procedures is not appropriate.
- Insufficient sampling results in non-representative samples of total population
- Test of control is performed holistically without segmenting population according to their differences in nature of control activities.
- Confidence level for audit sampling is lower than planning.

Audit of revenue recognition 9%

- Consideration of transaction according to their intrinsic economic substance is not documented.
- Audit evidence of revenue occurrence is not found.
- Revenue cut-off is not performed for each significant type of revenue / the basis for determining the timing of cut-off is not documented.
- The identification of key controls providing assurance on revenue recognition according to nature of business and transaction is not found.
- The consideration of an entity's obligation as principle or agent is not identified.

Risk assessment 8%
Audit of fraud risk 7%

- Inherent risk assessment in assertion level of each account is not found. Only the overall inherent risk assessment of each account is identified.
- The basis for inherent risk assessment conclusion, considering likelihood and magnitude, is not documented.
- Risk assessment is not appropriate, e.g., control risk is set as low despite not performing test of control for that account, inherent risk is not set as high whereas the account bears significant risk.
- For fraud risk assessment, what can go wrong is not clearly and appropriately identified to the extent that it can be determined how an entity will commit fraud through which transaction, in which nature, by which method and such fraud could be concealed in which manner. The fraud risk response, as a result, is a generic response, which is not specifically designed to detect unusual transactions.

Audit of inventory and cost of sales 10%

- The appropriateness of obsolete inventory accounting policy is not evaluated.
- Audit of or consideration on net realizable value ("NRV") for direct material and work in progress is not found.
- In case of observation of inventory physical count, the following is not found:
  - Cut-off testing of inventory report used for physical count
  - Reconciliation from the day of the physical count to period end
  - Basis for number and selection of branches to observe the physical count, in case of sampling to perform physical count of entity with multiple branches
  - Physical count of consignment or alternative procedures

Audit of impairment of assets 6%

- The indications of impairment are not identified.
- There are indications of impairment, but test of impairment is not performed.
- Test of impairment is not performed according to TAS 36, e.g., the identification of recoverable amount by comparing value in use against fair value less cost of disposal in certain case is not found.
- The consideration of reasonableness and appropriateness of assumption used by experts to determine recoverable amount is not found.
- The assessment of objectivity and capability of appraiser as an entity's expert is not found.

Findings identified from audit engagement inspection in 2020, categorized by industry of audit clients

Figure 34 Findings identified in 2020, categorized by industry of audit clients

Findings identified from audit engagement inspection in 2020, categorized by industry of audit clients, as shown in figure 34 reveals that certain inspection findings are more common in some industries For example, findings on audit of revenue under percentage of completion method are likely to be identified in construction industry; because the audit of estimated construction cost requires specific expertise in assessing the reasonableness of such estimation. Findings on audit of inventory and cost of sales, on the other hand, are more common in resources, consumer products, and industrial products industries; as inventory constitutes main account in the financial statements of these industries. The findings usually associate with the consideration of net realizable value, and the observation of physical inventory count.

Findings related to audit of revenue are prevalent in every industry. This is because audit of revenue requires understanding of the business and consideration of substance of transactions. Moreover, Thai Financial Reporting Standard 15 - Revenue from Contracts with Customers, which became effective since 2019, has more convoluted requirements. Consequently companies operating in the same industry may have different methods of revenue recognition, depending on the conditions and obligations arising from contracts with customers. Auditors therefore should obtain an understanding of revenue recognition of the company according to the requirements set out in the standard, which can be performed by gathering audit evidence illustrating that the revenue recognition by the company is appropriate. It should be noted that there may be complicated conditions or obligation arising from contracts in certain industries. For example, services industry involves a variety of contracts with customers. Thus, auditors are encouraged to exercise their professional judgement in evaluating the true substance of the transactions completely.

Additionally, it is found that over the past years there have been more mergers and acquisitions transaction for listed companies. However, recent economic recession due to the instability of various situations may cause the financial performance of some entities to deviate from the expectation. As a result, indications of assets and good will impairment in the consolidated financial statements may arise. That is why in this inspection cycle we identified numerous observations regarding audit of goodwill impairment in the consolidated financial statements of a large group of listed companies with multiple subsidiaries. The observations usually associated with the audit of cash generating unit ("CGU") identification and consideration of appropriateness of goodwill allocation to each CGU.

The aforementioned fact indicates that accepting audit clients in each industry is unique and has different risks. Therefore, auditors are encouraged to consider the necessity of having audit team with adequate capabilities and experiences in each industry; training session to provide staff with relevant skill and knowledge is also necessary. These efforts ensure that auditors are able to sufficiently obtain audit evidence and appropriately express their opinion.

Focus areas of the audit quality inspection

For audit engagement inspection in 2020, we selected engagements of entities in high-risk industries, and focused on reviewing accounts affected by the adoption of new financial reporting standards, matters that require high judgement, and accounting transactions that require professional skepticism because these areas need relatively high expertise and experiences of the audit team in considering the circumstantial fact and substance of the transactions. Observations from our audit inspection over the past year often relate to the audit of revenue, risk assessment and responding to the risk of fraud as outlined below.

1. Audit of Revenue

Revenue is the main account of an entity on which the users of financial statements usually focus, especially for listed companies that the investors place great importance on such information. In this regard, Thailand started the adoption of the Thai Financial Reporting Standard 15 - Revenue from Contracts with Customers ("TFRS 15") for the 2019 financial statements. It has a significant impact on the consideration of revenue recognition. To recognize revenue under TFRS 15, an entity is required to apply the five important steps ("5-steps model") as follows:

Figure 35: 5-steps model as required by TFRS 15

Therefore, auditors should focus on auditing revenue account. From the inspection of audit working papers in the past year, we found that auditors insufficiently performed the audit and inadequately documented relevant information on the audit of revenue as illustrated below.

Illustration 1: Property development for sale business

The company engages in the business of condominium development and sales. The company will offer discounts and premium to customers, such as <u>a 30,000 baht of trade discount, gold, cash voucher, furniture, as well as a warranty and additional special after-sales services (e.g., free air conditioner cleaning for 5 times, free housekeeping service)</u>

The auditor obtained an understanding about the revenue from condominium sales under TFRS 15 by concluding that the company had an obligation to deliver the condominium including the rights to use the common area once the customer made a payment, <u>and recognized the revenue when the ownership was transferred to the customer according to the contract price. In case of a trade discount and premium, the company will record them as selling expenses because such expenses stimulate purchases.</u>

Sales of condominium consist of several POs*, including delivery of condominium, furniture, and premium (gold), but we did not find that the auditor had understood and considered whether it was necessary to separate revenu recognition for each PO that needs to be satisfied.

*PO = Performance obligation

The auditor did not gain an understanding of the economic substance of the 30,000-baht trade discount and cash voucher whether it was appropriate to record them as selling expenses under TFRS 15 requirement. Cash discount and cash voucher did not meet the criteria to recognize as selling expenses, the company should record this transaction by deducting them from transaction price/revenue recognized from the contract with a customer. Also, the company needed to consider the price allocation of such cash discount and cash voucher to each PO that the company needed to perform as appropriate.

The fact is that there are two types of after-sales service that have different approaches to consider:

1) Product warranty – need to consider recording of provision for warranty liability (TAS 37), and
2) Special service work – should separate the service revenue from the contract price to record as another type of revenue and consider the appropriate revenue recognition point.

However, the auditor did not sufficiently understand and consider such information before concluding.

Illustration 2: Construction services business

The company operates in the business of providing construction service for large solar power generation projects ("solar farm") with an average construction period of approximately six months per project. The company's scope of work normally (changeable upon the agreement with the customer) includes project design, construction material procurement, construction, and regular maintenance.

The company recognizes the revenue under the percentage of completion method with a performance obligation to be satisfied over time. The company measures the progress of work by output method, which is determined by a survey of the percentage of physical construction completion compared to the total construction work under the contract, by a construction supervisor engineer. The revenue recognition of construction according to the 5-steps model can be summarized as follows:

1 Identify the contract with the customer
Understand the contract elements, which specify an obligation that needs to be satisfied e.g., the commencement of construction, delivery of works, payment, construction delay claim.

2 Identify the performance obligations
All contract has two POs: construction of solar farm and after-sales service.

3 Determine the transaction price
The contract sets the price for each construction project (the price does not distinguish between the two POs).

4 Allocate the transaction price to the performance obligations in the contract
The company allocates the transaction price to two POs determined in step 2 by the proportion of the cost of the project budget ("BOQ").

5 Revenue recognition
The over-time revenue recognition using the output method is correct under TFRS 15. Also, the company does not separate the after-sales service price but will adjust the revenue from after-sales service as revenue at the end of the project and progressively recognize the revenue on a straight-line method over the after-sales service period as defined in the contract.

The auditor did not understand the content of each project contract whether the performance obligations specified in the contract are distinct before concluding that the company had the same two POs in all contracts and the over-time recognition method met the conditions under TFRS 15 requirements because if any of the conditions are not met, the company should recognize the revenue at a point in time.

The auditor did not consider whether the transaction price specified in each contract had included the amount of variable consideration, which in this case is the construction delay claim.

The BOQ cost-based selling price allocation is inconsistent with TFRS 15 as it did not meet the basis of stand-alone selling price of each type of revenue. The auditor also did not consider whether using the output method in measuring the progress of work is reasonable, and why it is more appropriate than the input method.

The auditor did not consider whether the company had adequately disclosed information. It was found that the company had not disclosed information in terms of the period of assets arising from the contract – unbilled receivable, on when the company was able to bill customers in the future.

Illustration 3: Software distributor business

The company engages in the software distributor business. The company will provide customers with a software training coupons for their first-time software purchase and customers can use valid coupons to attend the training for free.

It was not found that the auditor had considered the nature of the contract with the performance obligations the company had to satisfy. It was considered that the company had two performance obligations including (1) delivering software to customers and (2) providing software training services. An inadequate understanding made the auditor unable to come up with the opinion on whether the company correctly recognized the revenue in accordance with TFRS 15 or not.

The company records the training coupons given to customers by calculating the expected expenses incurred from providing training, which is estimated from the number of coupons that are expected to be used. Expenses and provisions are recorded in the period that revenue from selling software is recognized.

Providing customers with training coupons is giving them the right to attend the training that the company will provide in the future, which is a contract or agreement added on top of sales of software. Therefore, the company cannot recognize coupons as part of revenue at the point of selling the software. It should consider separating unearned revenue from training service from the software selling price and record such item as deferred revenue from training service, because the company has an obligation to provide training to customers. The company will recognize the revenue from training service over time when customers exercise coupons and the company has already provided training to the customers.

The auditor did not understand whether the company had collected the detailed information on the use of customers' training coupons, to consider the reliability of revenue recognition of customers' unexercised right (breakage) following TFRS 15 requirements, in case that the redemption is not made by customers .

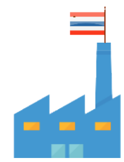
2. Audit of fraud risk transaction

Illustration 1: Audit of investment property account (Investment property - "IP")

Listed Company A

- Manufacture and distribute metal products
- Incorporated and operated the business in Thailand

Subsidiary A



- Manufacture and distribute of a metal products
- Incorporated and operated the business in Thailand
- Significant component

Subsidiary B

- Not yet operate any business
- Incorporated in Seychelles

In 2019, Subsidiary B invested in purchasing the right of use - Premium apartment buildings ("Leasehold") in England in a substantial amount for the purpose of leasing or selling when the asset value increases. In this case, Listed Company A entered into the buy/sell leasehold transaction on behalf of Subsidiary B.

Auditor's IP account audit

- Risk assessment of IP at a low level
- Not perform control testing
- Perform substantive testing

1) Make sure the leasehold seller is not affiliated with the company (related party).
2) Verify the documents of trading payment through Hong Kong brokerage.
3) Review the approval of leasehold purchase transactions from the company's directors.

The auditor concluded that the leasehold was exactly owned by Subsidiary B and was not subject to any guarantees. However, the auditor has not received any evidence representing an ownership of the leasehold. Due to the Covid-19 situation, the government entity therefore could not issue a title deed to Subsidiary B before the date of issuance of the auditor's report which the auditor gave an unqualified opinion.

The auditor did not adequately understood and verified the leasehold purchase transaction, although several indications of fraud risk were identified, e.g., the transaction did not relate to the company's core business and not a recurring transaction; the reasonableness of the transaction made through Subsidiary B which located far away in Seychelle; the amount of the transaction is substantial and the transaction takes place overseas, but the purchase transaction is approved only by the Board of Directors without the approval of shareholders; and the fact that the company is willing to pay large amounts of money without receiving ownership documents.

In this regard, the auditor should sufficiently understand and review the leasehold purchase transaction before concluding the audit. Auditor should also consider the possibility of applying the audit procedures such as examining the ownership documents of such apartments, considering using of the work of an expert in England (for example, contacting an auditor in England to help investigate the transaction), or a site visit. If the auditor cannot find satisfactory audit procedures until the date of signing the audit report, the auditor should consider the impact on his opinion on the financial statements and consider expressing qualified opinion due to a limitation of audit scope, because it is a significant transaction.

Illustration 2: Group audit, gathering evidence, Audit of the group's financial statements including the work of component auditors

Listed Company B invested in subsidiaries for expand the businesses as follows:

Acquisition year, % invest, Goodwill	nformation after the acquisition	Audit procedures
2016, 85%, Baht 60 million  Subsidiary A	In the year 2016, Listed Company B acquired Subsidiary A which provides custom services to government clients in New Zealand. In the following year 2019, there was a dispute with the customer because the past services since the beginning of the contract in 2016 did not meet the agreed-upon standard. The customer therefore did not pay the debt and Subsidiary A ceased to recognize the revenue and recorded the allowance for the doubtful debt at a whole amount which is materiality. The court sentenced the debtor to win the case, so Subsidiary A appealed without a conclusion of the case. The recognized revenue represents 60 percent of the income in the consolidated financial statements.	• Sent group audit instructions to component auditor every quarter. • Review workpapers of component auditors in the areas of revenue and receivables accounts and conclude that there were no material misstatements. • Visit a place of business of Subsidiary A, located in New Zealand. • The auditor expressed an unqualified opinion.
2012, 60%, Baht 45 million  Subsidiary B	• Incorporated in Vietnam, principally engaged in selling products to the government sector through agents in Vietnam • Several years ago, the agents informed that the government sector delayed payments for products/ made incomplete payments. This resulted in a delay of money receipt by Subsidiary B, affecting Subsidiary B's operation and causing it to incur loss from recording the allowance for doubtful debt • Listed Company B disposed of the investment in Subsidiary B during the year 2019 because it had deficit for many years. There was a material loss from the disposal of investments.	• Travel to Vietnam to review workpapers of component auditors and conclude that there were no material misstatements. • Sent group audit instructions to the component auditor but there were no responses from the component auditor until the date of the auditor's report • The auditor expressed an unqualified opinion
2018, 100%, Baht 500  Subsidiary C	• At the end of the year 2018, after the acquisition of Subsidiary C, Listed Company B recorded an impairment loss of goodwill amounting to Baht 90 million which was material to the consolidated financial statements • Listed Company B disposed of the investment in Subsidiary C in the year 2019 and recognized a material loss on the sale of investments. The investment was sold to a related person who is the major shareholder of both Listed Company B and Subsidiary C.	• Sent group audit instructions to the component auditor • Audit the business acquisition and disposal transactions during 2018 and 2019 • Audit the investments account and recording allowance for impairment on investment • The auditor expressed an unqualified opinion

Other information

- **All subsidiaries are significant components and the amount of goodwill of all subsidiaries is materiality.**
- **Subsidiary C was audited by the auditor of Listed Company B. Subsidiary A and B were audited by other auditors in the countries where those subsidiaries were located.**

The above information shows that the company is expanding the business through merger and acquisition ("M&A") with several indicators of unreasonableness of doing M&A and subsequent business operations, which may be indications of fraud i.e.

- Acquiring the company that provides services that did not meet the standard according to the agreement to its customers (Subsidiary A).
- Recognizing the revenue even though the customer has not accepted that the services are following the agreement (Subsidiary A).
- Selling the Subsidiary's product through agents and not receiving the payment for a long time until these affect the operations (Subsidiary B).
- Recording the material impairment loss of goodwill in acquisition year (2 months after-acquisition) (Subsidiary C).
- Disposing of the investment in the subsidiary after 1-year acquisition with significant loss. It raises doubts that the company acquires the business at an inflated value. (Subsidiary B and C)
- Conducting the acquisition-disposition transaction with related parties. (Subsidiary C)

The auditors should exercise caution in verifying the reasonableness of the M&A transactions which may contain any indication of frauds. The auditors should also appropriately assess the risks of such transactions to determine appropriate audit procedures for unusual items, gather evidence, and sufficiently document on the audit workpapers. In case that the auditors are unable to gather sufficient appropriate audit evidence or witness suspicious activities of directors committing fraud, they should consider the necessity for actions to be taken according to Section 89/25 of the Securities and Exchange Act B.E. 2535 (1992). Moreover, its impact on a modification to the opinion in the auditor's report should be considered.

Root Cause Analysis

Root cause analysis is an essential process that enables audit firms to understand the true sources of problems, formulate proper remediation plan, and be able to prevent recurring deficiencies in the future. The deficiencies in each certain area can arise from several factors or are possibly related to various elements of the quality control system. As a result, the audit firm leader should give precedence to root cause analysis by identifying all relevant factors to properly prepare a remediation plan responding to all factors. The remediation plan should put a rectification of significant deficiencies on the first priority, and the deadline should be clearly determined. Furthermore, time and human resources should be adequately allocated in order to follow the plan successfully. Moreover, a follow-up process should be put in action to regularly monitor the progress of the rectification to ensure that the plan will be suitably implemented on a timely basis.

In the fourth inspection cycle, we focused on considering the adequacy and suitability of the root cause analysis process and the outcomes of the remediation plan formulation

to ensure that audit firms had complete information on all significant deficiencies, identified alleviating actions, and properly prioritized an implementation of the remediation plan in a timely manner. Based on the inspection results of quality control systems of audit firms and engagements of auditors in the capital market in 2019 and 2020, the SEC found that several audit firms had already improved their root cause analysis process to be more appropriate, resulting in better ratings in various elements in audit firms assessment. However, we found that some audit firms did not remedy deficiencies found in the previous inspection cycle and there was an increase in significant deficiencies with various issues in both firm level and engagement level. According to the root cause analysis, the SEC found major factors that had prevented those audit firms from effectively alleviating deficiencies, as outlined below:

1. Appropriateness of workload and complexity of audit engagements

Based on the audit workpapers inspections in some audit firms, we discovered deficiencies in various issues which require immediate alleviation in audit performance. These are partly due to the fact that the audit firms accepted listed companies audit engagements in excessive extent of quantity and complexity than their experienced personnel are capable of performing quality audit according to professional standards. In some cases, the SEC found that some auditors were assigned several engagements whose financial statements had the same submission deadline, causing the auditors not to have adequate time to perform their work. These audit firms consequently had a ratio of listed companies to auditors in the capital market and a ratio of market capitalization of listed company clients to auditors in the capital market, which were much higher than the average of audit firms in the capital market in the same group. Moreover, in some cases, partner and manager involvement was found to be relatively low; consequently, engagement monitoring and review were insufficiently thorough and audit quality was affected. Apart from their audit workload and review of listed companies financial statements, partners in some audit firms had other responsibilities including audit of non-listed companies and were in charge of various elements in quality control system, leading to inadequate time spent on engagement review and the follow-up on complete remediation of deficiencies from the previous cycle.

According to the case mentioned above, the audit firm should consider, when accepting audit engagements, the workload and complexity to the extent that its capability can perform quality audit in accordance with professional standards and take into account audit firms' existing resources. Engagements should also be assigned to each partner in a proper quantity, considering various factors such as risk and complexity of audit engagements, financial statements submission deadline, roles and other responsibilities of partners, and experiences and knowledge of in-charge partners. This is to ensure that auditors will have sufficient capabilities and time to be appropriately involved in the engagement and perform quality audits according to professional standards, while allocating time to assist the audit firm in enhancing the quality control system.

2. Adequacy of experienced and knowledgeable personnel within the audit firm

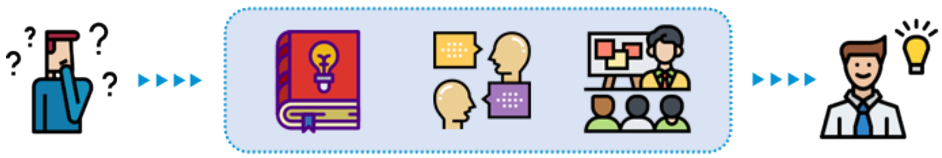
In the 2019 and 2020 inspection cycles, most significant deficiencies from auditors' workpaper inspection arose from a lack of consideration on substance of accounting transactions and improperly exercising judgement in financial reporting standards interpretations. Such deficiencies partly stemmed from a scarcity of personnel who had knowledge and expertise in financial reporting standards and auditing standards, e.g., technical committee, monitoring team, and experts whose responsibility was to keep abreast of changes in professional standards and relevant regulations and to share knowledge with staff within the audit firm. In addition, those significant deficiencies were mostly due to insufficient professional skepticism exercised in performing audit. As a consequence, risk identification and risk assessment, determining audit procedures, and obtaining audit evidence were insufficient for completely supporting audit conclusion of transactions material to the financial statements.

In this case, the audit firm leader should consider recruiting experienced and knowledgeable staff to work as technical committee, monitoring team, and to keep pace with changes in professional standards and regulations. In terms of complex engagements or engagements requiring specific knowledge, the audit team should comprise staff who have expertise in specific area as well as staff who possess adequate experience to appropriately exercise judgement in considering accounting issues. Additionally, the firm should require the monitoring team to conduct engagement quality review for listed companies, especially on high-risk engagements, prior to an issuance of auditor's report (hot review), ensuring that auditors will perform quality audit as required by relevant professional standards and issue the auditor's report which is appropriate for the situation.

3. Adequacy of the preparedness of audit plan, audit manual and training on difficult and complex issues

We found that one of the reasons for inappropriate and insufficient audit performance was an absence of an audit program for difficult and complex areas in some audit firms and a lack of staff training on improved audit manual and audit program. Also, there was no adequate training for staff at all levels on case study of issues requiring judgement and professional skepticism, especially for specific business and accounting transactions whose audit approaches and procedures to obtain audit evidence were different from general audit procedures. In various cases, we found that the audit team neither obtained a business understanding nor considered a true substance of accounting transaction; hence, the team failed to identify issues that required special consideration on the appropriateness of bookkeeping to bring into technical committee consultation completely. As a result, exact audit procedures for obtaining audit evidence and sufficient and appropriate conclusion of the audit were not determined.

The audit firm should get prepared for audit manual and audit program as well as provide regular training sessions on difficult and complex areas to promote professional skepticism skill, especially in the areas where significant deficiencies requiring immediate improvement were found, both in relevant professional standards and significant audit procedures for each type of business. Moreover, the audit firm should require that its auditors who possess a lot of experience in audit practice and high level of professional skepticism devote sufficient time to an adequate review of the audit team's performance and provide on-the-job training where useful suggestions are given to the audit team in a timely manner, from the planning phase to the audit conclusion phase. This can help develop audit team members' competencies, enabling them to completely and directly respond to the risks. Moreover, audit firm should communicate with the audit team about deficiencies and inspection findings and collaboratively conduct a root cause analysis of deficiencies in order to explore alleviating procedures to improve and constantly standardize engagement performance in the upcoming future.



4. Adaptability to technological developments and changes in professional standards

Challenges of various developments regarding the audit profession have driven audit firms to adapt and uplift standard of their performance quality. Over the past years, there have been significant changes continuously affecting auditors' performance, as follows:

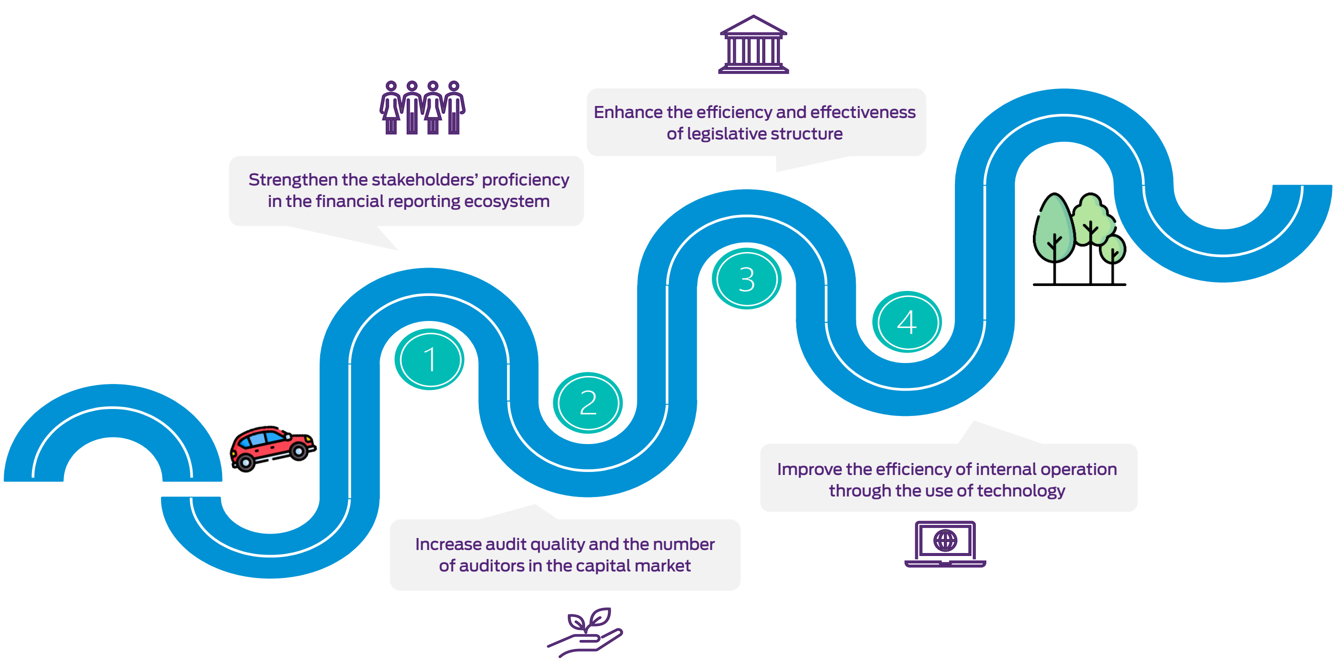
- An increase in complexity and quantity of accounting transactions has driven listed companies to transform an information database from paper-based to electronic form and technology has been deployed in financial reports preparation. Thus, audit firms need to adapt in order to utilize technology, e.g., audit software and data analytic tool in audit execution to discover certain transactions and irregularities that might occur as well as respond to risk appropriately. This leads to an enhancement of efficiency and effectiveness in engagement performance. However, small-sized audit firms without any network may probably encounter constraints on budget and personnel with technological expertise;

Over the years, international professional standards have been continually changing to be more practical in the current context and environment. For instance, the adoption of the International Standard of Quality Management (ISQM1) instead of the International Standard of Quality Control (ISQC1) is a big challenge for local audit firms which are not members of international audit firm network. This is because it requires knowledge on risk management and internal control in addition to auditing; Hence, the adaptability in response to changes in technological and professional standards is extremely essential for audit firms to efficiently provide quality services to listed companies. In this regard, audit firms should focus on continuously keeping pace with developments in various areas relevant to auditing. However, many small and medium-sized audit firms are facing obstacles resulted from a shortage of resources for supporting and reinforcing audit firms' adaptability to timely response to technological developments and changes in professional standards in order to get ready and develop work systems to support professional standards which will come into effect in the upcoming future;

As a result, under the constraints mentioned above, small and medium-sized audit firms should consider means to obtain an economy of scale in acquiring resources necessary for the adaptability to technological developments and professional standard changes, e.g., cooperation among audit firms to procure technology to assist audit performance, training sessions on relevant knowledge and skill development and relevant expert recruitment.

Framework and Focuses in 2021

A quality financial reporting system that meets international standards is a primary goal as it can enhance credibility and competitiveness of the Thai capital market. In 2021, the SEC will, therefore, continue the road maps for strengthening the proficiency of all key stakeholders in the ecosystem of financial reporting preparation ("financial reporting ecosystem") in order for them to carry out their duties more efficiently and effectively. Meanwhile, the SEC will carry on its mission to supervise and improve audit quality to meet international standards, and promote the potential of small and medium-sized audit firms to grow with stability, sustainability and competitiveness. Proactive actions will be taken to sufficiently increase the number of auditors in the capital market to support the growth of the Thai capital market. Also, the legislative structure concerning the accounting professions will be revised to provide an effective mechanism for capital market auditor oversight and to build a robust foundation for capital market growth and future competition. In addition, the SEC will transform the supervisory process to be in line with global changes in the digital era. This includes the full-fledged implementation of information technology and paperless systems in the SEC's operations. The framework and focuses in 2021 are summarized below:



Framework for strengthening the stakeholders' proficiency in the financial reporting ecosystem

The SEC will continue encouraging all stakeholders in the financial reporting ecosystem including companies' directors, audit committees, chief financial officers (CFO), as well as the audit partners of listed companies, to perform their duties effectively and efficiently, which is an essential foundation for enhancing financial reporting quality and promoting sustainable growth of the Thai capital market in line with the SEC's Strategic Plan. The action plans in this matter include the followings:

1. Integrate collaboration with relevant organizations in enhancing the quality of financial statements of entities in the capital market such as the Thailand Federation of Accounting Professions (TFAC), the Stock Exchange of Thailand (SET), and the Thai Institute of Directors (IOD). Activities include training sessions associated with significant financial reporting standards for stakeholders in the financial reporting ecosystem to drive financial reporting quality from the very first step.

2. Coordinate with the IOD to disseminate and provide knowledge for audit committees to be able to support audit quality and financial reporting preparation quality more appropriately. In addition, training sessions are held to share lessons learned on the roles of an audit committee from a case study of fraud and financial statement manipulation overseas.

3. Encourage audit firms to publish the Audit Quality Indicator (AQI) to provide the audit committee with necessary information for considering the quality of audit firms when selecting an auditor.

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

The SEC will carry on the principal mission to supervise, develop and enhance the quality of audits in the capital market to be on par with the international quality standards on a regular basis. This is to ensure that investors will be able to access good quality, accurate and reliable financial reports. In this regard, the SEC will support and strengthen the proficiency of small and medium-sized audit firms (local firms) in order for them to drive robust and sustainable growth as well as competitiveness. Concurrently, short-term and long-term proactive actions will proceed to increase the number of auditors in the capital market sufficiently to satisfy the needs of the business sector planning to raise funds in the future. Such actions include the followings:

1

Arrange regular meetings with all audit firms in the capital market to communicate the expectations of audit quality, follow up on the progress of increasing auditors, and inquire about problems and obstacles that need support from the SEC. For local firms, the SEC will continuously promote activities of the Thai Capital Market Auditor Club such as academic training programs for all levels of audit staff, hotline consulting project, quality management manual project, and IT audit software and tools development project, etc.

2

Closely follow up on the corrective actions (root cause analysis and remediation plan) of the audit firms' deficiencies that require urgent improvement by providing observations and advice continually to enhance audit quality and audit firms' strength and stable growth.

3

Organize training sessions and seminars to educate auditors in the capital market and auditors preparing to apply for approval as auditor in the capital market on a continuing basis to keep the auditors up-to-date on changes in professional standards and current circumstances as well as to improve audit quality and the quality control system of audit work, which will consequently enhance the credibility of financial reports in the Thai capital market. The topics of the upcoming seminars include the International Standard on Quality Management 1 (ISQM 1), common findings and solutions, and case studies on fraud and financial statement manipulation overseas, etc.

4

Support the TFAC in the implementation of the audit professional development project, which is funded by the Capital Market Development Fund (CMDF), to promote audit quality and raise the number of auditors in the capital market to be sufficient for listed companies and companies preparing to raise funds in the capital market in the future. The project includes the preparation of non-capital market audit firms for performing audits in the capital market, and the development of personnel responsible for reviewing and monitoring audit quality control, etc.

5

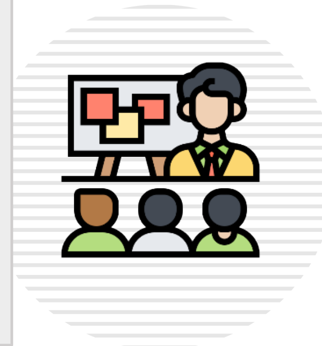
Encourage the audit firms in the capital market to make preparation for compliance with ISQM 1 when it becomes effective by participating in the Working Group for Monitoring Progress and Developing the Audit Quality Management Manual (ISQM Working Group) of the TFAC to help local firms prepare for compliance with ISQM 1, which will become in force in 2022. Training and consulting assistance will be provided together with publication of knowledge-sharing articles and development of the Audit Quality Management Manual. Local firms are encouraged to apply such manual to their specific context. In addition, the SEC will provide experts and experienced speakers to closely advise each local firm on how to assess and respond to the risks of the audit firm's quality control system appropriately according to the ISQM 1. Also during the inspection of audit firms, the SEC will continuously monitor the progress of the working system preparation related to the ISQM 1 compliance.

6

Participate in the Knowledge Center Working Group for Auditing Business with Complex IT Systems (IT Working Group) of TFAC, to encourage local firms to acquire sufficient knowledge and understanding of information technology systems for performing quality audits under a complex IT environment and to install IT audit software and audit tools to assist them in performing audit work more efficiently.

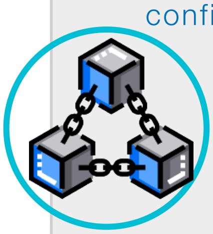
7

Organize educational activities related to capital market and the accounting professions for university students in different regions to disseminate knowledge and work experience in the accounting professions related to capital market, and to motivate students to become more interested in the auditing profession upon graduation. This in turn will promote an increase in the number of auditors in the capital market and prevent the shortage of auditing professionals in the future.



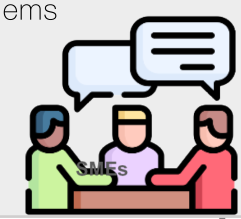
8

Promote the development of bank confirmation system via blockchain (bank confirmation on blockchain project) to enhance the efficiency of audit performance and audit quality, strengthen competitiveness and reduce unnecessary costs.



9

Organize activities to educate SMEs that are preparing for fundraising in the capital market on accounting knowledge and provide an opportunity for them to meet and discuss with auditors in the capital market to ensure that these companies will get prepared and raise funds in the capital market as targeted without problems in accounting quality or a lack of auditors in the capital market to provide services.



10

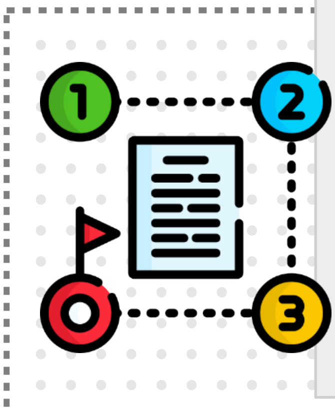
The latest Financial Sector Assessment Program (FSAP) provided recommendations on the establishment of quality inspection of the auditing of listed state enterprises (listed SOEs) to reach the international standards. Subsequently, the State Audit Office of the Kingdom of Thailand legislated the regulation allowing listed SOEs to use services of private auditors. Currently, all listed SOEs have already appointed private auditors. The SEC, therefore, will perform the quality inspection of audits of listed SOEs regularly.

11

The SEC will host the 8th ASEAN Audit Regulators Group meeting to exchange views and developments in supervision and audit quality with the audit regulators in the ASEAN region. The meeting will be held virtually for the first time due to the impact of the COVID-19 pandemic.

Framework for enhancing the efficiency and effectiveness of legislative structure

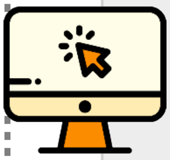
Legislative structure and law enforcement are essential factors that create an environment which facilitates the SEC's effective and efficient supervision of auditors and audit firms in the capital market. They also promote audit quality, make the financial reporting system reliable, and work as a protective mechanism for investors as well. The SEC therefore will implement the action plans as follows:



1. The academic research on the regulatory framework governing auditors and audit firms conducted by the Thailand Development Research Institute (TDRI) resulted in the recommendation for amendment to the Securities and Exchange Act B.E. 2535 (1992) (the Securities and Exchange Act) to increase efficiency and effectiveness in supervising audit firms and auditors in the Thai capital market. Subsequently, the SEC conducted a public hearing on the principles for such amendment in 2020. The next step is to expedite the drafting process, conduct another hearing with stakeholders, and propose the draft amendment to the Ministry of Finance. The proposed amendment will lead to a holistic enhancement of audit quality supervision.

2. The SEC will amend the Notification on Approval of Auditors in the Capital Market in the 1st quarter of 2021. The amendment aims to revise the qualifications of auditors in the capital market to be suitable for the context of the current audits and to facilitate potential auditors in applying for approval as auditor in the capital market. For example, the minimum period of experience would be reduced from 10 to 7 years, the minimum number of business entities for which the auditor affixes signature would be reduced from 3 to 2 entities, and an auditor in charge of audit on a commercial bank would be allowed to submit an application for approval as auditor in the capital market. Moreover, the SEC will waive the requirements in the case where an auditor in the capital market is unable to maintain the qualifications of job position in an audit firm. This relaxation of rules will alleviate unnecessary obstacles for entering the audit profession in the capital market while strictly retaining the quality of auditors in the capital market and the SEC's rigorous screening of the applicant's qualifications as auditor in the capital market.

3



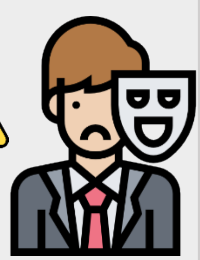
The SEC plans to revise the Application Form for Approval of Auditor in the Capital Market by cancelling the request for redundant and unnecessary information and reducing the number of supporting documents and frequency of submission of such documents. The planned revision aims to reduce burdens on, and increase convenience for, auditors and audit firms. In a longer term, the SEC will develop an online system for filing the Application Form and supporting documents.

4

The SEC plans to revise the auditor sanction guidelines to support proportionality of penalties suitable for the severity of the offense. The factors to increase and decrease the penalty will also be defined more clearly. These improvements will enable a mechanism for governing audit firms and auditors more effectively. This in turn will enhance the audit quality in Thailand, maintain stability and strengthen reliability of the Thai capital market in the view of investors.

5

The SEC will issue a notification of the Capital Market Supervisory Board to provide a guideline for facilitating auditors' compliance with Section 89/25 of the Securities and Exchange Act whereby the auditor who witnesses a suspicious activity of a director, manager or individual responsible for the operations of a securities company or a listed company will be required to notify such issue to the company's audit committee immediately. In this regard, the SEC will clarify the extent of suspicious activities to be notified along with the procedures for obtaining relevant facts. This guideline will enable the auditor to better discharge his or her duties to protect investors from potential exposure to the management's fraudulent activities.

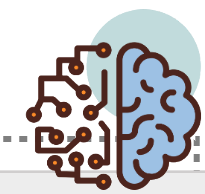


6

The SEC plans to propose an amendment to the Securities and Exchange Act regarding the criteria and conditions for submission of financial statements of listed companies. The amendment would empower the SEC Office to issue or revise the criteria with more flexibility when reasonably necessary. Currently, the Capital Market Supervisory Board is entrusted with such power.

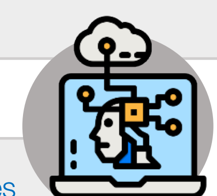
Framework for improving the efficiency of internal operation through the use of technology

Nowadays, information technology plays an important role in transforming the operations of listed companies and auditors continually. In addition, the COVID-19 outbreak is another factor accelerating the business sector's use of information technology to support their operations. As a regulator, the SEC must also restructure its internal operating processes in response to the technological advancements and changing global situations in a timely manner. The action plans to focus on are as follows:



1 Improve the internal workflow to be in line with the digital transformation of the capital market by applying technological tools to work systems such as data analysis, planning, implementation and monitoring. Furthermore, systems for facilitating stakeholders' operations will be developed, e.g., an online system for filing an application for auditor approval, a machine-readable auditor database, an internal work system that allows real-time monitoring, and a knowledge-sharing platform that will also become available for external parties in the future.

2 Develop an internal workflow to support the audit firm quality control system and remote inspection of auditors' workpapers to be more efficient. Medium and small-sized audit firms that are not members of the foreign audit firm network (local firms) are encouraged to prepare and store workpapers in an electronic format to support fully remote inspection in the future.



3 Use M-Score, an indicator of irregularities in financial statements extracted from the SEC's electronic database, in selecting financial statements for inspection of the auditor's workpapers under the holistic risk-based approach, and conduct a feasibility study on the use of technology to detect irregularities in financial statements and audit workpapers inspection to determine the quality of audit performance. The SEC will develop a Corporate Surveillance System to predict fraud or manipulation of listed companies' accounts. Furthermore, technologies such as robotic process automation, artificial intelligence, optical character reader and natural language processing will be deployed in reading the auditor's workpapers to enhance oversight efficiency.

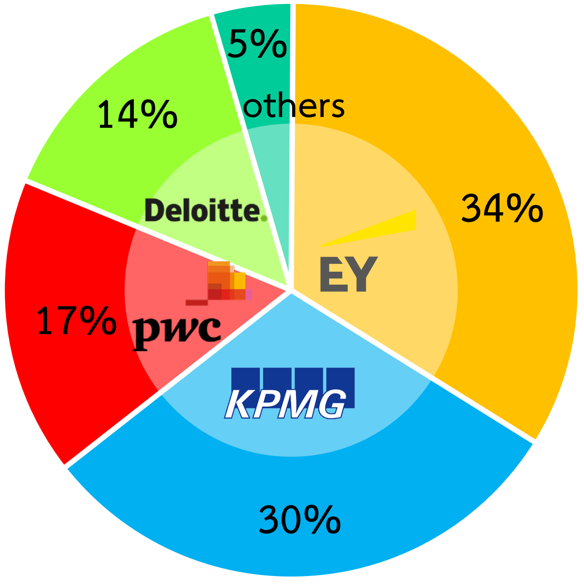
4 Develop staff's digital literacy through training and internship programs in the area of IT risk surveillance and audits with both leading domestic and international agencies.

Essential Statistics

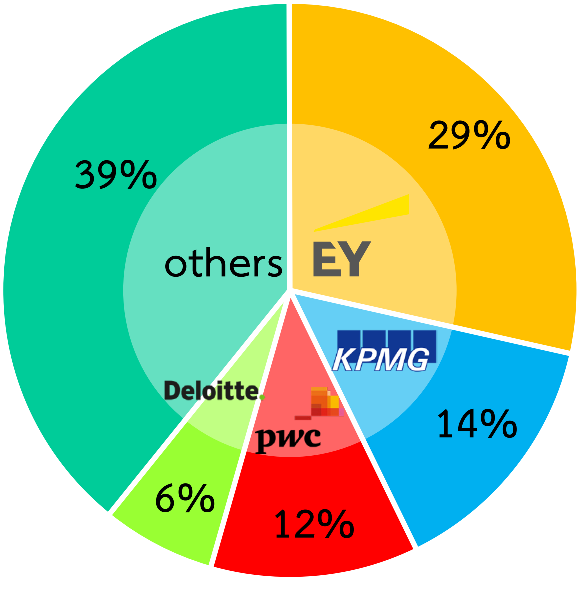
Record of audit firms’ quality control inspection result and record of approval of auditors in the capital market

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
2020	12	62	40	22	-	-

Proportion of listed companies audit clients of each audit firm, sorted by market capitalization as of December 31, 2020



Proportion of listed companies audit clients of each audit firm, sorted by number of listed companies as of 31 December 2020



Record of mandates to rectify listed companies' financial statements

unit : company

Reasons for rectification	2017	2018	2019	2020
(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	2020
Special audit	3	-	-	-

Record of sanctions imposed on auditors

unit : person

Wrongdoings	2017	2018	2019	2020
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	2020
Using draft audited financial statements not yet publicly disclosed to aid in securities and futures trading	-	-	3	-

CONTACT INFORMATION

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