INDEPENDENT AUDIT INSPECTION ACTIVITIES REPORT 2021

The Securities and Exchange Commission, Thailand

SEC

Content

Executive Summary

Capital market plays a critical role in driving Thailand's economic and societal systems towards stable and sustainable growth. In the past year, the Thai capital market encountered challenges in diverse aspects, from technology disruption, economic and social inequality to the impacts of the COVID-19 pandemic. The Securities and Exchange Commission (SEC) recognized the importance of adjusting its operating measures to be able to appropriately address the needs of stakeholders and promote the sustainable growth of the Thai capital market. One of the key factors that led to the stable and sustainable growth was to maintain the quality of financial reporting system in order to provide investors with sufficient information in support of their accurate and proper decision-making. This brought about transparency and trustworthiness of the Thai capital market as well as its competitiveness comparable to the international markets. Over the past years, the SEC therefore placed an emphasis on various measures to support key stakeholders in the financial reporting ecosystem in carrying out their duties properly, which in turn enhanced the reliability of the financial report and strengthened investor protection.

In 2021, the SEC continued to carry out the existing projects and initiated new programs to build up an environment and ecosystem that facilitated the development and sustainable growth of the Thai capital market, while maintaining protection for investors at an appropriate level. Online activities for enhancing financial reporting quality were intensively and consistently organized, including virtual conferences, training sessions and workshops, where the SEC was able to conduct more activities with relevant stakeholders and allow a larger number of participants to join each session. Through these projects, the SEC observed that stakeholders, especially audit committees, gave emphasis to the enhancement of the financial reporting quality. This was a result from the collaboration between the SEC and relevant organizations to continually communicate and develop various sets of guidance over the past years. Moreover, the SEC has rolled out significant projects, including supporting the stable and sustainable growth of small and medium-sized audit firms together with building their readiness to provide auditing service to the entities in the capital market and small and medium-sized enterprises (SMEs) that are preparing for fundraising in the capital market. The projects also included the collaboration with the Thailand Federation of Accounting Professions (TFAC) in the development of the Thai accounting profession, the cooperation with relevant organizations, such as the Thai Institute of Directors and the Stock Exchange of Thailand, to educate the financial reporting preparers and audit committees, the promotion of the value of audit among stakeholders, and the preparation of auditors in the capital market to get ready for implementing the international standards on anti-money laundering. Additionally, the SEC has considered improving the regulations in line with the context of the current audit profession and strengthening investor protection to be on par with international counterparts.

Under the fast-changing technology and the past few years of the COVID-19 pandemic situation, a lot of audit firms in the capital market have applied technologies to assist in audit work in order to enhance the effectiveness and efficiency of their audit. Remote audit was adopted to perform some audit activities which were achieved by employing audit tools to detect unusual transactions and uplift the audit quality. To keep pace with the new normal, online platforms were also used to communicate and transfer information among the teams and with audit clients. As for the SEC, the year 2021 marked 12 years since the SEC has inspected the quality control system of audit firms. The SEC continued its regular intensive inspection of auditors' working papers before approval of auditors in the capital market, as well as the ongoing inspection of the audit firms' quality control system and auditors' working papers by focusing on high-risk areas. During the COVID-19 pandemic, the SEC has applied technologies to facilitate its remote inspection under risk-based approach, enabling the SEC to continuously maintain the quality of audit oversight to be on par with international standards. The SEC also organized online sessions to communicate significant matters (such as the development in the auditing profession and common findings arising from audit inspections) to audit firms and auditors in the capital market.

Regarding the quality control system inspection, in this cycle, the SEC uplifted the intensity of inspection on key areas, especially on the root cause analysis process together with the development of a clear and pertinent remediation plan as well as an accurate and timely rectification of deficiencies raised by the SEC. The results of the quality control system inspection showed that audit firms in the capital market have further improved their system, as seen from the fact that 53 percent of the firms received "good" to "very good" assessment rating. Of the seven firms receiving "very good" rating, three of them were small-sized audit firms. This can be considered as an essential progress in the audit industry where small-sized audit firms were capable of improving their audit quality to be on par with big audit firms, and indicated that by constantly carrying out the plans, the SEC has achieved its success in supporting and enhancing the quality of small and medium-sized audit firms. Moreover, most of the audit firms were able to remediate their significant deficiencies successfully and appropriately. These included sufficiently increasing the number of the SEC's approved auditors within the firms to maintain proper portfolio allocation, improving on the extent and the inclusiveness of risk assessment and response process, and organizing staff training courses on the findings raised by the SEC.

As for the inspection on individual auditors in the capital market, the SEC found that the quality of the audit engagements has continuously improved compared to previous years' results, as reflected in the proportion where 96% of the approved auditors received "good" to "very good" assessment rating, whereas the number of approved auditors with deficiencies and the condition to be monitored in the next inspection period decreased to 4%. This favorable outcome was contributed by the audit firm leaders' continuing determination to enhance the quality of their auditors as well as the SEC's various projects to consistently improve audit quality. This included organizing educational online training sessions and seminars for auditors in the capital market and providing consultation on relevant professional standards through a hotline project. Amid the COVID-19 pandemic, in the 4th inspection cycle, the SEC observed an increase in findings regarding audit of asset impairment and audit of going concern owing to the uncertainty of the future events and situations. As a result, auditors encountered challenges evaluating the reasonableness of assumptions and sources of key data used by the entity in making accounting estimates.

By performing root cause analysis of the findings arising from the 4th inspection cycle, the SEC found that some audit firms still have room for improvement in enhancing and developing their quality control system. Further improvement can be accomplished by remediating the real cause of the key findings through, for instance, adjusting the performance evaluation and compensation scheme to be in line with audit quality, revisiting the appropriateness of audit firms' shareholding structure in order to retain competent staff, and the audit firms' adaptability in response to significant changes.

In terms of road map for the future, the SEC will continue to support relevant stakeholders in order for them to discharge their duties to the fullest extent, which will lead to a balanced financial ecosystem and a sustainable development of the financial reporting quality in the Thai capital market, and at the same time strengthen the capability of audit firms in the capital market. To achieve this goal, the SEC will carry out the road map through the three mechanisms: promoting self-discipline, building market force, and developing regulatory discipline. In other words, the SEC will drive market force in order for the auditors to perform their work with quality. In 2022, the SEC will place a main emphasis on promoting the recognition of the value of audit among stakeholders. This, in turn, will enhance the audit quality and alleviate audit fee pressure as well as auditor shortage. In addition, the SEC will encourage audit firms in the capital market to disclose their firm inspection reports on the SEC website, urge audit committees to select auditors based on quality by using qualitative information from firm inspection reports, and promote the importance of selecting auditors with quality among investors, which will serve as a mechanism for inducing listed companies to select suitable auditors for their entities. The SEC will also continue to support the sustainable growth of small and medium-sized audit firms, promote the auditors' self-discipline, and support them in complying with relevant regulations by organizing training sessions on and communicating matters relating to crucial developments in audit profession as well as providing tools which will help enhance audit quality continuously. Moreover, the SEC will carry on supporting the amalgamation of small and medium-sized audit firms. This will help strengthen their capacity to invest in significant work systems, enable them to comply with and keep abreast of the fast-changing professional standards and technology, as well as attract talents from various fields to join the firms to support companies in the capital market with further growth in size and complexity.

Quality Assurance Review Panel

Positions:

- Advisor to the Prime Minister
- Honorary Chairman and Advisor of the Board of Directors, Thai Institute of Directors (IOD)
- Expert Member of Office of Public Organization and Other Government Agency
- Commissioner of the Public Sector Development Commission - National Research Council of Thailand
- Board Member of Life Insurance Fund
- Expert Member (Accounting), the Committee on Dumping and Subsidy, Ministry of Commerce
- Commissioner, the Securities and Exchange Commission
- 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 and Chairman of the Nomination and Compensation Committee, Kerry Express (Thailand) Company Limited

Work experiences:

- Chairman of the Board of Directors, Thai Institute of Directors (IOD)
- Chairman, The Private Sector Collective Action Coalition Against Corruption, Thai Institute of Directors (IOD)
- Commissioner (Accounting) of the Office of Insurance Commission (OIC)
- Independent Director and Chairman of the Audit Committee, PTT Global Chemical Public 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
- Chairman of the Audit Committee, Thai Institute of Directors (IOD)
- Advisory Committee of Corporate Governance and Policies, 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), Southeast Asia Peninsula Region

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
- Expert Member, the Accounting Professions Oversight Committee

Work experiences:
- Partner, Deloitte Touche Tohmatsu Jaiyos
- Lecturer, Faculty of Commerce and Accountancy, Chulalongkorn University
- Programmer, University Computing Company, Birmingham, England

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
- Advisor 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 in charge of Accounting and Finance Division and Manager of Risk Management Division, Bangkok Bank Public Company Limited
- Director, Bualuang Ventures Limited
- Director, the Asian Bankers Association (ABA), Taipei, Taiwan
- Vice Chairman, BBL Asset Management Co., Ltd
- Chairman, Basel Club, Thai Bankers Association
- Chairman, IFRS Club, Thai Bankers Association
- Chairman, Thai Forex Club (ACI), Thai Bankers Association

Education:

- Master of Business Administration, Pepperdine University, Los Angeles, U.S.A.
- Bachelor of Science – Chemical Engineering, Lehigh University, Bethlehem, U.S.A.
- Advance Management Program, Harvard Business School, Boston, MA, U.S.A.
- National Defense Academy (NDA), Class of 2004
- 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 Squibb (Thailand) Company Limited
- Manager, Coopers & Lybrand Associates Company Limited
- Internal Audit Manager, Johnson & Johnson (Thailand) Limited
- Audit Supervisor, Coopers (Thailand) Limited

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

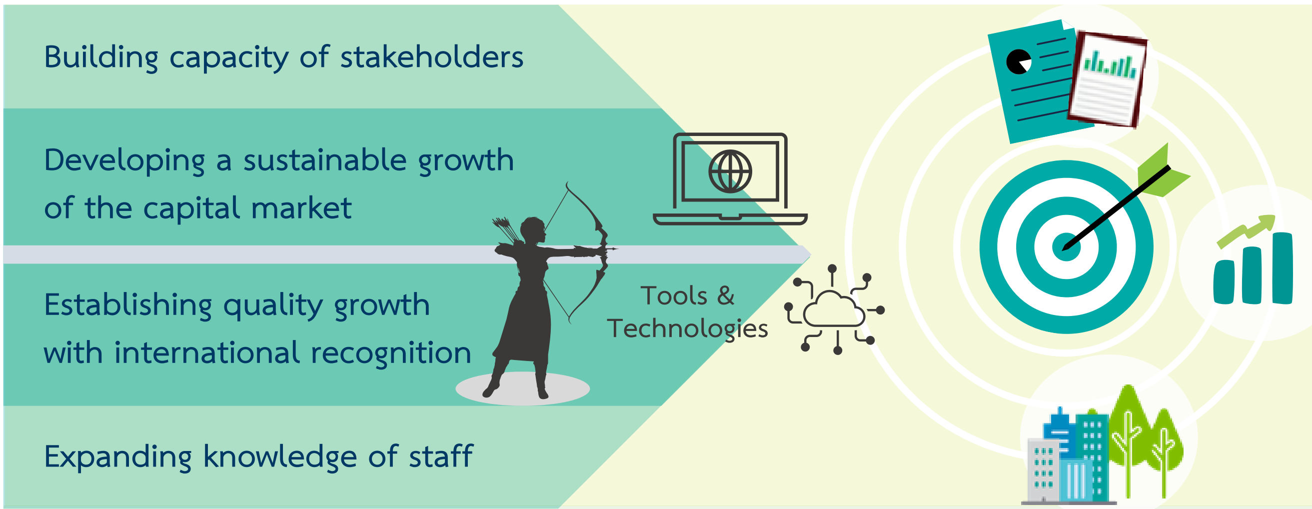
Mr. Piyapong Sangpattarachai

Positions:
- Capital Markets Product Management Head, KASIKORNBANK Public Company Limited
- Board Member and Public Relation, Thailand Federation of Accounting Professions Under the Royal Patronage of His Majesty the King

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

Education:
- Master of 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



"The SEC carries out activities and ongoing projects to enhance the quality of the financial reporting system and develop a sustainable growth of the capital market."

Building Capacity of Stakeholders

Throughout the year 2021, the SEC organized training sessions and seminars on significant financial reporting and emerging issues with significant changes to ensure that stakeholders would be able to perform their duties efficiently in accordance with their responsibilities including cooperation with relevant organizations to organize necessary seminars regarding stakeholders' duties such as

Auditor

- ISQM: Views and expectations of regulator
- ISQM: Risk assessment workshop
- Focus Group ISQM Manual
- Capacity Strengthening on accounting treatment of digital assets
- Common issues from audit inspection such as technology disruption in audit and assurance, fraud case study and audit of contract asset, etc.
- Preparation for effective implementation of Personal Data Protection Act

CFO & AC

- Online forum on Fraud Prevention and Detection
- Online forum on the topic, "Audit Committee and Auditors: An important mechanism for enhancing the quality of financial reports"

FA

- Practical issues and challenges in TFRS implementation for IPO

"The SEC emphasizes the roles of the audit committee in encouraging listed companies to establish good corporate governance, and thus collaborates with the Thai Institute of Directors (IOD) in organizing online seminars to share ideas and experiences in this regard."

Online forum via Facebook Live on the topic, "Fraud: Prevention and Detection"

Professionals in the accounting professions, CFOs and the audit committees of listed companies participated in a discussion on fraud cases that occurred abroad by analyzing the warning signs of liquidity problems and fraud within the companies leading to bankruptcy, sharing lessons learned, providing recommendations, and introducing useful perspectives to the audience. This is to ensure that the audit committees, CFOs, auditors and stakeholders will be able to perform their duties efficiently and effectively.

20 January 2021 17,578 views

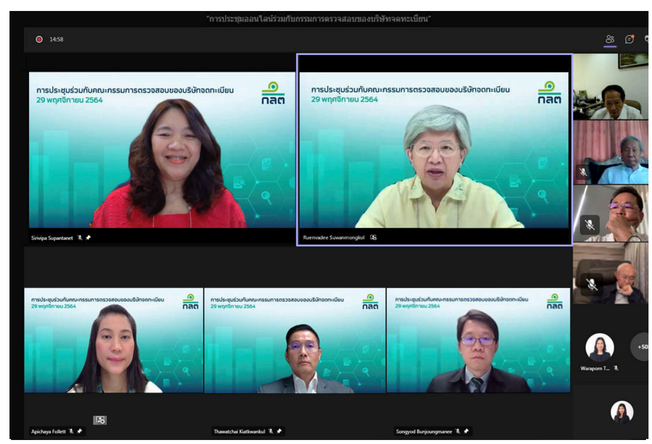
Online forum via Zoom Webinar on the topic, “Audit Committees and Auditors: An important mechanism for enhancing quality of financial reports”

The audit committees and auditors participated in discussions and exchanged ideas to enhance effective collaboration and to support high-quality auditing and financial reporting by pointing out the benefits of selecting qualified auditors.

13 September 2021 5,200 views

Meeting with Chairs and Audit Committees of Listed Companies via MS Teams

The SEC communicated expectations regarding the roles and responsibilities of the audit committees in good corporate governance, in particular, the supervision of the quality of the preparation of financial reports, selection of qualified auditors and sufficient communication with auditors by providing useful information and techniques in selecting qualified auditors and guidelines for communicating with auditors, including current mechanisms and tools that the audit committees can apply to perform their duties more effectively.

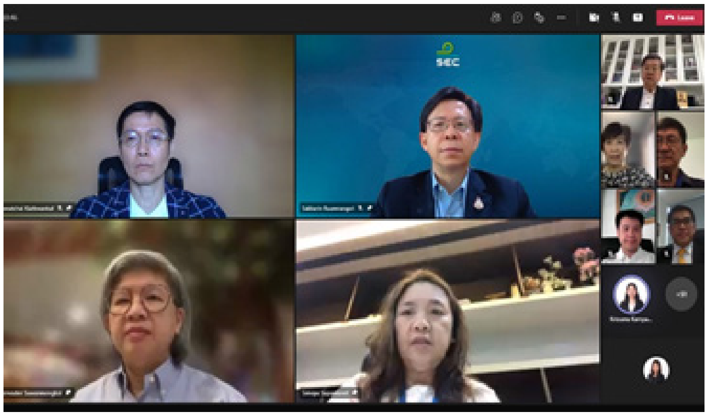


22 November 2021 497 participants

Developing a Sustainable Growth of the Capital Market

“The SEC continues the existing projects and initiates new ones to promote an environment and ecosystem that allow the Thai capital market to develop and grow sustainably while maintaining appropriate investor protection.”

1. Enhancing the quality of audit firms in the capital market



The SEC held regular meetings with small and medium-sized audit firms to exchange views on the opportunities and challenges of performing audits in the Thai capital market under the changing environment by discussing ways to support work as well as guidelines for enhancing the quality and promoting sustainable growth of the audit firms in the Thai capital market. In 2021, the SEC continued the important projects and initiated new ones to continuously improve the quality of Thai audit firms in the capital market.

Project to prepare for the implementation of the International Standard on Quality Management (ISQM 1)

- ✓ Online forum
- ✓ Workshop
- ✓ Focus group on ISQM 1 Manual

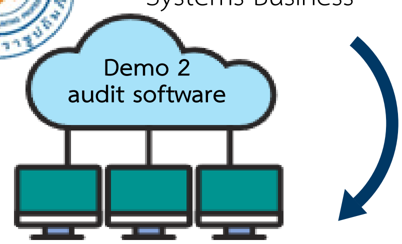
"The Working Group of Monitoring Progress and Developing ISQM Guidance"

Hotline Consulting on Accounting and Auditing Project

Number of auditors' requests for advice via hotline channel in 2021 **> 95 Cases**

Project to support Thai audit firms in the capital market to acquire audit software and audit tools

"The Working Group of Audit Knowledge for Complex IT Systems Business"



The audit firms and auditors received demonstrations and trials using two ready-made audit software programs.

Currently, the project is in the process of considering more ready-made audit software for the audit firms to choose what is most suitable for them.

Integrating working plans to promote relevant stakeholders' awareness of the audit value

"The TFAC Working Group for Promotion of Relevant Stakeholders' Awareness of the Audit Value"

Studying the reasons why relevant stakeholders barely realize the value of audit work, and integrating plans and guidelines for promoting stakeholders' awareness of the audit value.

2. Preparation of accounting and auditing to support SMEs fundraising

Small and medium-sized enterprises, including startups, play an important role in driving the Thai economy. However, there are restrictions on access to sources of fund. Therefore, the SEC and the Stock Exchange of Thailand support and encourage SMEs and startups to offer securities for sale to the public, and for listing securities on LiVE Exchange (SME Board).

The online forum on the topic, **"SME-PO: a New Alternative of Fundraising for SMEs and Startups"** has provided an understanding of the SME-PO funding option and the duties of listed companies, including the preparation for SMEs and startups to raise funds through SME-PO and to be listed on the LiVE Exchange.

Preparation on accounting and auditing to support SMEs fundraising

In order to support plans to promote SMEs and startups to be able to raise funds in the capital market, the SEC has taken many actions, including sharing experiences in preparing accounting systems for SMEs and startups entrepreneurs and communicating regulations with the auditors to prepare them for auditing SMEs and startups.

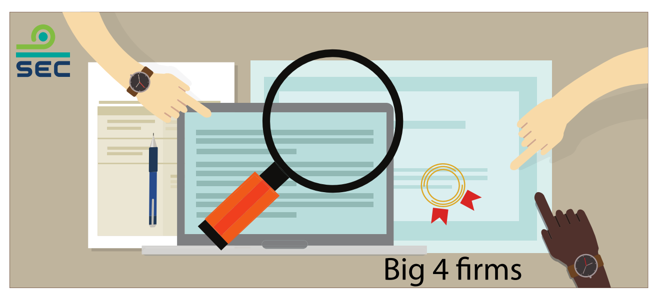
The SEC held a seminar on "Requirements for SMEs seeking to offer securities for sale to the public, and for listing securities on a new secondary market, including the criteria for financial statements and auditors", communicating in-depth experience in preparing for accounting systems for auditors.

3. Collaboration with TFAC to develop accounting professions

The SEC organized meetings with the TFAC and delegated representatives to participate in various working groups in order to cooperate and drive forward work plans to continuously enhance the quality of financial reporting and audit quality. This has promoted the strengthening of the Thai financial reporting system and increased investor confidence in the Thai capital market, resulting in a sustainable growth of the Thai capital market and economy.

4. Meetings with representatives of the large audit firms (Big 4 firms)

The SEC organized regular meetings with representatives of Big 4 firms to communicate and discuss guidelines for enhancing audit quality such as applying technology to increase audit efficiency and communicating common deficiencies from the review of workpapers and financial statements for the past year, including theme inspection and matters that should be emphasized in the audit of the financial statements, etc.



5. Revision to various regulations to conform with today's contexts of the accounting professions

The SEC regularly reviews regulations to ensure that the requirements are appropriate for the current situations and contexts of the accounting professions, as well as increase flexibility to accommodate expected changes in the future. This would help support the capital market's growth with quality and sustainability. In 2021, the SEC amended the rules and forms as follows:

5.1 Proposal for an amendment to the Securities and Exchange Act, B.E. 2535 (1992) relating to the preparation and submission of financial statements of listed companies, including auditor oversight

The proposal to amend the Securities and Exchange Act is to provide flexibility and support future changes in the Thai capital market on interim financial disclosure criteria, such as the format, frequency, and timing for the preparation and delivery of interim financial information, as well as to increase the effectiveness of the supervision of auditors and audit firms in the Thai capital market and enhance investor protection to be on par with international standards.

Results of the public hearing

Preparation and delivery of financial statements: Agreed 86%

Supervision of auditors and audit firms: Agreed 80 - 100%

5.2 Relief criteria on the qualifications of auditors in the capital market to conform with today's contexts

1) Reduced years of experience in performing audit work from 10 to 7 years.

2) Reduced the number and nature of the entities required to perform audit work from 3 to 2 entities.

3) Provided opportunities for auditors who are responsible for auditing a commercial bank but have no experience affixing signature to the auditor's report to apply for approval as capital market auditor.

4) Allowed auditors who are unable to maintain the qualifications for holding a position in an audit firm a period of time to regain the qualifications to facilitate and reduce the burdens on auditors in the capital market.

The amendment to such criteria does not compromise the quality of auditors in the capital markets because there is still a process of screening the qualifications and audit quality of the applicants in accordance with international standards.

Effective from 1 May 2021

5.3 Revision to the Approval Application Form and Status Maintenance Form for auditors in the capital market to reduce the burdens and operating costs of auditors

regulatory guillotine

- Concise
- Up-to-date
- Less burdens and no excessive requests for information
- Adequate information for supervision of audits in the capital market to ensure audit quality

6. Activities to attract students' interest in the accounting professions

Prince of Songkla University **143** people

Khon Kaen University **80** people

students

Disseminating knowledge and sharing working experiences in the accounting professions in the capital market to motivate students to be interested in working in the field could prevent a shortage of workforce in the accounting professions in the future.

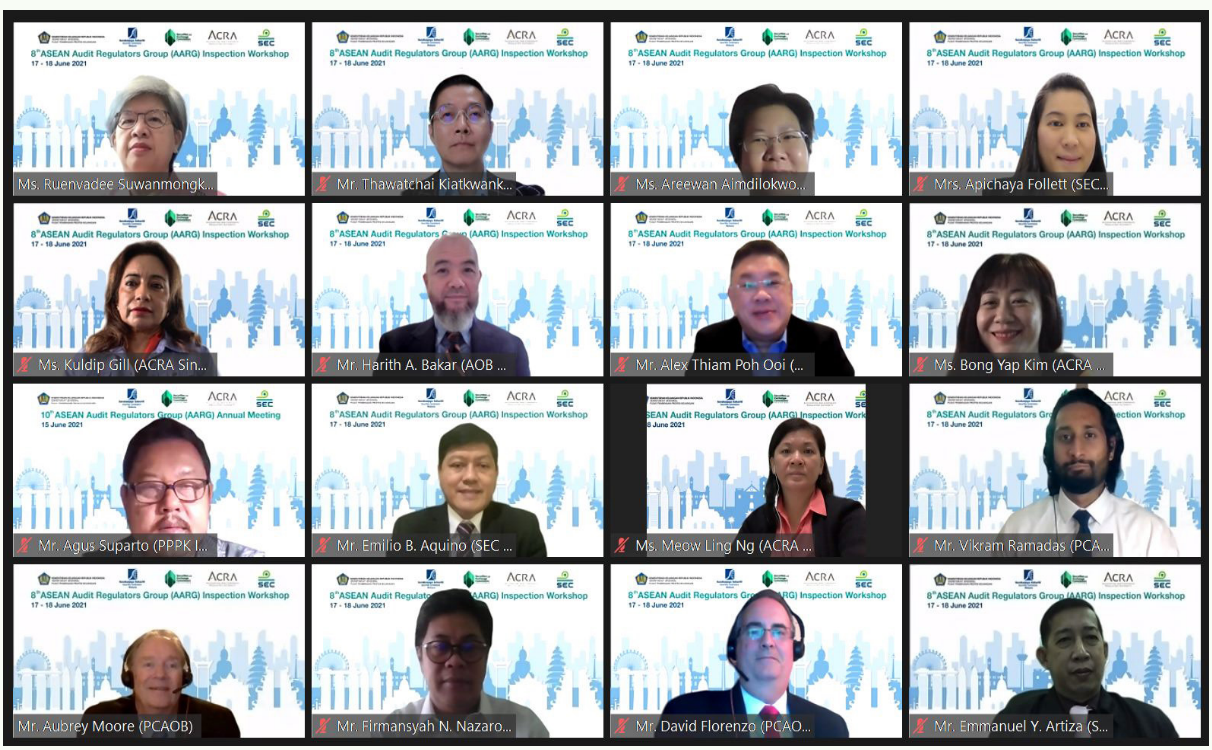
7. Preparing for the implementation of international anti-money laundering standards

To enhance the image of Thailand and boost confidence in international investment, the SEC held a joint meeting with the Anti-Money Laundering Office, the TFAC, and auditors in the capital market to share knowledge on the essences of the new proposed anti-money laundering bill concerning auditors and accounting professions, as well as to listen to the auditors' opinions to consider setting appropriate guidelines.

Establishing Quality 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), which are international organizations comprising global members who are independent audit regulators. The SEC attends IFIAR and AARG meetings on a regular basis to exchange information, knowledge and experience regarding the supervision of auditors and audit firms. This ensures that the SEC has an audit quality supervision system that meets international standards.

- The use of technology in auditor supervision
- The challenges arising from changing professional standards
- Skill development for employees to keep up with the digital world
- The difficulties encountered in auditing and audit supervision during the Covid-19 situation
- The role of the Audit Committee in improving the quality of audit work



The SEC hosted the 8th AARG Annual Meeting with Audit Firms and AARG Inspection Workshop on 15 and 17 - 18 June 2021 to discuss and share experiences on auditor supervision, as well as guidelines for enhancing the quality of audit work in the ASEAN region.

Furthermore, the SEC representatives attend the International Organization of Securities Commissions (IOSCO) Committee 1 Accounting, Auditing, and Disclosure ("IOSCO C1") on a regular basis to discuss and exchange views on the exposure draft of international financial reporting standards, international auditing standards, and international ethical standards for professional accountants.

International conferences and seminars via online channels

2021

Mar | Apr | May | Jun

EU-Asia Pacific Forum
The 5th EU-Asia Pacific Forum on Financial Regulation

IFIAR
Virtual Inspection Workshop

IOSCO C1
- IOSCO Committee 1 meeting
- APRC Plenary meeting

IOSCO C1
IOSCO Committee 1 meeting with GPPC and IESBA

FSSG
7th Financial Statements Surveillance Group 2021 Workshop

IFIAR
2021 Annual General Assembly Meeting

IFIAR
2021 Extraordinary General Assembly Meeting (“EGAM”)

IFIAR
2021 Plenary: Management of Audit Quality in the COVID Environment and Beyond

AARG
8th Asean Audit Regulators Group (AARG) Inspection Workshop

IFIAR
Virtual Training Session: the audit of banks by ERG

Aug | Sep | Oct | Nov | Dec

IFIAR
Virtual CEO Plenary Session with GT and PWC

IOSCO 1
IOSCO Committee 1 meeting

IFRS AC
Dialogue of APRC and IFRS Foundation

IOSCO C1
IOSCO Committee 1 meeting

IOSCO C1
IOSCO Committee 1 meeting with IFIAR

IFIAR
5th IFIAR Virtual Enforcement Workshop

IOSCO C1
IOSCO Committee 1 meeting with IESBA

IFIAR
Virtual CEO Plenary Session with EY, KPMG, BDO and Deloitte

IOSCO C1
IOSCO Committee 1 meeting

Expanding Knowledge of Staff

The SEC continuously develops the capacity and knowledge of its staff to ensure that they have sufficient professional knowledge for the development of the accounting professions, including applying such knowledge to develop and supervise the preparation of financial reports of listed companies and the auditors' work effectively and efficiently.

In 2021, the SEC organized various staff training sessions, for example:

- Case studies on accounting issues such as revenue recognition (sales and consignment arrangement, cost of obtaining a contract, satisfaction of performance obligations), business combination (under common control, reverse acquisition), real estate investment trusts with buy-back conditions, disclosure of contract assets, etc.
- Financial reporting standards such as TFRS 15, TFRS 9
- Newly issued professional standards and regulations such as ISQM1, the requirements for SMEs and startups seeking to offer securities for sale to the public, and for listing securities on a new secondary market, including criteria for financial statements and auditors.
- Accounting treatment for digital assets and auditing of digital asset
- Information technology in such areas as governance risk compliance, and software development in the form of DevOps and Cloud Computing, etc.

Auditing Landscape in Thailand

ON **77%**
Active CPAs
(10,947 from
the total of 14,295)

809,111
juristic persons registered
with the Department
of Business Development
(↑ 40,111)

776 listed companies
(↑ 33)

The total market capitalization
19.27 trillion baht
(119 percent of Thailand's GDP)

Remark: Information as of 31 December 2021

313 auditors
in the capital market
(↑ 10 percent or 28 auditors from 2020)

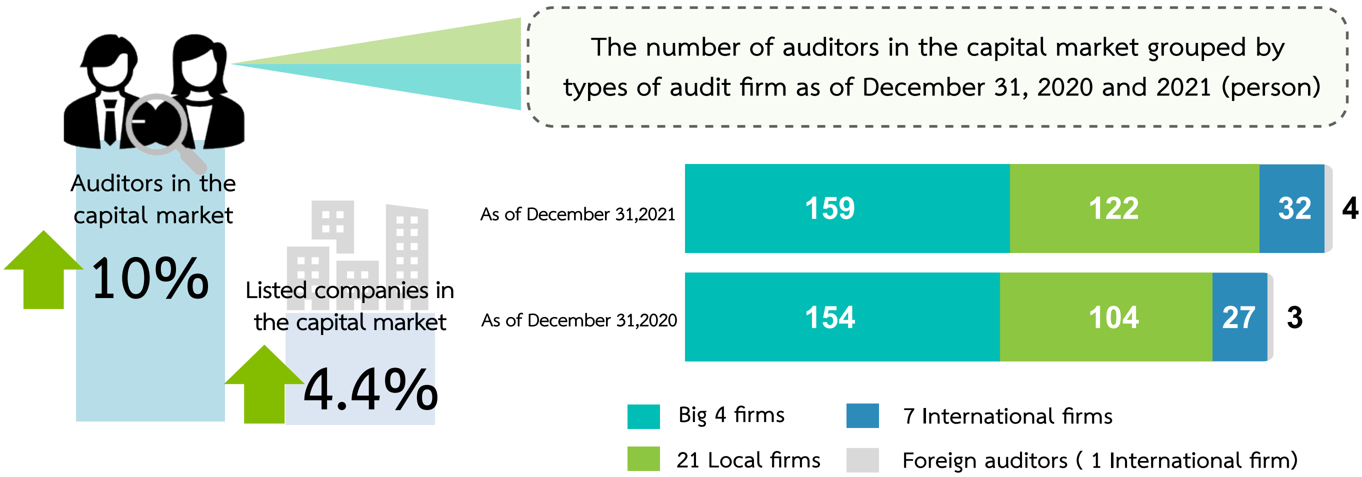
"In 2021, the COVID-19 pandemic situation continued. As a result, the country's economic activities remained subject to epidemic control measures and many businesses' action plans were affected by this situation as well. Nevertheless, the number of companies listed on the Stock Exchange of Thailand continued to increase by 33 companies, accounting for 4.4 percent rise from 2020. Over the past few years, the SEC has issued various measures and policies to stimulate the increase in the number of auditors in the capital market to sufficiently meet the needs of listed companies in the future while maintaining the standards and quality of the audit."

The sufficiency of auditors in the capital market

The SEC regularly reviews the sufficiency of the number of auditors in the capital market and promotes the increase in the number of new auditors in the capital market. For example, revising the criteria of the qualifications of auditors in the capital market in appropriate response to the current situation to support the sufficiency of quality auditors for the growth of the capital market, and facilitating entry of good potential, new generation auditors to ensure a sufficient number of quality auditors in support of future growth of the capital market. Information on capital market auditors and listed companies can be summarized as follows:

The increase rate of auditors in the capital market

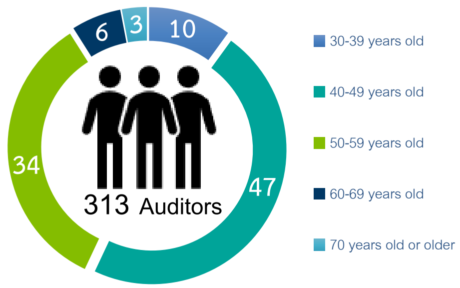
In 2021, there was an increase of 29 auditors in the capital market accounted for 10 percent which was higher than the increase rate of listed companies (33 companies). In 2021, each auditor was responsible for auditing approximately 2-3 financial statements on average. Therefore, it is expected that the increase rate of auditors will be sufficient to support the increase in listed companies in the future. It was found that the majority of the increase in auditors came from local firms which was 62 percent of the total increase in auditors in 2021.



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.

Age ranges of the auditors in the capital market

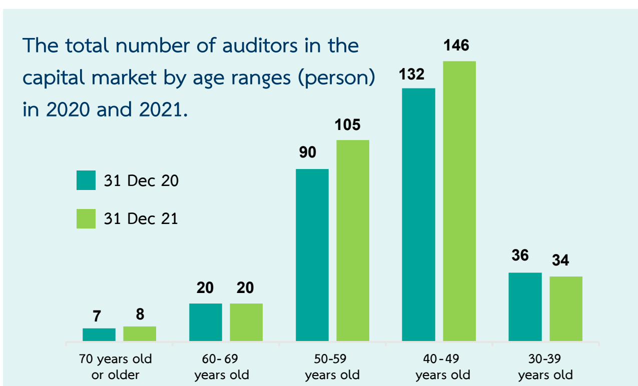
Proportion of auditors in the capital market (%)
as of December 31, 2021



Considering the current age ranges of auditors in the capital market, it is likely that the number of auditors to retire in the near future will be quite high (50-70 years or older).

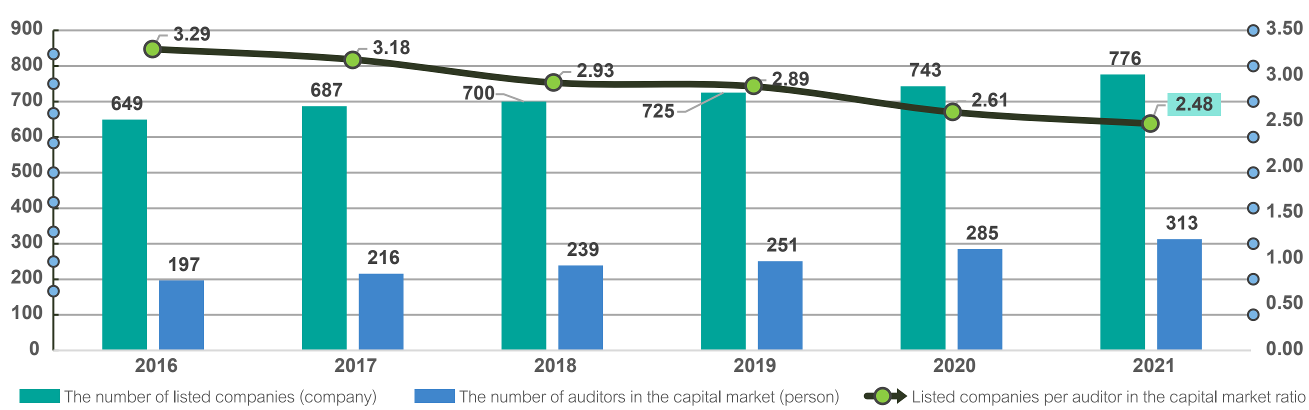
43% or **133** Auditors

Percentage/number of soon-to-retire auditors in the capital market



In 2021, there was a net increase of 28 auditors with the majority (54 percent of the auditors who apply for new approval) in the age range of 50-59 years old. However, the SEC believes that the amendment to the criteria of the qualifications of auditors in the capital market will increase the chances for new auditors who have the potential to become auditors in the capital market and maintain an appropriate proportion of listed companies to auditors in the capital market, while supporting the increase in the number of listed companies and the expansion of the capital market in the future.

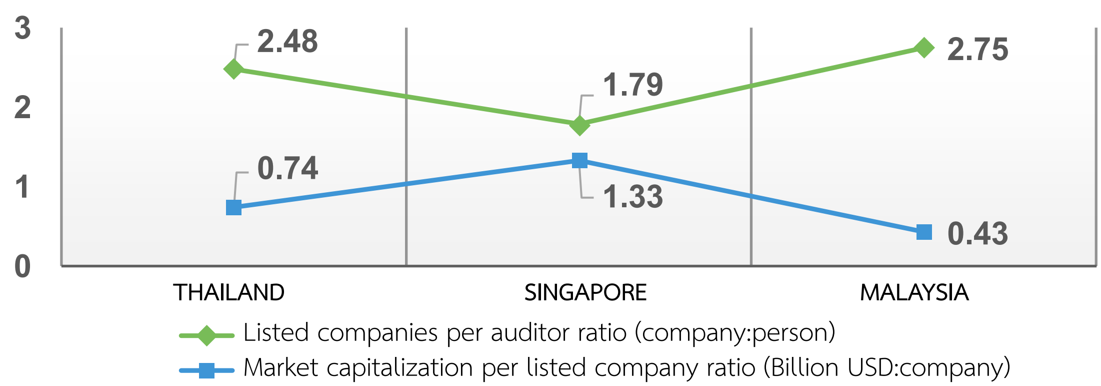
Listed companies per auditor ratio from 2016 to 2021



The above information reveals that the listed companies per auditor in the capital market ratio tends to decline continuously from 2016 until 2021. It reflects that currently the number of auditors in the capital market is sufficient to support the performance of quality audit for listed companies.

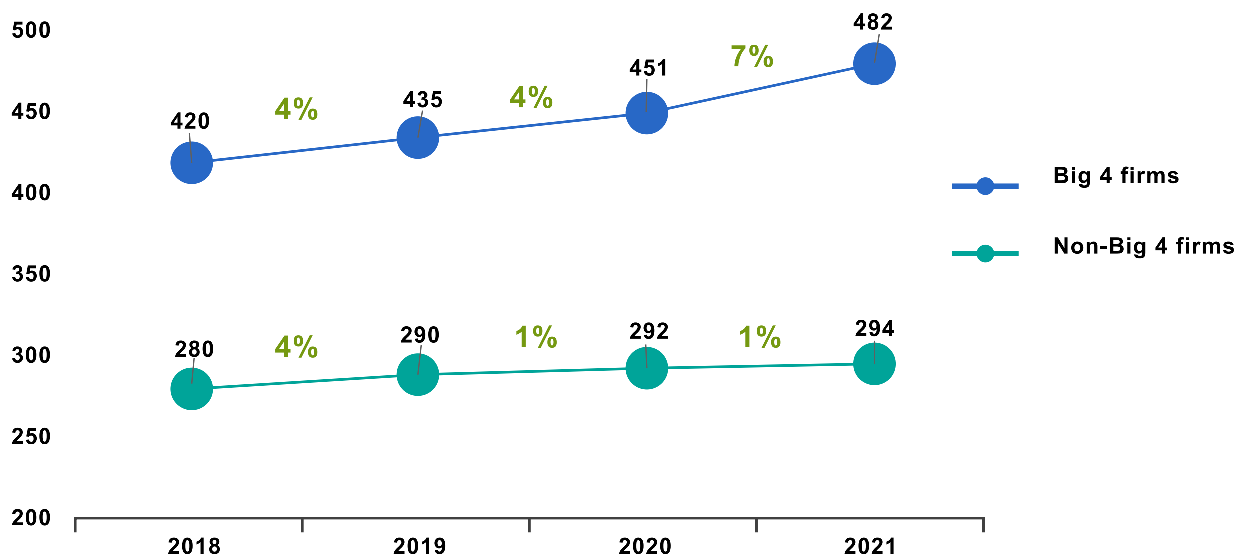
If listed companies per auditor in the capital market ratio is too high, some listed companies or IPOs may not be able to find an auditor to audit their financial statements. This may be an indication of insufficient auditors in the capital market. It may also have a negative impact on the audit quality due to the excessive workload. Since most listed companies have their fiscal year in the same period, the auditors have limited time to review the financial statements and may not be able to sufficiently maintain the quality of work at an acceptable level.

The ratio of listed companies per auditor in the capital market and the ratio of market capitalization per listed company in Thailand, Singapore and Malaysia at the end of 2021



Comparing the amount of audit work per partner with neighboring countries such as Singapore (1.79) and Malaysia (2.75) reveals that Malaysia has the highest ratio of listed companies per auditor in the capital market, which is one auditor responsible for 2.75 listed companies. However, when considering other circumstantial factors such as the size of the listed companies in terms of market capitalization, listed companies in Malaysia have an average size of 0.43 billion USD, which is smaller than the average size of listed companies in Thailand (0.74 billion USD) and Singapore (1.33 billion USD), accounting for 42 percent and 68 percent, respectively. Therefore, auditors in Malaysia's capital market tend to spend less time on average per listed company than auditors in the capital market of Thailand and Singapore. As a result, auditors in Malaysia's capital market may accept the audit engagement of listed companies at a higher average ratio than their peers in Thailand and Singapore.

Number of listed companies audited by the Big 4 firms and Non-Big 4 firms from 2018 to 2021



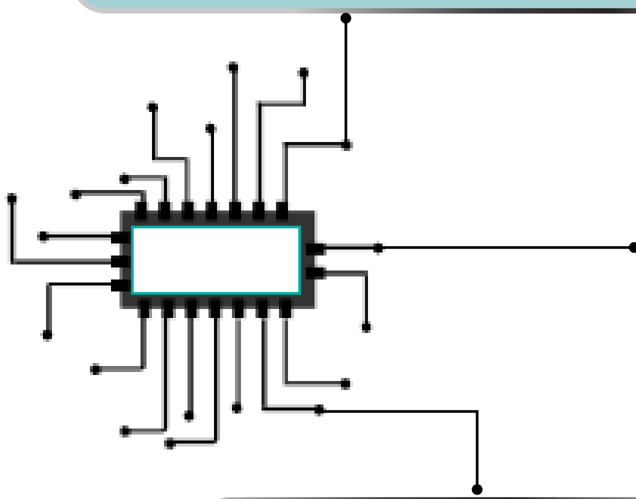
The above information shows that over the past four years, the Big 4 firms have accepted an increasing number of listed companies with an annual growth rate of 4 – 7 percent, while small and medium-sized audit firms (Non-Big 4 firms) have accepted to audit more listed companies at a constant proportion, and at around 1 percent increase in 2021.

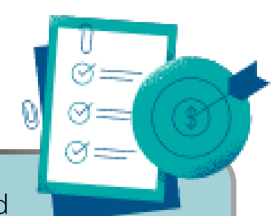
One of the factors when considering to accept an audit engagement is the preparation of various resources to support the amount and the complexity of the audit work. Therefore, the audit firms should prepare both human resources with sufficient knowledge, capability and experience as well as develop audit tools and technologies that will reduce the audit time and audit risk. This will enable the audit work to be more efficient and effective than the use of traditional audit procedures.

Technology that the audit firm uses in the audit work

Technology disruption and the impacts of the recent COVID-19 pandemic have been a key driving force for organizations to revise business plans to meet customers' needs. All industries thus plan to adjust their strategies to cope with the changing trends. Similarly, audit firms have adopted technology to enhance efficiency of the audit work and developed audit procedures in response to the changes with regard to both new transactions and the increasing complexity of transactions.

The development of audit plans and procedures of many audit firms in the previous inspection cycle involved adoption of new technologies and tools in the audit phase.

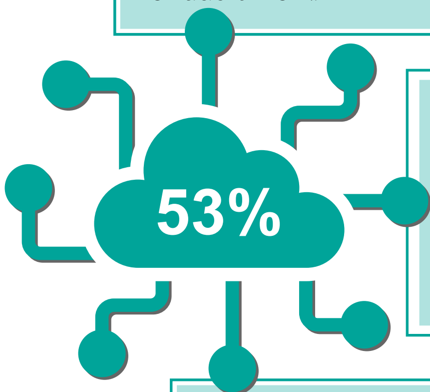




This increased the likelihood of detecting unusual transactions and material misstatements in the financial statements.

In line with the new normal lifestyle by changing communication forms and transmitting information through online channels more often.

53 percent of Non-Big 4 firms have adopted tools and technology to replace traditional methods and improve the efficiency and quality of audit work.



Use **audit automation software/platform,** either self-developed software or purchased audit software packages, for planning, risk assessment and execution, including linking audit procedures to respond appropriately to risks, as well as facilitating audit work review and effective communication within the audit team.

Use **a data analytic program** to detect unusual transactions and help plan the audit to be more precise.

In 2021, the SEC delegated representatives to participate in the Knowledge Center Working Group for Auditing Business with Complex IT Systems (IT Working Group) of TFAC to support Non-Big 4 firms in acquiring audit software and audit tools to assist in performing audit work.

Done IT Working Group has developed an automated lead sheet program for auditors.

In progress Currently, many Non-Big 4 firms are selecting and trialing audit software that can perform audit work efficiently and effectively through functions such as:

- Gathering working papers fully in electronic files.
- Linking work processes from planning, risk assessment, test of controls, substantive test and other audit procedures to the conclusion of the audit work.
- Showing the progress of audit work to facilitate auditors in monitoring work and support efficient and timely remote review of audit work.

In addition, Non-Big 4 firms also need other tools and technologies to enhance their audit quality such as:

- Sample size calculation program used to test transactions.
- Electronic portal for transmitting data to audit clients reliably and securely.
- Data analytic tools
- Knowledge center platform (library) or resources for searching data and manuals for implementing the accounting and auditing standards including historical cases, forms and templates related to the audit.

Big 4 firms have been using audit software and audit tools for a while, and have further developed such technologies to be more up-to-date and efficient such as:

Link all work processes from planning to concluding audit results to perform the audit and respond to risks appropriately.

Show the progress of audit work to review the work efficiently and promptly, as well as to supervise the audit team's full compliance with the work plans and procedures.

Be a center for storing files and audit evidence.

Record data changes and revision (audit log) so that the audit team or related persons can review the historical data.

Transmit electronic data to audit clients reliably and securely.

Big 4 firms have adopted data analytics tools to help with the audit by, for example, sorting and classifying data for efficient in-depth analysis and displaying data in easy-to-understand formats such as graphs, charts and images. The results can also be used in further audit. The implementation of data analytics tools is as follows:

Relationship analysis between sales and other circumstantial data

- Data classification such as sales by product or by branch will facilitate more detail-oriented and accurate analysis. In addition, this allows the audit team to better understand the nature of the transactions and use the results to identify risks and plan the audit more effectively.
- Analysis of monthly sales and business cycle.
- Analysis of outliers of sales in each period.

Trend analysis of the asset impairment

By assessing indicators from various circumstantial data and using relevant variables and assumptions to predict the recoverable amount in a variety of scenarios such as base case, worst case and best case. This includes sensitivity analysis. For example, how the increased discount rate will affect the outcome in each situation.

Trend analysis and account relationship

Dashboard showing listed company data

Such as stock prices and financial ratios which can be displayed in many angles, both by the company and by industry in each period, for use in the audit activities such as comparative analysis and risk assessment.

Dashboard for analyzing data to find account relationship

Data analytics is to find account relationship such as accounts receivable, accounts payable, revenue and inventory by identifying significant changes between current and historical data or analyzing the account relationship whether it is consistent with the established assumptions such as:

- Analysis of the relationship between sales and accounts receivable whether they are volatile or consistent.
- Analysis of various accounts comparing by period or by subcategory to find the fundamental reason for the increase or decrease of the accounts in order to plan further audit such as changes in quantity or unit price.
- Analysis of accuracy of the asset depreciation account by analyzing fixed asset movement and asset useful life to verify the accuracy and completeness of the depreciation record.

Data Visualization

Data Analytics

Analysis of irregularities in work procedures or accounting transactions

Verify the accuracy and consistency of information in documents

For example, performing 3-way matching to consider the consistency between sales data in various documents such as purchase order, invoice and receipt to check whether the product information, product quantity and amount in each document are correct and match, as well as identify unusual purchases such as purchasing without a purchase order, receiving a tax invoice before issuing the purchase order or changing the purchase price.

Analyze the selling price whether it is in accordance with the entity's policy

The audit team will be able to examine in detail more precisely.

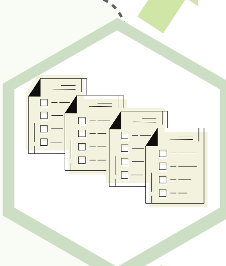
Process mining

Analysis of each business process from start to finish through a computer program to help the audit team to better understand the business processes and be able to plan audits and assess risks efficiently. For example, analysis of the entity's revenue cycle to determine processes and activities and identify whether any of the entity's activities deviate from normal procedures.

Analysis of other irregularities

- Analyze accounting transactions recorded on holidays or recorded by unauthorized persons.
- Analyze adjustment transactions that do not occur in the normal course of business.
- Analyze unusual accounting entries that are not in accordance with the accounting nature such as recording debit revenue and credit expense.
- Detect suspicious items such as multiple transactions of recording in debit or credit ending with 999.

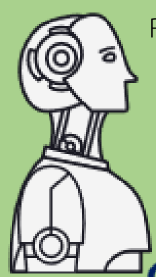
Review the running of the document numbers



To verify the completeness of the accounting documents or to detect unrecorded documents.

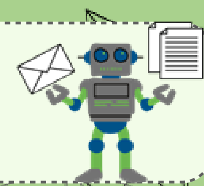
Review the segregation of duties

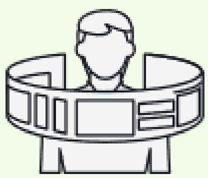
Is the segregation of duties appropriate? For example, are the bookkeeper and the approver the same person? Are the bookkeeper and the approver complying with the company's policy?



Robotic Process Automation ("RPA") developed for the audit*

RPA sends accounts receivable and accounts payable confirmation and automatically issues a summary report to the audit team.

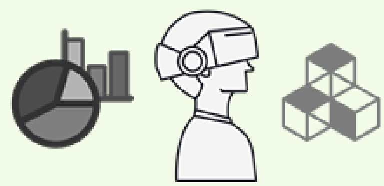




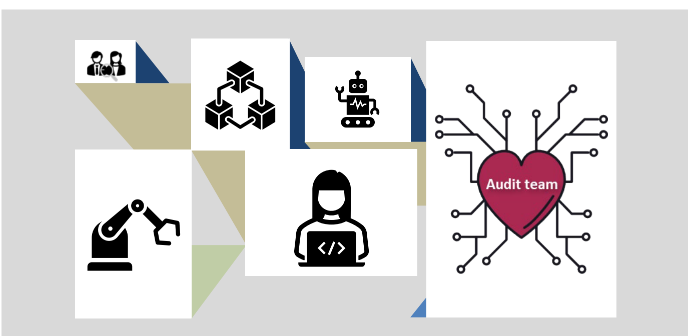
RPA automatically retrieves information on related parties or related businesses for audit performance.

RPA helps to verify the withholding tax whether it is calculated according to the specified type and issues a summary report to the audit team.

Inventory Counting Application

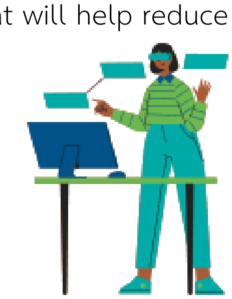


can track the real-time results of inventory count, help reconcile inventory and automatically generate an inventory count report.



In addition, many audit firms have begun to restructure their audit teams to support the increasing use of technology in the future by increasing the proportion of personnel with knowledge of technology in the audit teams such as data & analytics and IT audit, as well as providing a centralized work center or shared service center that will help process data for auditing for the audit teams of audit firms.

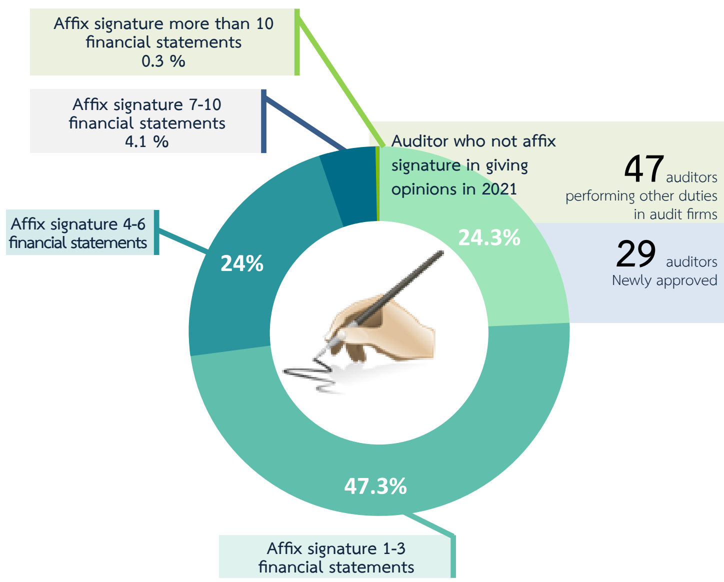
The adoption of technology not only reduces the time required to process large amounts of data but also supports precise and effective audit that will help reduce audit risks. In the future, it is expected that audit firms in the capital market will apply more technologies to auditing such as machine learning, artificial intelligence, and blockchain, etc.



* Reference: Article titled, Audit Data Analytics and video on the topic, Accounting Technology Transformation - Future Ready! by TFAC

Statistical Data as Audit Quality Indicators (“AQIs”)

Number of listed companies for which auditors in the capital market affixed signature in giving opinions in the auditor’s report in 2021



237 out of the total 313 auditors in the capital market affix signature in the auditor’s report of listed companies

accounting for **75.7%** of the total number of auditors in the capital market approved by the SEC as of December 31, 2021.

148 auditors in the capital market accounted for 47.3% of the auditors in the capital market in 2021.

affix signature in giving opinions in **1-3** financial statements/ year

close to the listed companies per auditor in the capital market ratio in 2021 **(2.48)**

However, 14 auditors or 4.4 percent of the total auditors in the capital market approved by the SEC as of December 31, 2021 affixed signature in the auditor's reports of seven or more financial statements – a significantly higher number than the listed companies per auditor in the capital market ratio in 2021. The audit firms to which such auditors are attached should consider the suitability of portfolio allocation to ensure that the auditors have sufficient time to get involved in the audit as well as maintain the quality of the audit at an acceptable level.

In addition, the information above indicates that 76 auditors or 24.3 percent of the total auditors in the capital market approved by the SEC as of December 31, 2021, did not affix signature in 2021. They consisted of 29 newly approved auditors in 2021 who did not affix signature in the auditor's reports of listed companies and 47 auditors who were assigned by their audit firms to perform other duties such as:

- Being an engagement quality control reviewer (EQCR) for audits of listed companies’ financial statements
- Being an auditor for non-listed companies’ financial statements such as securities companies and mutual funds
- Being an executive or responsible for managing and supervising their audit firms’ quality control system for various elements

Listed companies per auditor ratio

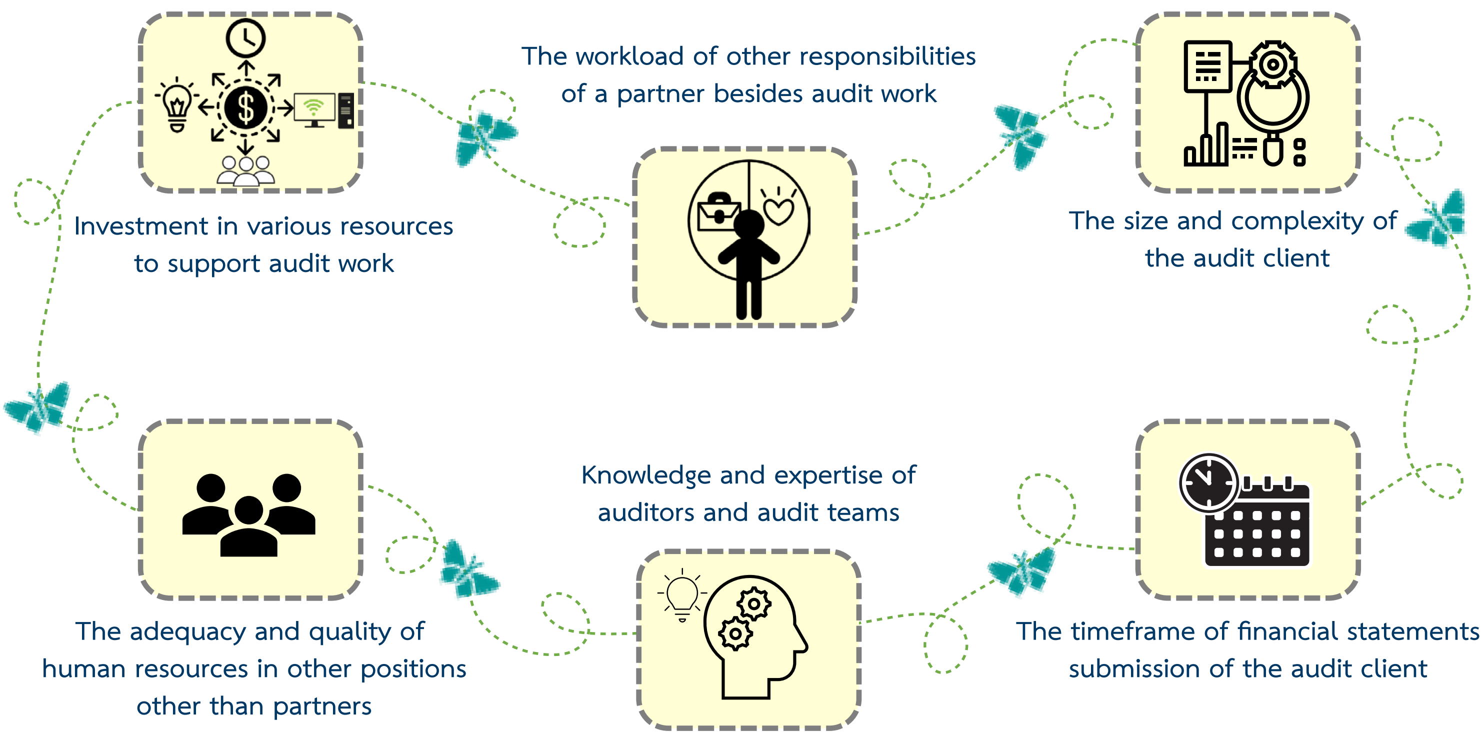
The maximum number of listed companies’ financial statements for which one auditor in the capital market accepted the audit engagement in 2021, grouped by type of audit firms

Big 4 firms **9** financial statements

Non-Big 4 firms **13** financial statements

The above information indicates that the maximum number of listed companies' financial statements for which an auditor in the capital market accepted the audit engagement was several times higher than the listed companies per auditor ratio in 2021 (2.48).

However, comparing the listed companies per auditor ratio may not be enough to consider the suitability of the amount of the audit work. Each audit firm should consider other factors for the portfolio allocation such as:



“Consideration of circumstantial factors for portfolio allocation will enable audit firms to allocate the work to their auditors appropriately. As a result, each auditor will have sufficient time to perform quality audit.”

Supervision of audit staff

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

Staff per manager (person)

	2016-2018	2019-2021
Big 4 firms	8	6
Non-Big 4 firms	6	8

The overall staff per manager ratio in the 4th inspection cycle (2019-2021) was relatively unchanged compared with the previous cycle.

Staff per partner (person)

	2016-2018	2019-2021
Big 4 firms	31	26
Non-Big 4 firms	26	10

In the 4th inspection cycle (2019-2021), the average staff per partner ratio decreased compared with the previous cycle, especially for the Non-Big 4 firms, where the ratio has significantly dropped, allowing partners to supervise staff and audit quality more thoroughly.

The staff per partner ratio decreased in line with a 26% increase in the number of auditors in the capital market of the Non-Big 4 firms during 2019 and 2021.

The decrease in the staff per partner ratio during the past few years may have been due to the SEC's support to increase the number of auditors in the capital market to meet the continuously growing number of listed companies. In addition, the audit firms considered the necessity to increase the number of auditors in their firm to be able to comply with the ethical requirements regarding the rotation of auditors. The SEC also advised the audit firms in the capital market to ensure that their partners get involved in the audit sufficiently. However, another reason for the decrease in the staff per partner ratio was due to the increasing trend of turnover rate.

In consideration of the appropriateness of the supervision of the audit staff, other circumstantial factors should also be involved such as the experience of the staff under partner's or manager's supervision. If, on average, the staff have a relatively high level of experience, partners or managers may spend less time supervising and controlling the audit quality than with the less experienced staff.

Turnover rate

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

Big 4 Firms

The 4th inspection cycle (2019-2021) 23%

The 3rd inspection cycle (2016-2018) 15%

8%

Non-Big4 Firms

The 4th inspection cycle (2019-2021) 28%

The 3rd inspection cycle (2016-2018) 23%

5%

Turnover rate in the 4th inspection cycle compared with the 3rd inspection cycle tended to increase for both Big 4 and Non-Big 4 firms.

Turnover rate should be considered in association with other factors such as the average experience years of the staff in each level in the audit firm and the supervision of the audit staff.

In the 4th inspection cycle, **Staff** with an average **3**-year work experience (Junior and Senior) had the highest proportion of turnover (in both Big 4 and Non-Big 4 firms) but it was within audit firms' ability to recruit replacements.

However, if in the future the audit firms have a significant increase in the turnover rate of experienced staff, it may be a sign that the audit firms need to remediate without delay.

Retaining experienced staff with an audit firm is a big challenge. The audit firm should provide measures for attracting staff and plan a replacement recruitment in advance in order to maintain a sufficient proportion of staff at each level and perform quality audit on an continuing basis.

Experience of staff

Average experience years of staff in each level is another important quality indicator that indicates an audit firm's capacity and human resource readiness. This is because:

- Highly experienced staff have expertise and are able to handle tasks with higher levels of complexity.
- Professional skepticism tends to increase in line with experience in audit work.

Therefore, audit quality tends to increase when staff in the audit team have a high level of auditing experience. This can ensure that auditors will be able to express an opinion on the company's financial statements fairly in all material respects.

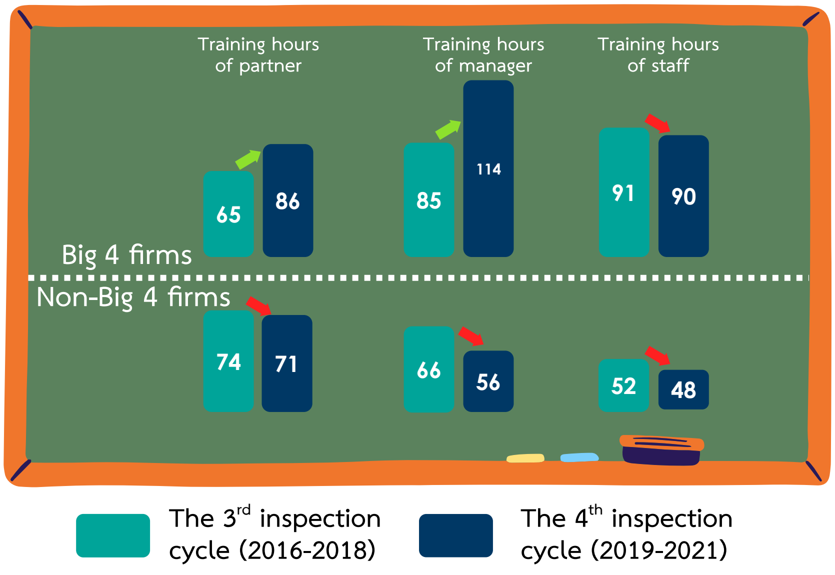
From the survey in 2021, the average experience years of staff in each level of the Big 4 and Non-Big 4 firms were insignificantly different.

Average experience years of staff in each level in the 4th inspection cycle (2019 - 2021)

Organizing training sessions for staff in each level

The training hours of auditors in the capital market exceeded the minimum **40 hours** of continuing professional development of staff in every level set out by the TFAC.

The audit staff are an important resource for the audit service of audit firms. The staff's knowledge and competence have a direct impact on the audit quality. Therefore, every audit firm in the capital market has a policy to develop skills, knowledge and professional competence for staff in every level to ensure that the audit staff have sufficient capacity to perform their tasks with quality.



It is important for the audit staff to attend regular training sessions to develop professional knowledge. Especially in 2021, there were changes in professional standards of which practitioners need to be aware in order to apply them in their work, such as:

Revised **Thai Financial Reporting Standards 9** - Financial Instruments (Interest Rate Benchmark Reform)

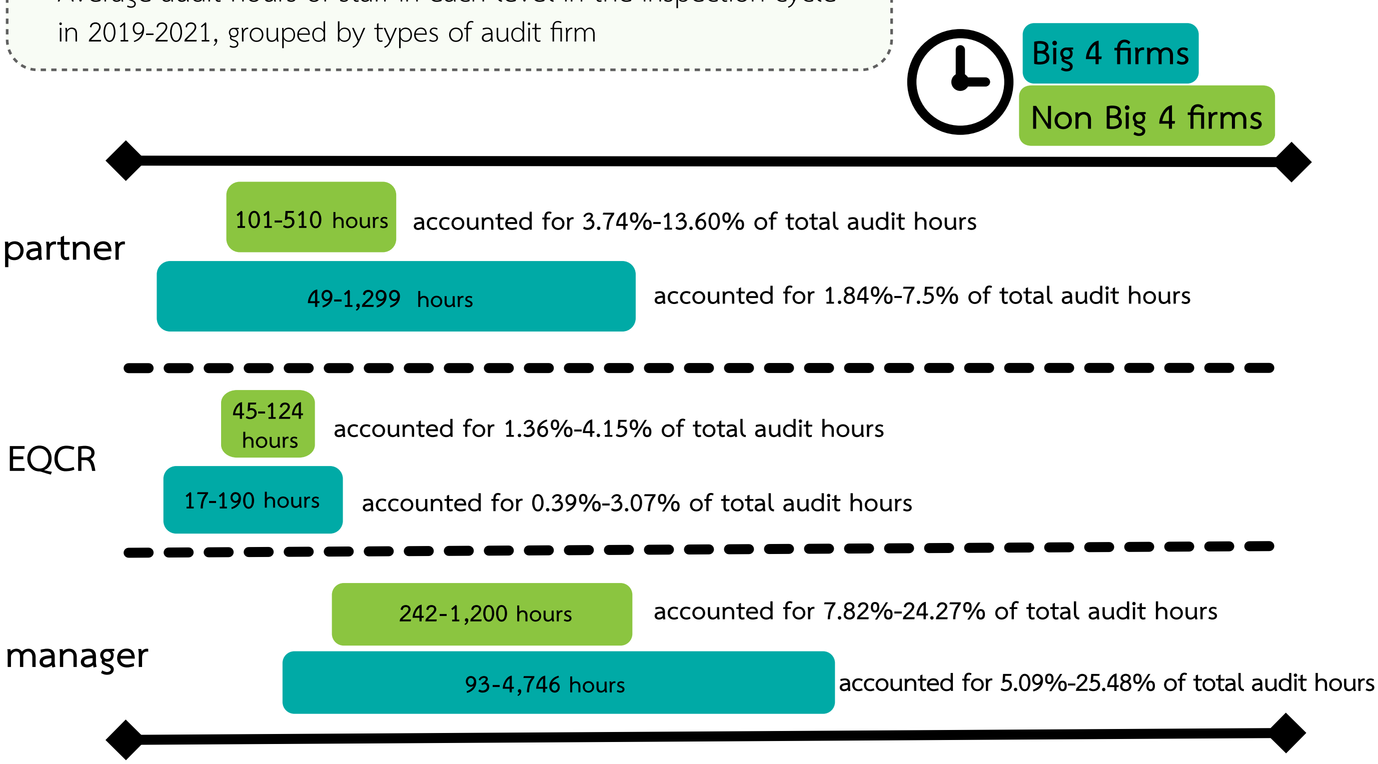
Revised **Thai Financial Reporting Standards 16** - Leases (Covid-19-Related Rent Concessions)

Revised **Thai Standards on Auditing 315** - Identifying and Assessing the Risks of Material Misstatement

Revised **Thai Standard on related Services 4400** - Agreed-Upon Procedures Engagements

Audit hours

Average audit hours of staff in each level in the inspection cycle in 2019-2021, grouped by types of audit firm



Audit hours of the senior staff in the audit team demonstrate their involvement in the audit engagement to advise and supervise the audit team in the process of planning and designing audit procedures to respond to the identified risks effectively and appropriately. It also demonstrates that the senior staff provide consultation to the audit team as well as review the audit team's work to check whether sufficient audit evidence has been gathered to support an appropriate conclusion of the audit.

If senior staff with a high level of professional skepticism are sufficiently involved in the audit, they will be able to notice unusual transactions during the audit and to provide useful advice to the audit team in a timely manner.

Therefore, the proportion of the senior staff's audit hours is another indicator of audit quality. Most audit firms have set the minimum criteria for the senior staff's average involvement in the audit as follows:

Engagement Partner (EP) and Signing Partner (SP) should be involved for not less than **40** hours or not less than **5** percent of the total audit hours.

Engagement Quality Control Review (EQCR) should not be less than **24** hours or not less than **2** percent of the total audit hours.

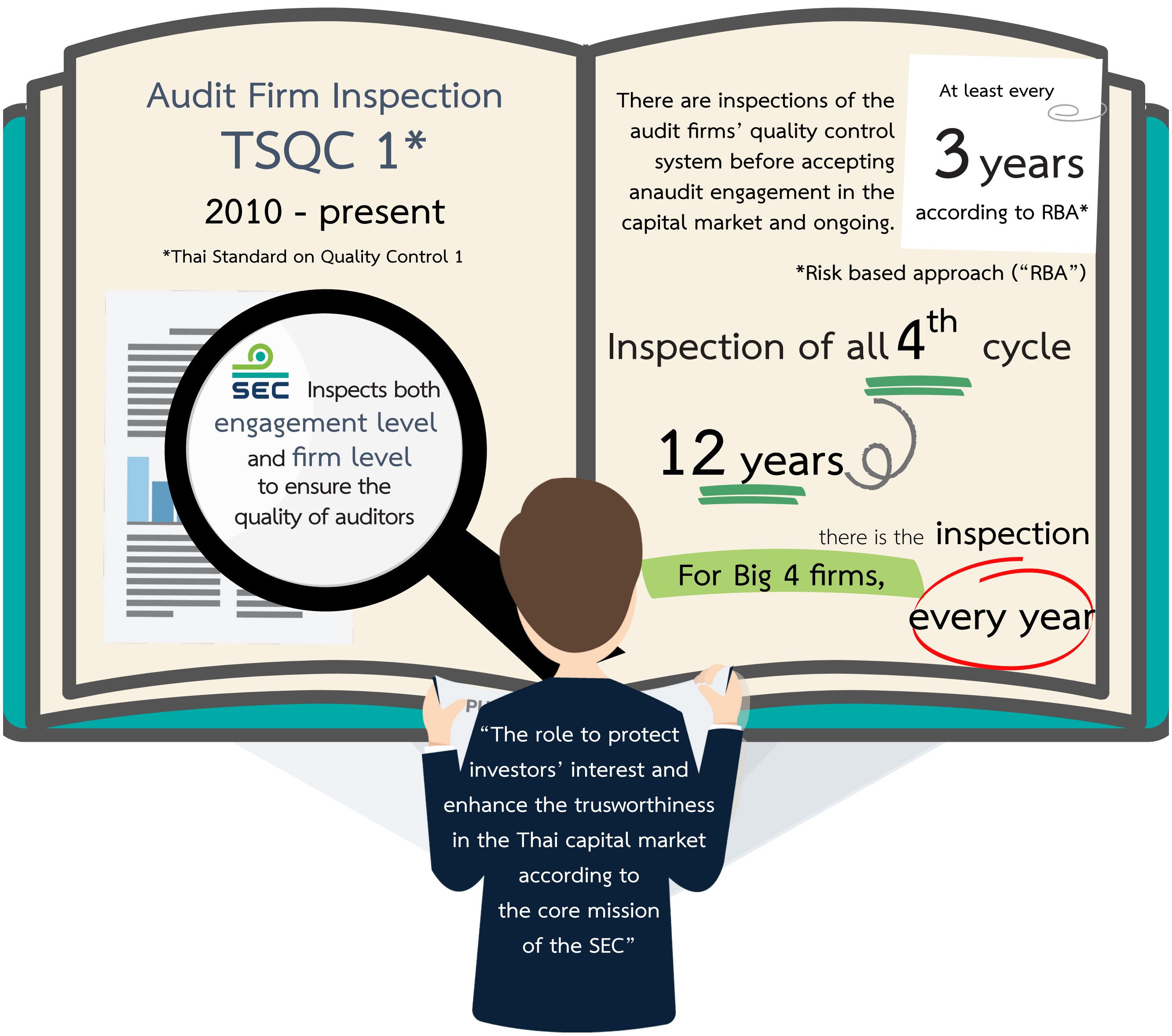
In case the senior staff's auditing hours are lower than they should be, the audit firm or the audit committee should inquire about the reasons to consider whether this would affect the audit quality as a whole. Such consideration may include other factors, such as:

- Nature of business and the complexity of the business's accounting transactions
- Business risks, unusual events or transactions in the inspection cycle
- Experience of auditors and audit teams in auditing clients in each industry
- Experience and involvement in the audit of those responsible for the final review at the secondary level
- The use of technology to help with the audit execution
- Involvement of other experts in the audit

Summary of Audit Inspection Result

A. Firm Level

> "A good quality control system at the firm level is an important factor in supporting and establishing the quality of each audit engagement resulting in accurate and reliable financial reports and the benefit of investors' decision making."



> “The SEC focuses on the intensive inspection of auditors' working papers before approval of auditors in the capital market, as well as the ongoing inspection of the audit firms’ quality control system and auditors’ working papers. This ensures that the auditors who will become auditors in the capital market have a high standard of performance and can maintain quality of work continuously.”

The 4th inspection cycle (2019-2021)
Inspection of quality control system of 32 audit firms

Big 4	4 firms
Non-Big 4	25 firms

New firms pass 3 firms

Rating “Very good”

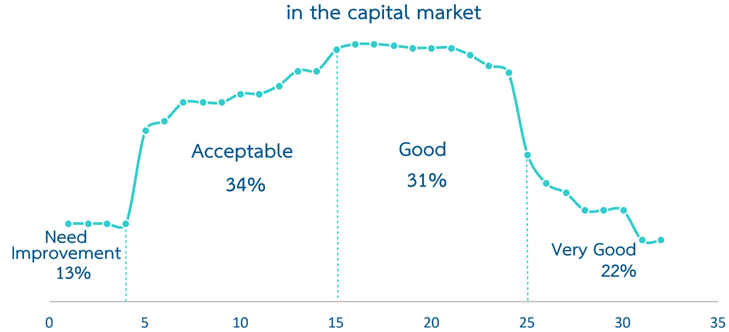
Big 4	4 firms
Non-Big 4	3 firms

53%

of the audit firms in the capital market have an assessment result of the quality control system at rating

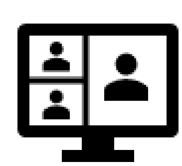
“Good” to “Very Good”

Latest quality control system inspection results of 32 audit firms in the capital market



Working under Covid - 19 situation

Remote inspection



Theme inspection

LD	• Linkage between partner remuneration and audit quality • The succession plan and staff retention plan
ER	• Key audit partner rotation is considered in a combination of roles • Maintaining the independence and confidentiality of non-professional shareholders • Compliance with the SEC regulation regarding the prohibition of auditors in the capital market from being attached to more than one audit firm • Cooperation in responding to the professional clearance letter from the incoming auditor
AC	• Assessment of the risks of client acceptance especially in terms of readiness of accounting staff, accounting system and internal control system of the entity
HR	• Providing the training sessions for staff, especially the new professional standards • Retention the talent staff
EP	• Improving the audit manual, audit program, and forms used in audits to be in accordance with the current professional standards as well as improving audit performance by responding to the SEC's findings to prevent recurring deficiencies
MO	• Clear and pertinent root cause analysis and proper remediation plan preparation • Monitoring the SEC's findings precisely and in a timely manner

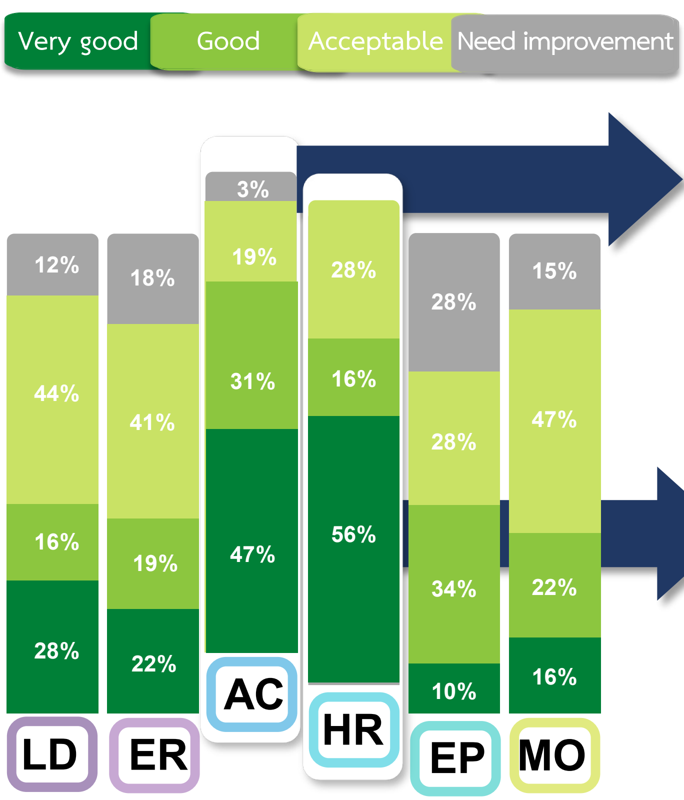
Weighted average rating by market capitalization of the audit clients in each element of TSQC 1 in the 4th inspection cycle compared with the 3rd inspection

The SEC found that the assessment result of the quality control system of audit firms in the capital market overall and in each element of TSQC 1 has continually developed and maintained a high standard for every element.

	LD Leadership Responsibilities	ER Ethical Requirements	AC Client Acceptance and Continuance	HR Human Resource	EP Engagement Performance	MO Monitoring
The 4th inspection cycle	1.12	1.13	1.06	1.07	1.90	1.12
The 3rd inspection cycle	1.38	1.40	1.60	1.06	2.36	1.41

Rating 1 = Very good   Rating 5 = Not pass

Rating in the 4th inspection cycle when considered in each element of TSQC 1



AC Most audit firms 78% were rated

Good – Very good

HR Most audit firms 72% were rated

Good – Very good

The audit firms continued to focus on improving the quality control system in every element to promote the quality and reliability of the audit in the capital market.

Remediated findings in the 4th inspection cycle Done

- Increasing the number of auditors in the capital market sufficiently and allocating the work to the partners appropriately
- Confirmation on compliance with ethical requirements and disclosure of relevant information of staff
- Improving the method of considering and responding to risks comprehensively
- Providing the training session to staffs on the SEC's findings
- Improving the audit manual and audit program including forms used in audits to be more complete and clearer
- Improving the monitoring program to be complete

Recurring findings and additional findings in the 4th inspection cycle

LD

Recurring findings:
- Partner evaluation and remuneration
- Communicating and promoting an internal culture recognizing that quality is essential in performing engagements

ER

Recurring findings:
- Key audit partner rotation
- Fee dependency

Additional findings:
- Policy of disclosure of partners' information about their financial interests and positions held in other companies

HR

Recurring findings:
- Staff performance evaluation
- Staff training

Additional findings:
- Sufficiency of manpower

AC

Recurring findings:
- Send the professional clearance to predecessor auditor

Additional findings:
- Review the risk assessment of client acceptance

EP

Recurring findings:
- Partner involvement

Additional findings:
- Sufficiency of gathering audit evidence
- Consultation

MO

Recurring findings:
- Root cause analysis

Additional findings:
- Detailed and completeness in documenting the monitoring results
- Independence of the monitoring team
- Establishing the scope of monitoring (hot review)

Best Quality
4 firms
Exemplary firm

Big 4 firms

The 4th inspection cycle (2019–2021)

The 3rd inspection cycle (2016–2018)

The number of audit firms was rated

Very good

Non - Big 4 firms

The 4th inspection cycle (2019–2021)

The 3rd inspection cycle (2016–2018) -

The number of audit firms was rated

Very good

Best Quality
3 firms
Exemplary firm

Key success factors in improving the quality control system

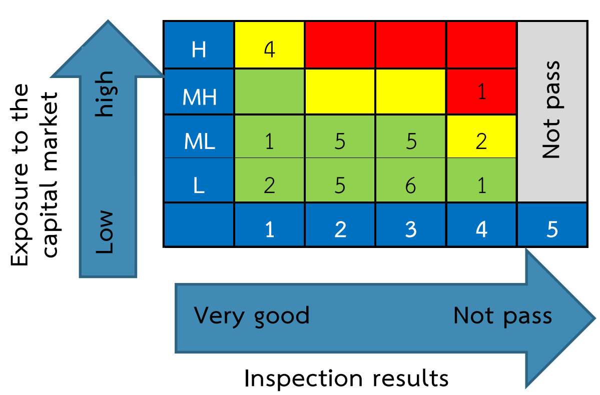
The audit firm leader pays attention to remedy all deficiencies and findings.

Complete and precise root cause analysis and remediation plan preparation.

Allocate competent staff by delegating power and sufficient time to complete the plan.

Communicate improvements to the staff at all levels thoroughly, including establishing a process to ensure that staff comply with policies and procedures strictly.

From considering the result in the 4th inspection cycle with the proportion of audit clients in the capital market of each audit firm, it reveals that the frequency of each audit firm inspection as per the risk-based approach is as follows:



RBA Results

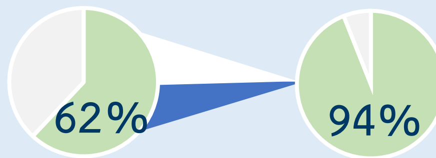
Every 3 year	Every 2 year	Every year

H: High exposure to the capital market
MH: Moderate to high exposure to the capital market
ML: Low to Moderate exposure to the capital market
L: Low exposure to the capital market

Big 4 firms

have a high overall impact on the capital market

Audit clients account for



of the total number of listed companies

of the total market capitalization of all listed companies in the Stock Exchange of Thailand

have the assessment result of the quality control system at the rate **Very good**

Inspect Big 4 firms every year | **Full scope at least every 2 years**

For the year that the inspection is not covered in full scope, we will review policies & procedures especially new releases, monitor the remediation of the previous year's findings and select working papers of the auditors to inspect the audit quality including analyzing the unusual of the audit quality indicators ("AQIs") to identify risk factors leading to a more in-depth.

To ensure that Big 4's audit quality is consistently high.

Audit Quality

- Monitor the remediation of deficiencies detected by the SEC in the previous inspection.
- Review the monitoring results performed by the audit firm.
- Review the policies and procedures for all elements according to TSQC 1.
- In-depth inspection of high-risk issues or important changes in policies and procedures.
- Risk-based inspect the working papers of the auditors in the audit firm.
- Analysis of the unusual of AQIs.

For the audit firms that received "need improvement" assessment results for their quality control system, the SEC has measures to closely supervise and assist the audit firms to improve the quality control system quickly and precisely. For example,

Perform Root Cause Analysis ("RCA") & remediation plan for all deficiencies.	Submit RCA & remediation plan for all elements that received "need improvement" results.	Report the results of the remediation plan every quarter until success.
Recruit external staff for technical committee and monitoring team.	Review the audit quality control before issuing the audit report (hot review).	Limitation of accepting audit engagement for new clients.

1. Leadership Responsibilities for Quality within the Firm

> "The audit firm leader has an important role in setting the direction and establishing an organizational culture that puts quality as the first priority by allocating resources sufficiently for quality performance to ensure that the audit firm has a good quality control system consistently."

In the 4th inspection cycle, most audit firms have increased the number of auditors in the capital market (listed partners) and allocated work more appropriately to the partners ("portfolio allocation").

Audit firm in the capital market	The 4th inspection cycle	The 3rd inspection cycle
Average number of listed companies per listed partner	2.48	2.93
Number of listed companies per listed partner (lowest - highest)	0 - 14	0 - 20

Consideration of accepting an audit engagement and allocating work appropriately to each auditor in the capital market will support the auditor in audit firm to be able to perform audit with more quality. The information below reveals that audit firms with the appropriate portfolio allocation received a better rating on the engagement performance element.

Number of listed companies / listed partner	Average rating on the engagement performance element	Number of audit firms
More than 3 companies	3.13	8 audit firms
Less than or equal to 3 companies	2.55	20 audit firms

2. Ethical Requirement

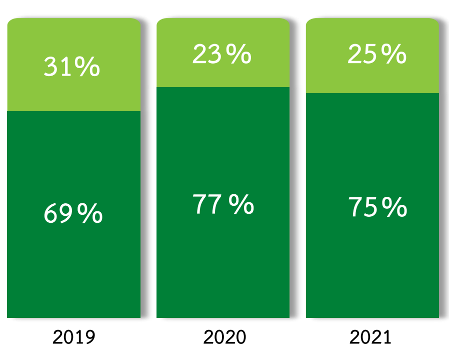
"Audit firm must have policies and procedures to ensure that audit firm and staff can comply with all ethical requirements, especially regarding the independence and confidentiality of clients that is the heart of the auditing profession."

Audit firms in the capital market have prepared to comply with the Personal Data Protection Act that will come into force in 2022 to ensure that the information of clients and related parties that the auditor receives during the audit will be used for appropriate purposes and securely maintained in accordance with legal requirements.

PDPA Preparation

- Communicate and provide training to staff
- Properly assign access right to audit data

In addition, 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 continuously comply with auditor rotation requirements.

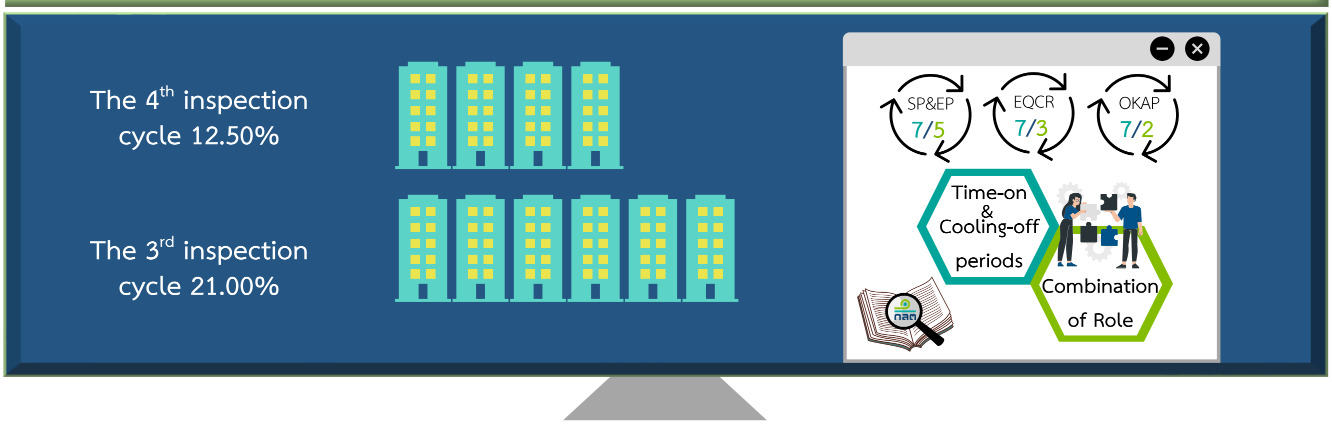


- The number of auditors in the capital market is less than 4 persons.
- The number of auditors in the capital market is 4 persons or more.

In 2021, 24 of 32 audit firms in the capital market (75 percent) have 4 auditors or more.

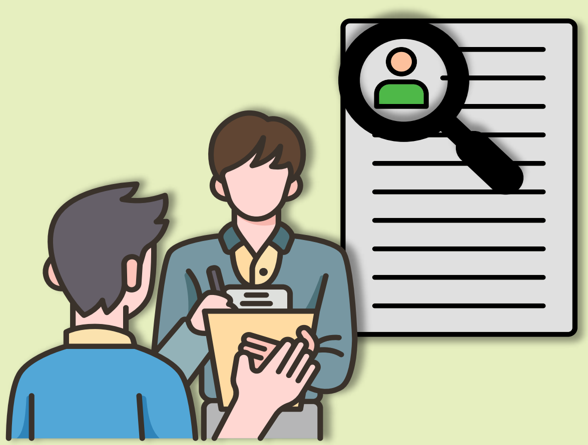
For the 4th inspection cycle, the audit firms have improved in compliance with the ethical requirements regarding auditor rotation. Some audit firms have not yet established a database of auditor rotation by considering the role of key audit partner in a combination of roles, which is to consider all different types of key audit partner roles (engagement partner, engagement quality control reviewer, and other key audit partner) together. However, the number of audit firms that have such deficiencies has significantly decreased from the previous inspection cycle.

Proportion of audit firms in the capital market with deficiencies in auditor rotation on combination of roles.



Finding found in the 4th inspection cycle

- **The policy regarding the disclosure of partners' information about their financial interests or positions held in other companies is incomplete.** Therefore, some audit firms lack information in considering independence, conflict of interest and compliance with the SEC's notification on approval of auditors in the capital market.



Recommendations for improvement

- **Establish a policy and communicate to auditors in the capital market to understand** that audit firm does not allow auditor in the capital market to be attached to more than one audit firm by clearly stating in the policy that being attached to more than one audit firm is included holding shares with a significant influence or being an executive director, permanent employee, or signing an opinion on the financial statements in the name of another audit firm. Audit firm may determine the conditions in an employment contract or an additional partnership agreement.
- **Require the auditors to disclose information about financial interests, positions held, and other side jobs** annually and every time there is a change to ensure that audit firm has information for considering independence, conflict of interest and compliance with the SEC's notification on approval of auditors in the capital market.

3. Client Acceptance and Continuance of Client Relationships

"Client acceptance and continuance of client relationships is an important process that reduces risk and enhances audit quality. The audit firm must assess the risks and complexity of the audit work, along with considering the knowledge, capability and sufficiency of the audit firm's resources, as well as the independence to ensure that auditors and audit teams can perform an audit with quality in accordance with professional standards as well as to be able to properly comply with relevant ethical requirements."

Finding found in the 4th inspection cycle	Recommendations for improvement
• **Reconsider the risk assessment of client** acceptance. There is no reconsideration of the risk assessment when a significant event occurs after an initial risk assessment for client acceptance. This may cause the audit firm to accept audit engagements that are too risky to manage.	• **Require the audit team to completely review any significant subsequent events** which will help audit firm to ensure that audit firm will be able to appropriately design audit procedures to respond to the risks and legal requirements associated with changing events.

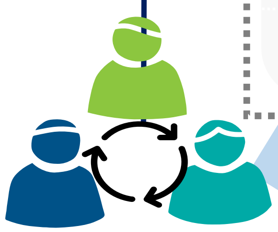
4. Human Resource

"Effective human resource management by recruiting suitable staff, providing continuing professional training to establish knowledge and ability to perform an audit, evaluating performance and paying compensation that motivates staff to perform quality work as well as retaining the potential staff to stay with the organization in the long term is an important factor for quality audit work."

The SEC has analyzed the relationship between the rating on the engagement performance ("EP") element and the staff turnover rate. It reveals that when audit firm has a high staff turnover rate, the quality of audit work will decrease resulting in a worse rating in the EP element. Therefore, audit firm should regularly review strategies for human resource management to respond to the needs of staff and retain qualified and experienced staff to stay with audit firm in the long term.

EP rating and staff turnover rate of 32 audit firms

EP rating	Staff turnover rate
Rating 1 (Very good)	16.63%
Rating 2 (good)	21.11%
Rating 3 (Acceptable)	25.94%
Rating 4 (Need improvemrnt)	40.54%



Finding found in the 4th inspection cycle

Sufficiency of manpower

- Staff turnover in some audit firms is quite high especially the staff at manager and assistant manager levels.
- Involvement in some audit engagements of the staff at manager levels is insufficient.

Recommendations for improvement

- **The audit firm should recruit sufficient staff at the manager and assistant manager levels to supervise the quality audit** before the partner performs the final review. The roles and responsibilities of a manager and partner are different. If a partner is performing in the role of manager, there may be no one to perform the final review.

5. Engagement Performance

"Providing audit policies and procedures including audit manual, audit program and forms used in audits completely and clearly together with an appropriate assignment as well as planning and supervising the audit by highly experienced auditors closely at every critical stage and having experts to consult on difficult and complex issues will enhance the quality of every audit engagement consistently."

From the statistical analysis of the SEC, it reveals that the partner's experience is one of the factors that contributed to the good rating in the engagement performance element.

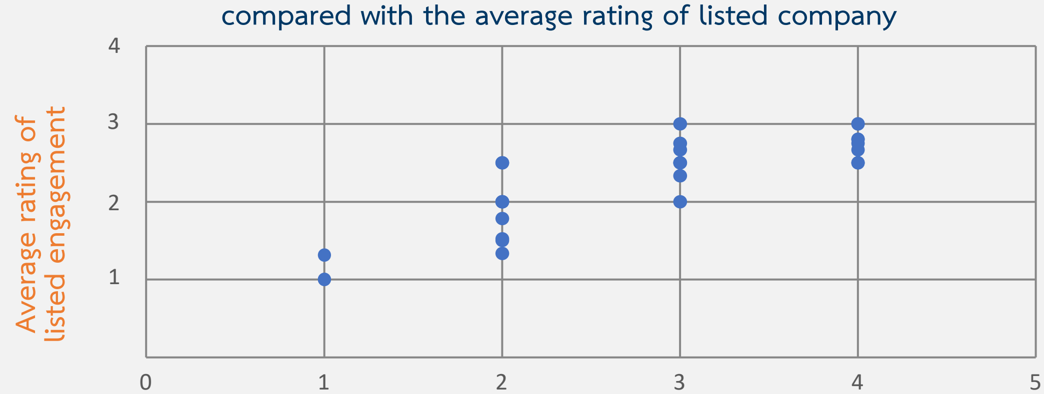
- ✓ High degree of Professional Skepticism
- ✓ Planning and guiding the team well
- ✓ Using professional judgement properly

Average experience of partners of the audit firms that received an EP rating at each level

EP rating	Average experience of partners (year)
Rating 1 (Very good)	27.0
Rating 2 (Good)	26.3
Rating 3 (Acceptable)	25.1
Rating 4 (Need improvement)	22.8

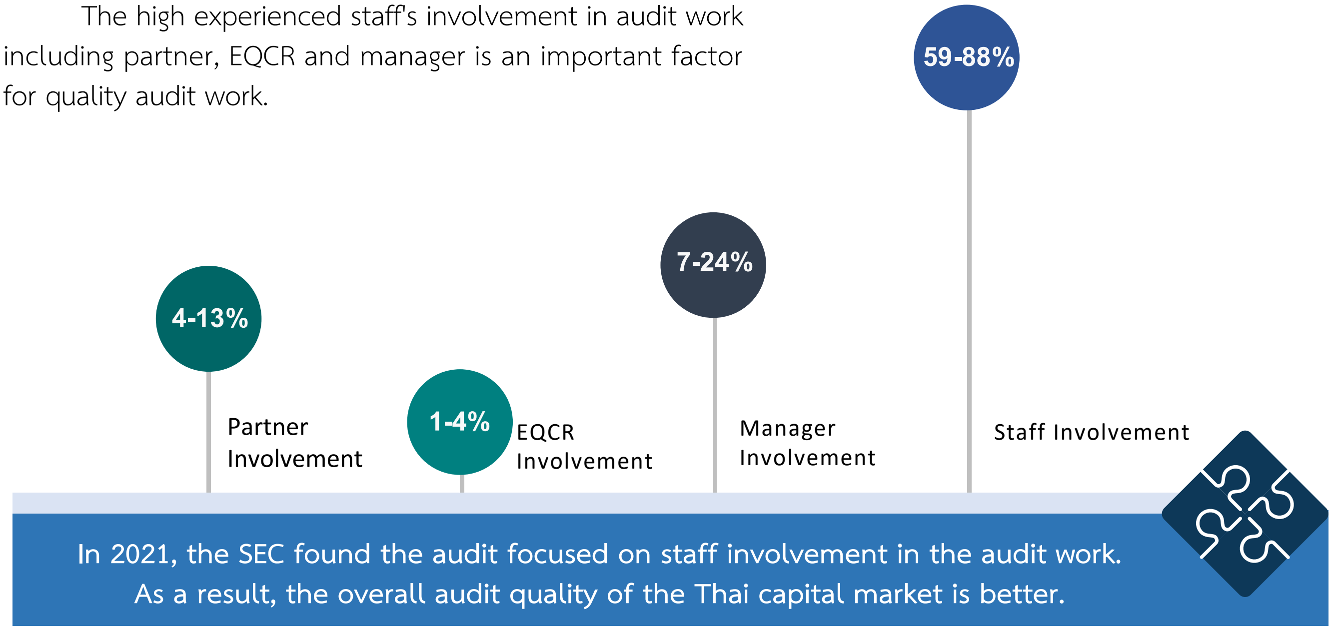
The rating of engagement performance element is correlated with the average rating for each audit engagement. Audit firm with a quality control system relevant to good audit performance, such as audit manual, audit program, forms used in audit, delegation and supervision of work, as well as a standardized consultation process, will support the auditors in audit firm to perform quality audit.

EP rating in the 4th inspection cycle of 28 audit firms compared with the average rating of listed company



EP rating 1 = Very good 4 = Need improvement

The high experienced staff's involvement in audit work including partner, EQCR and manager is an important factor for quality audit work.



Engagement Partner Involvement

Year	1-24 hours	25-48 hours	49-144 hours	>145 hours
2021	0 %	2 %	98% 45 %	53 %
2020	4 %	4 %	48 %	44 %
2019	2 %	13 %	55 %	30 %

Engagement partner involvement in listed engagement

Year	<1 %	1-5 %	5-10 %	>10 %
2021	0 %	69 %	31 %	0 %
2020	0 %	48 %	38 %	14 %
2019	2 %	73 %	21 %	4 %

Percentage of engagement partner involvement in listed engagement per total working hours

EQCR involvement

Year	1-12 hours	13-24 hours	25-48 hours	>49 hours
2021	0 %	4 %	96 % 48 %	48 %
2020	15 %	10 %	37 %	38 %
2019	26 %	40 %	21 %	13 %

EQCR involvement in listed engagement

Year	<1%	1-3 %	3-5 %	>5 %
2021	45 %	43 %	10 %	2 %
2020	38 %	41 %	19 %	2 %
2019	68 %	30 %	2 %	0 %

Percentage of EQCR involvement in listed engagement per total working hours

Manager involvement

Year	1-48 hours	49-144 hours	145-360 hours	>360 hours	<5%	5-10%	10-20%	> 20%
2021	0 %	5 %	31 %	64 %	10 %	33 %	43 %	14 %
2020	4 %	16 %	37 %	43 %	12 %	29 %	49 %	10 %
2019	4 %	15 %	43 %	38 %	13 %	32 %	55 %	0 %

95%

Manager involvement in listed engagement

Percentage of manager involvement in listed engagement per total working hours

Finding found in the 4th inspection cycle

- **Sufficiency of gathering audit evidence.** Some audit engagements do not comply with revised audit manual and audit program and do not gather sufficient audit evidence.
- **Consultation.** The facts in some consultations are incomplete and the references to accounting standards leading to the conclusion of the consultation are not clear enough.
- Identification of the mandatory consultation topics in the audit manual is not sufficiently clear. As a result, staffs have different standards for considering matters that need to be consulted

Recommendations for improvement

- The audit firm should communicate and train staff to understand the revised audit manual and audit program for performing audit work properly, as well as supervise staff to strictly comply with those manuals, and ensure that highly experienced auditors are sufficiently involved in the audit work.

- The audit firm should identify the matters that require consultation, as well as prepare a standardized consultation working paper form and communicate to the staff thoroughly by requiring the documentation of details of facts, opinions and relevant professional standards including a clear conclusion in the consultation working paper and assigning the monitoring team to review compliance with the policy.

6. Monitoring

"Establishing an effective and detailed monitoring process will help support the monitoring team to detect significant deficiencies completely and in a timely as well as audit firm is able to analyze the root cause and determine an appropriate remediation plan."

Finding found in the 4th inspection cycle

- **Detailed and completeness in documenting the monitoring results.** The monitoring team did not document the findings thoroughly and completely.

- **Independence of the monitoring team.** The responsible person for formulating the policies and procedures for each element of the quality control system also performed monitoring function, which is considered self-review.

- **Establishing the scope of monitoring.** The audit firm does not have established criteria for selecting important accounts in each audit engagement to monitor prior to issuing a report of an opinion on the financial statements ("hot review").

Recommendations for improvement

- **Require the monitoring team to improve the documentation of findings and conclusions more thoroughly and completely** in the working paper. The reasons were documented in cases where the monitoring team decided not to raise the observed issues as a finding for evidence that the monitoring team had performed the duty with quality.

- The audit firm should establish measures to ensure that the monitoring is independent and fair by assigning people who are not responsible for formulating policies and procedures for each element of the quality control system to the monitoring team.

- The audit firms with limited human resources may employ external personnel who have knowledge, competence and experience as well as have independence to perform the duties. However, the audit firm should obtain evidence of monitoring from external personnel, which shall at least consist of the monitoring program, scope and method of monitoring including the conclusions of monitoring so that the audit firm and the SEC can assess the completeness and quality of monitoring by external personnel.

- The audit firm should specify the criteria for selecting the accounts to be used for monitoring in each audit engagement to cover the major risks of each audit engagement so that the monitoring team can perform the work completely and achieve the objectives of the hot review.

Summary of Audit Inspection Result

B. Engagement Level

Summary of audit inspection in the 4th inspection cycle (2019 - 2021)

Auditors who submit the application for approval to be an auditor in the capital market are required to pass the qualifications and quality of audit work screening process.

Auditors in the capital market must meet the qualifications required by specific regulations and be employed by an audit firm that has quality control system complying with professional standards.

The SEC regularly monitors the performance quality of auditors in the capital market which is in accordance with international standards for oversight of auditors.

The SEC selects working papers to screen each applicant's quality of work prior to granting the approval to be an auditor in the capital market. Therefore, auditors in the capital market have a high standard of work and the likelihood of audit failure is then lower than systems that allow any auditor to perform audit work in the capital market without pre-screening process.

Auditors in the capital market as at 31 December 2021

313 persons

from **32** audit firms

Increased from the 3rd inspection cycle (31 December 2018) by **74** persons or **31%**

Average growth rate of auditors in the capital market over the past 3 years (2019–2021)

9% per year

Audit engagements selected to perform inspection in the 4th inspection cycle

249 engagements

Comprising of audit engagements for the year 2021

72 engagements

Accounted for **30%** of total market capitalization

From the work of **69** auditors in the capital market or **22%**

Approval in 2021

79 persons

New application **31** persons

Renewal **48** persons

Inspection results of individual audit engagements, categorized by approval rating during 2019-2021

Approval rating/year	2021	2020	2019
Level 1	75%	77%	79%
Level 2	21%	16%	11%
Level 3	4%	7%	10%

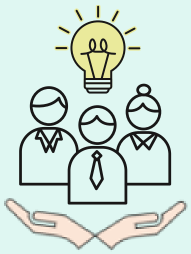
Remarks:

Level 1 = Pass without findings

Level 2 = Pass with findings to improve

Level 3 = Pass with findings to immediately improve and next cycle mandatory follow-up

The result of audit engagements quality inspection in 2021, compared with previous years, indicates that the proportion of auditor approvals with findings to improve and next cycle mandatory follow-up ("Level 3") has decreased. This demonstrates the commitment of the audit firms to prevent significant deficiencies in the performance of their auditors.



The SEC continued to carry out projects to improve the audit quality such as organizing training sessions and webinars to educate auditors in the capital market and providing consultations and discussions on accounting, auditing, and audit quality control issues to the auditors in the capital market (hotline project). This is to encourage the auditors and audit firms in the Thai capital market to continually enhance audit quality and be able to perform audit engagement with international quality.

Proportion of findings identified in each phase of engagement from inspection of workpapers in 2021.

Planning — 34%

- Assessment of the risks of material misstatement due to fraud or error
- Determining materiality

Test of control — 13%

- Understanding and testing of internal control
- Audit sampling for test of internal control

Substantive test — 47%

- Audit of the significant accounts of the business such as the revenue, inventory and cost of sales
- Audit sampling for test of details

Conclusion & Opinion — 6%

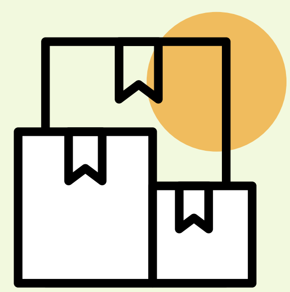
- Communication of unresolved misstatements to management and those charged with governance
- Audit of going concern

Remark: Proportion of findings identified in each phase of engagement account for % of audit engagement with findings identified in 2021.

Core findings identified from audit engagement inspection in 2021

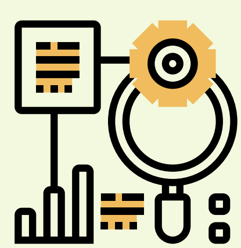
Audit of inventory and cost of sales 19%

- The appropriateness of the allowance for diminution in the value of inventories accounting policy is not evaluated.
- Audit of or consideration on net realizable value (“NRV”) for direct material and work in progress is not sufficient and appropriate.
- The estimated costs of completion and the estimated costs necessary to make the sale are not found when considering net realizable value (“NRV”).
- Observation of inventory physical count is not sufficient and appropriate.
  - Audit of evidence of the significant change in inventory from the day of the physical count to the period end is not found.
  - Basis for the number of branches and selection of branches to observe the physical count is not found.
  - Documentation of the differences found by observation of inventory physical count is not found.
- Audit of the appropriateness of standard cost calculation is not found.



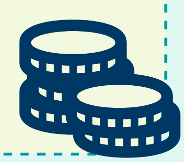
Risk assessment 18%

- Only the overall inherent risk assessment of each account is identified. Inherent risk assessment at assertion level of each account is not found.
- Consideration of likelihood and magnitude is not documented in the inherent risk assessment conclusion.
- Risk assessment is not appropriate, e.g., control risk is set as low despite not performing the test of control for that account, inherent risk is not set as high where the account bears the 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 revenue recognition 8%

- Consideration of the intrinsic economic substance of the contract with a customer about performance obligation and satisfying performance obligation is not found, especially in complex transactions.
- Audit of the appropriateness of revenue recognition under the percentage of completion method, including test of details of budget cost is not found.
- Consideration of the effect on revenue recognition resulting from the improper use of foreign exchange rates is not found.



Determining materiality 7%

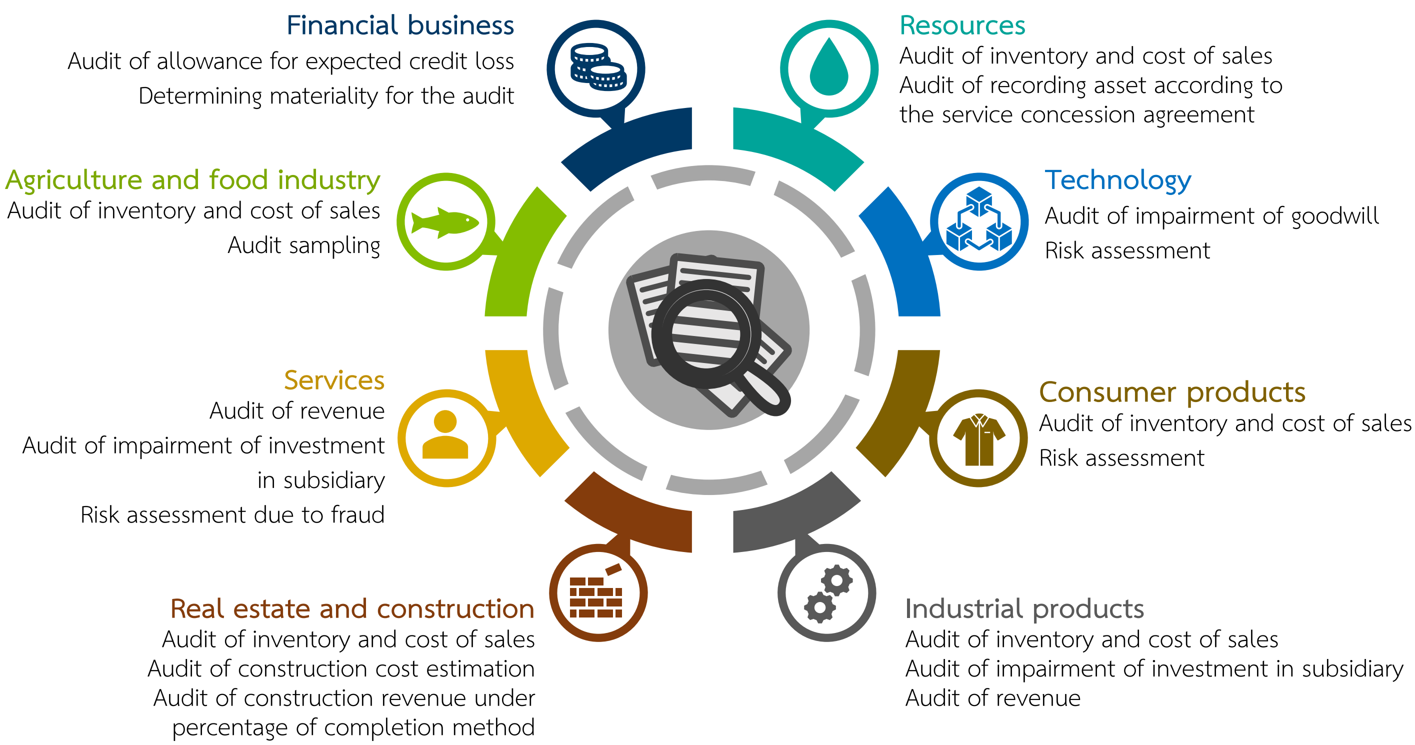
- Basis of selecting the benchmark in calculating the level of materiality such as information that reflects the entity's performance or transactions that users of financial statements usually focus on is not documented.
- Calculation of the level of materiality for the overall financial statements is not appropriate, for example, the benchmark or percentage used to calculate the level of materiality is inconsistent with the guidelines from International Federation of Accountants (“IFAC”).

Testing of internal control 7%

- Understanding of key controls such as recognition of revenue from contracts and standard cost calculation is not found.
- Test of internal control is performed holistically without segmenting the population into sub-groups based on characteristics, despite their differences in internal controls.
- Basis of determining the sample size is not found. The sampling method in the test of internal control is inappropriate, such as not considering the frequency of occurrence of the transactions or using targeted sampling.
- The testing procedures to evaluate the effectiveness of controls during the roll-forward period are not documented.
- Test of internal control on information systems is not found where the entity operates on information systems and processes large volume of transactions.

Remark: Proportion (%) of core findings identified from audit engagement inspection account for % of audit engagement with findings identified in 2021.

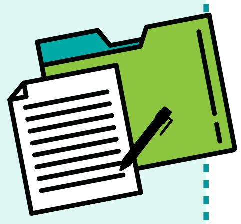
Important findings identified from audit engagement inspection in 2021, categorized by industry of audit clients



Each industry has its own unique characteristics and different risks. When categorizing the findings identified from audit engagement inspection in 2021, the SEC found that many industries have their own specific inspection findings. For example, findings on audit of allowance for expected credit loss are likely to be identified in financial business, findings on audit of inventory are commonly found in industries where inventory is the main account in the financial statements with associated risk in the value of inventories, and findings on audit of revenue are usually found in industries with complex revenue recognition methods such as construction and service industries. However, some findings may be found in various industries depending on the nature of each company's business transactions. These include audit of impairment of goodwill, investment in subsidiary of the company with significant business combination, and assessing the risk of material misstatement or risk of fraud that can be found across all industries. Auditors should understand the nature of the business and environment to ensure that risk assessment, as well as the planning and determination of the audit scope, are sufficient and appropriate in accordance with the auditing standards.

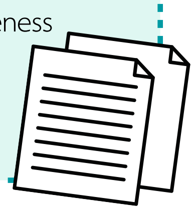
The aforementioned fact indicates that in the client acceptance process of each industry, auditors should consider the necessity of having the audit team with adequate capabilities and experiences in the industry to be able to assess the risks, plan and determine the scope of the audit, gather audit evidence, and expressing the auditor's opinion appropriately.

Cause of deficiencies identified from audit engagement inspection in 2021



Adequacy of gathering audit evidence such as;

- Not understanding the business and considering the substance of the accounting transaction.
- The result of audit or important document related to the accounting transactions are not documented.
- Audit evidence is not gathered from external sources that are more reliable than management inquiry.
- Inappropriate gathering of evidence from test of internal control, such as insufficient sample size and lack of testing key controls.
- Sample size in test of details is insufficient, for example, risks or level of materiality are not considered.
- Relevant evidence or information is not gathered to assess the reasonableness and to review the basis of the assumptions that management used to prepare estimation.



Non-compliance with audit manual and audit program such as;

- Sample size determination is not in accordance with audit manual.
- Audit procedure is not in accordance with the audit program of audit firm.

Audit Manual and audit program are not complete and clear enough such as;

- There is no audit program for audit in difficult and complex areas such as audit of estimation of construction cost, audit of the stage of completion, audit of significant accounting estimates, audit of group financial statements, and audit of business combinations and goodwill.
- There are no examples in matters requiring judgement and professional skepticism.
- There is no requirement to consult with technical teams on complex matters or areas that require judgments.

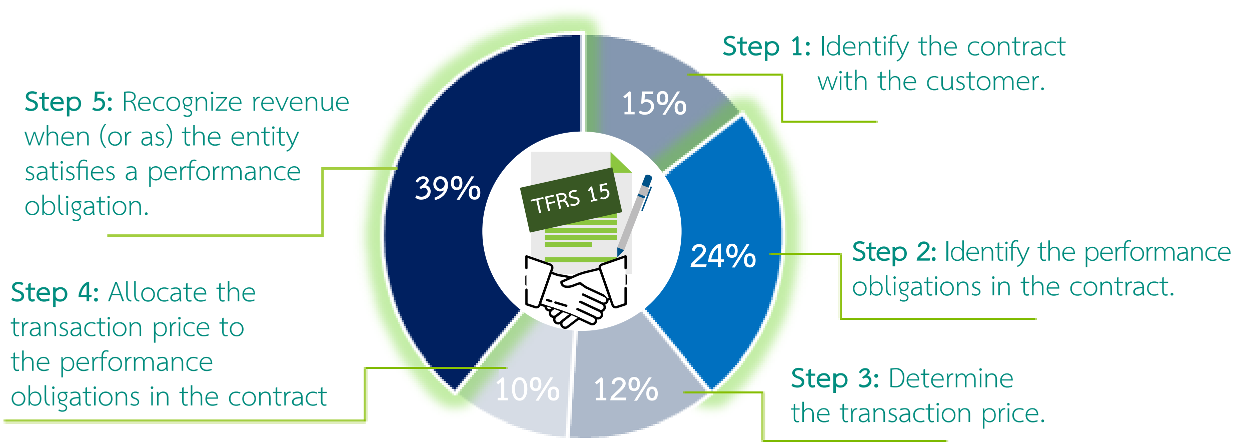
Important findings regarding the adoption of the new financial reporting standards that were effective in this inspection cycle.

In the 4th inspection cycle, the SEC continues to focus on reviewing the audit quality of listed companies in high-risk industries by focusing on significant and complex accounting transactions or matters that require high judgement, including the accounting transactions affected by the adoption of the new financial reporting standards. In the past 2-3 years, new financial reporting standards have been adopted, particularly the Thai Financial Reporting Standard 15 - Revenue from Contracts with Customers ("TFRS 15") and the Thai Financial Reporting Standard 16 - Leases ("TFRS 16"). From the review of the audit engagement, the SEC found important findings that auditors should focus on and exercise caution in performing their audits as follows:

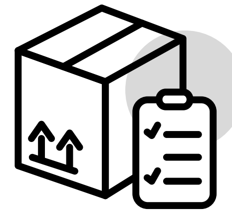
Thai Financial Reporting Standard 15 - Revenue from Contracts with Customers ("TFRS 15")

TFRS 15 became effective since 2019 (financial statements with periods beginning on or after 1 January 2019) and comprises more complex requirements than the previous one, leading to significant impacts on the entity's consideration of revenue recognition. The entity is required to consider information in accordance with the 5-steps model as required by TFRS 15. From the review of the auditors' working papers in this inspection cycle, the SEC found that the most common findings in revenue recognition consideration according to the 5-steps model are: step two - identify the performance obligations in the contract and step five - recognize revenue when or as the entity satisfies a performance obligation. These are demonstrated as below:

Proportion of findings classified by 5-step model according to TFRS 15



Step 2: Identify the performance obligations in the contract



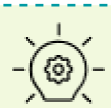
Identifying the performance obligations in the contract is a crucial step in considering revenue recognition because it is the basis for the entity to correctly allocate the transaction price to each performance obligations and to identify whether the performance obligations satisfy over time or at a point in time in order for the entity to be able to correctly recognize the revenue. According to TFRS 15, at contract inception, the entity shall assess the goods or services promised in the contract with the customer and shall identify performance obligations for each promise to the customer either to transfer (1) a good or service (or a bundle of goods or services) that is distinct or (2) a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

Currently, entities have a variety of contract patterns with customers. Each contract may contain complex terms and promises that require caution in identifying how many performance obligations the entities are to perform in the contract. Examples include mold manufacturing and injection contract, real estate sales contract with free goods or service, and contract for the research and development and production of drug/ supplement products.

Mold manufacturing and injection contract – The contract with the customer may specify the production conditions and set the price of the molds and the workpiece separately. Or, in some cases, there may not be a specific contract that clearly require the entity to produce mold, but there are conditions indicating that the customer has control over the mold. For example, the mold is used for injecting workpieces according to customer orders only and cannot be used to inject other workpieces for sale to other customers. In this case, it can be considered that the entity has 2 performance obligations: (1) the production of mold and (2) the injection of workpieces.

Real estate sales contract with free goods or services – In the case of selling real estate by offering free goods or services to the customers, if the free goods or services are related to the real estate but are not transferred to the customers together with the real estate, such as home improvement services, electrical appliances and the right to use common facilities; or not related to real estate, such as gold bar, they shall be considered as another performance obligation. Therefore, other than the performance obligation to sell the real estate, the entity also has the performance obligations for the sale of free goods and the provision of services.

Contract for the research and development and production of drug/supplement products – If the customer has control over the formula of drug/supplement products and can benefit from the formula separately from the production of drug/supplement products, the customer can use the formula to hire other factories to produce them. Consequently, the research and development of the formula of drugs/supplements is considered to be separated from the production. Therefore, the entity has 2 performance obligations: (1) research and development of the formula of drugs/supplements and (2) manufacturing of drug/supplement products.



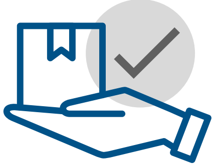
Auditors are required to exercise judgement in considering the substance of the transactions and assess whether the entity identifies the performance obligations appropriately in accordance with TFRS 15.

However, from the inspection of the auditors' working papers, the SEC found that some auditors have not adequately gathered the circumstantial fact to consider the appropriateness of this matter. For example, there is a lack of considering the substance of the transactions as to what the performance obligations the entity is to perform and whether the products or services promised to customers are considered distinct.

A good or service is distinct if both of the following criteria are met:

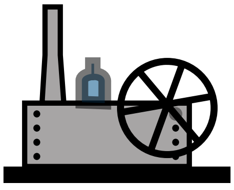
1) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer and
2) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is the promise to transfer the good or service is distinct within the context of the contract).

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation



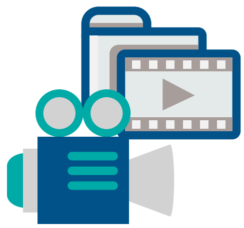
TFRS 15 requires an entity to recognize revenue when the entity satisfies a performance obligation by transferring control over a good or service to the customer. Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, the asset. The entity shall determine at contract inception whether performance obligation satisfies over time where the entity shall recognize revenue over time or satisfies at a point in time where the entity shall recognize revenue at a point in time.

In some industries, there may be complex contractual conditions and performance obligations, so each entity may have different methods of revenue recognition. These include as mold manufacturing and injection business, construction business, and media and program production business.

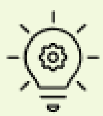


Mold manufacturing and injection business – In the case where the contract stipulates that the entity manufactures specific molds according to the model specified by the customer and must use those mold to produce products only for this customer during the specified period in the contract, or other words, the mold cannot be used to manufacture products for other customers, it can be considered that this contract meets the conditions for over time revenue recognition.

Construction business – In the case where buildings are being constructed on the customer's land, the customer performs periodic inspection of work in progress, the payments are made in installments and the entity has an enforceable right to payment for performance completed to date if the customer cancels the contract for any reasons other than the fault of the entity, it can be considered that the construction contract meets the conditions for over time revenue recognition.



Media and program production business – Some program production contracts may meet the conditions for over time revenue recognition if the following circumstances are present: the customer is involved in the production process such as providing suggestions or directing the entity to make improvements during production; the customer shall own all title, copyright and other intellectual property rights arising from the creation of the work from the very day the work was created and has the sole right to modify, publish, transfer, sell, lease or use it for any other purposes in whole or in part; and the entity has an enforceable right to payment for performance completed to date.

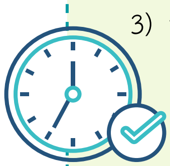


Auditors are required to determine whether the performance obligations the entity has on its customers are satisfied at a point in time or over time and whether the entity's revenue recognition is in accordance with TFRS 15.

From the inspection of audit working papers, the SEC found that in some cases the auditors have not considered substantive and contractual agreements of the entity's performance obligations to the customer whether it meets the over time revenue recognition as required by TFRS 15 before concluding that the entity’s accounting method of recognizing the revenue at a point in time is appropriate.

The criteria of over time revenue recognition

1) the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs or
2) the entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced such as the construction of buildings on customer's land or
3) the entity’s performance does not create an asset with an alternative use to the entity (such as the limitation of contract or the nature of the asset) and the entity has an enforceable right to payment for performance completed to date (if the contract were to be terminated). For example, products with specific characteristics cannot be sold to other customers. If the customer terminates the contract, the entity has an enforceable right to payment for completed work.



If the performance obligation does not meet the over time revenue recognition condition, it is satisfied at a point in time and the entity shall recognize revenue at a point in time.

In addition to the findings in step two and step five, the SEC also found important findings that auditors should be cautious in considering revenue recognition under TFRS 15. For example, consideration of whether the company is the principal or agent, recognition of incremental costs of obtaining a contract and disclosure of contract assets.

In auditing the revenue recognition of each entity, auditors are required to understand the entity's revenue recognition method in accordance with TFRS 15 by gathering audit evidence to conclude that the entity's revenue recognition method is appropriate.

Thai Financial Reporting Standard 16 - Leases (“TFRS 16”)

TFRS 16 became effective since 2020 (financial statements with periods beginning on or after 1 January 2020). The standard has drastically changed and resulted in the requirement for lessee's to recognize asset and liability for the lease in the financial statement, that is, to recognize the right to use the leased asset and the lease liability that represents the obligation to pay under the lease. In contrast, the accounting method for the lessor has not changed significantly. From the inspection of working papers, the SEC found important findings regarding the audit of lease contracts according to TFRS 16 as follows:

Identifying a lease

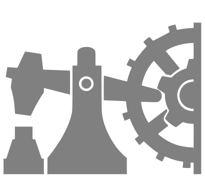
TFRS 16 sets out that at inception of a contract, the entity shall assess whether the contract is, or contains, a lease. In other words, the entity shall assess whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The lessee is required to recognize the right-of-use asset and the lease liability for all lease contracts except for short-term leases or leases in which the underlying asset is of low value.

Considering whether the contract provides the right to control the use of the identified asset.

1) the customer has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use either from using, from possession or from subleasing of the asset and
2) the customer has the right to direct the use of the identified asset such as the right to direct how and for what purpose the asset is used throughout the period of use.

Currently, entities may have complex contracts or business transactions such as equipment installation and internet service and mold manufacturing and injection. **Auditors are required to consider whether each contract or business transaction is, or contains a lease.**

However, from the inspection of audit working papers, the SEC found that, in some cases, the auditors have not considered the conditions and substances of the entity's contract whether there are components of the lease according to TFRS 16 and have not considered the terms of the lease agreement whether it is in the scope of exemptions from recognizing transactions according to TFRS 16.



Mold manufacturing and injection – The entity uses generic mold that is an asset of the entity. However, during the period of the contract, the entity has made an agreement with the customer that prevents the entity from using the mold to produce products for other customers and the customer has the right to order the entity to produce product from the mold as needed. When the contract ends, the entity will be able to use the mold to produce and inject workpieces for other customers. Considering these facts, the contract contains the lease components according to TFRS 16 because the contract grants the customer the right to control the use of molds. In this case, the entity shall consider allocating the revenue from the sale of goods to be recognized as lease income.

Lease term

TFRS 16 sets out that an entity shall determine the lease term which defined as the non-cancellable period of the lease, together with both:

1) periods covered by the lessee's option to extend the lease if it is reasonably certain that the lessee will exercise that option <u>and</u>
2) periods covered by the lessee's option to terminate the lease if it is reasonably certain that the lessee will not exercise that option.

In assessing whether it is reasonably certain that the lessee will exercise the option to extend the lease, or not exercise the option to terminate a lease, the entity shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, including any expected changes in facts and circumstances from the commencement date until the exercise date for that option.

When considering the lease term, it is necessary to consider the circumstantial facts to assess the period during which the lessee has the right to extend the lease, and exercise judgement to evaluate that the assumption of how the lessee will exercise the rights is reasonable. Therefore, the auditor should gather sufficient evidence for appropriate consideration.

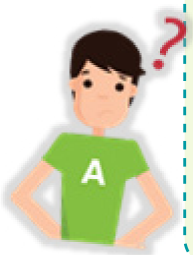
However, from the inspection of audit working papers, the SEC found that in some cases, the auditors have not considered the reasonableness of the estimate of the lease term used by the entity to record right-of-use asset and lease liability. In addition, consideration whether lease term extension is in accordance with TFRS 16 is not found. An example for the case is as follows.

Leases of land and assets on the land - In some cases, the entity may determine the lease term for the lease of land and assets on the land inconsistently. For example, the entity expects to exercise the right to extend the term of the land lease but not extend the term of the assets on the land, even though the entity normally uses the land and the assets on the land together. In this case, if the determined the lease term for the land is longer than the determined lease term of the assets, it will raise doubts as to how the entity will use the land without the right to use the assets on the land. Therefore, auditors should consider whether the assessment of the lease term and the exercise of the right to extend the lease term are reasonable by gathering information for consideration such as the business plan, the purpose and necessity for using the assets on the land, and conditions of the contract.

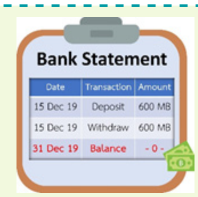
The assessment of whether it is reasonably certain that the lessee will exercise or not exercise an option is based on;
- contractual terms and conditions for the optional periods compared with market rates
- significant leasehold improvements undertaken (or expected to be undertaken)
- costs relating to the termination of the lease
- the importance of the underlying asset to the lessee's operations, considering, for example, whether the underlying asset is a specialized asset and the availability of suitable alternatives
- conditions for exercising the option, for example, the option can be exercised only if one or more conditions are met, and the likelihood that those conditions will exist.

Case study – Audit of Liabilities

In the 4th inspection cycle, the SEC has reviewed the audit quality of listed companies with high risks, especially for those where risks of fraud may be detected. The SEC found issues in the audit of liabilities as follows.

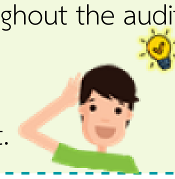


In 2020, the board of directors of a listed company ("the Company") found that an oversea fund ("hedge fund") had sent a collection letter to the Company to inform that during the year 2019, the Company had borrowed money from the hedge fund in the amount of 600 million baht. However, the Company did not record the loan transaction in the financial statements for the year 2019. It was later found that this was caused by corruption and intentional information concealment of management. These circumstances may raise doubts as to why the auditor did not detect the unrecorded liabilities.



Despite the fact that this case resulted from fraud and intentional concealment, which can be considered difficult for the auditor to detect, auditors can exercise professional skepticism to audit the completeness of the liabilities. Normally, money received from borrowing initially goes through the company's bank account, therefore cash and bank is one of the accounts that auditors should focus on. In particular, if the information obtained from the audit shows inconsistency with auditor's expectation or is not in accordance with the entity's internal control processes, the auditor should pay special attention. In this case, the auditor sent a confirmation letter to all banks in which the Company held accounts and received a reply from one of the banks, stating, on the confirmation, that the Company was holding a zero-balance deposit account which was not included in the Company's chart of accounts. The management clarified that it was the account of the former management, so there was no passbook kept at the Company and the Company was in the process of closing the bank account. However, the auditor did not further investigate to find out the reasons why there were bank accounts that were not included in the Company's chart of accounts. Moreover, the auditor did not inspect any documents other than the management's statement. Had the auditor examined the bank statement of this account, it would be found that 600 million baht was transferred in and the whole amount was transferred out on the same day. Consequently, had the auditor assessed the risks in this account, considered the deficiencies found in test of internal control, and examined additional documents such as evidence of the request to open bank accounts and bank statements, the auditor would have detected risks or suspicions leading to the extension of the audit scope that enable the auditor to detect unusual items.

From the inspection of the audit working papers, it was found that the accounts for which junior-level auditors are usually assigned include cash and bank account and liabilities. As these accounts can be risky and significant, auditors therefore must communicate with their audit team members throughout the audit, exercise professional skepticism to assess the reliability of the audit evidence obtained and tailor the audit plan to reflect the information detected during the audit. These will enable the auditors' audit team to effectively perform challenging audit engagement.



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 prevent recurring deficiencies in the future."

The result of the fourth inspection cycle shows that the quality of audit firms has improved through the firms' determination to perform root cause analysis and set up a remediation plan to continuously improve and develop the audit quality control system.

fast track[1]	quality improved
9	18

Audit firms

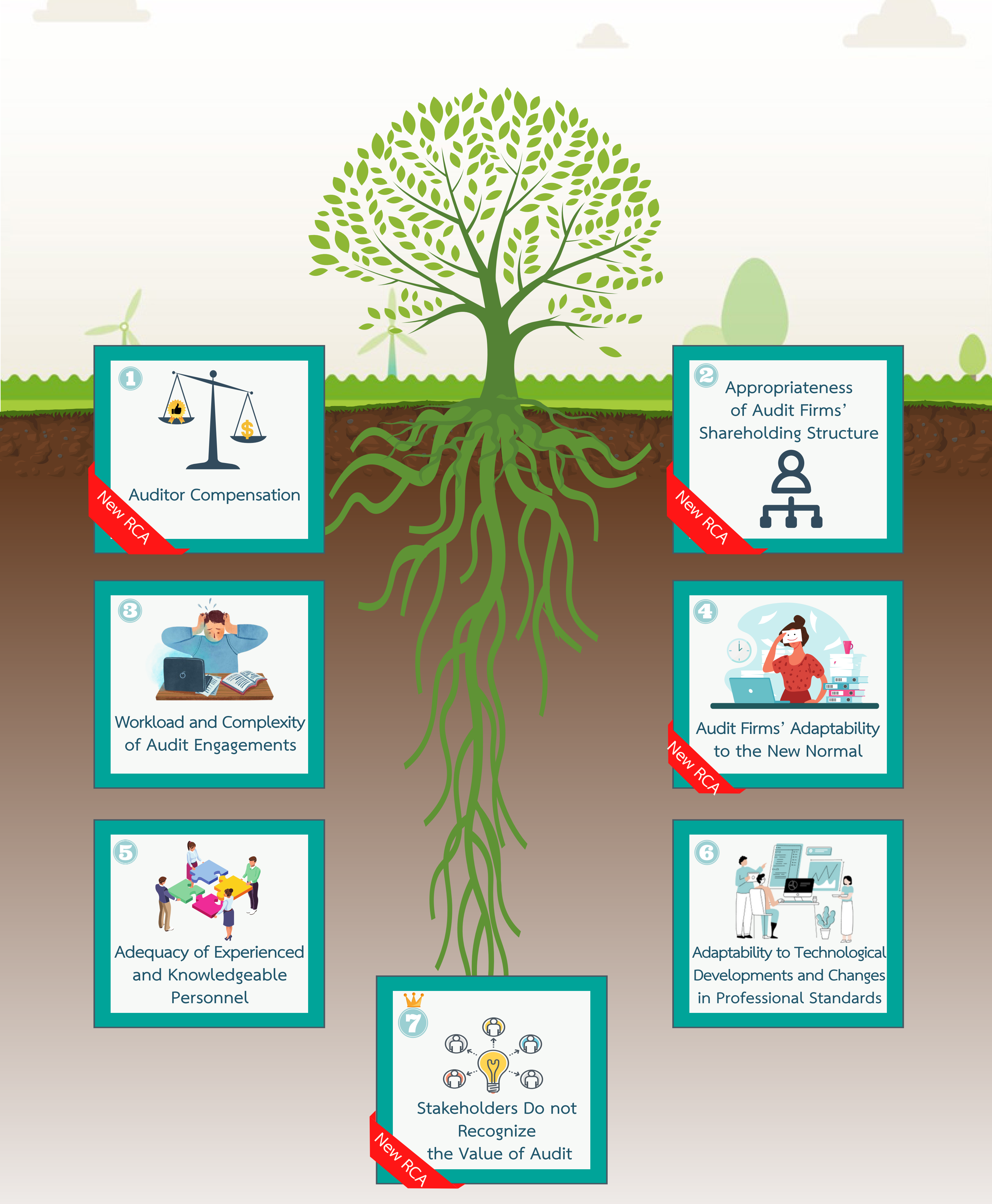
Most audit firm leaders gave importance to conducting root cause analysis and remediation plan, including:

- performing a thorough, in-depth, and pertinent analysis;
- creating suitable remediation plans to address all findings;
- prioritizing the remedial activities;
- allocating capable staff and sufficient time to execute the plan;
- following up to ensure that the deficiencies had been rectified in an appropriate and timely manner.

These efforts brought about the audit firms' explicit improvements of quality in various elements.

"However, some audit firms had not thoroughly rectified their significant deficiencies found by the SEC. According to the root cause analysis, the SEC found a combination of several matters, as shown in the following figures, that led to the audit firms' inability to correct the deficiencies.

[1] Audit firms under the fast-track system must attain "Very Good" to "Good" ratings in their latest overall rating as well as in engagement performance element and monitoring element. Also, the firms must have a quality screening process to assess their auditors' performance before submitting an application for the SEC approval. Auditors from the fast-track audit firms are exempt from the review process of audit workpapers.


1
Auditor Compensation
New RCA
2
Appropriateness of Audit Firms' Shareholding Structure
New RCA
3
Workload and Complexity of Audit Engagements
4
Audit Firms' Adaptability to the New Normal
New RCA
5
Adequacy of Experienced and Knowledgeable Personnel
6
Adaptability to Technological Developments and Changes in Professional Standards
7
Stakeholders Do not Recognize the Value of Audit
New RCA

New RCA

1. Performance evaluation and auditor compensation

Auditor compensation is directed by
"business" rather than "quality".

In the fourth inspection cycle (2019 - 2021), the SEC found that some audit firms had used the quantity of engagements and audit fees charged to the entities for which each auditor had affixed their signature in giving opinions on the financial statements as the basis for calculating auditor compensation, without considering the auditors' quality assessment result and the outcome of their performance on quality control system development as key compensation factors.

- Auditors tend to accept an excessive amount of audit engagements, aiming to generate revenues for their firms and for themselves. This leads to their incapability to perform quality audits.
- Auditors lack motivation to invest their time and give importance to improving quality control system and adequately monitoring the results.

Some audit firms have not set "improvement on audit firm quality" as one of the criteria for evaluating the performance of the firms' leaders and determining their compensation. As a result, firm leaders tend to not actively encourage improvement and development of the firms' quality control system.

Audit firms should include firm-level and engagement-level quality to the criteria for evaluating performance and determining compensation to urge the auditors and firm leaders to acknowledge the importance of audit quality and determine to improve both firm-level and engagement-level quality.

Auditors who perform the firm's functions of developing and monitoring quality control system should receive performance evaluation results and compensation that encourage them to carry out their duties with quality. This is because the functions of developing and monitoring the firm's quality control system play a vital role in propelling good quality at both firm level and engagement level.

New RCA

2. Appropriateness of the audit firm’s shareholding structure

“The audit firm’s shareholding structure that allows auditors to share ownership of the firm will promote engagement as well as strong determination to maintain the firm’s reputations and contribute their capabilities to developing the firm’s quality, stable and sustainable growth.”

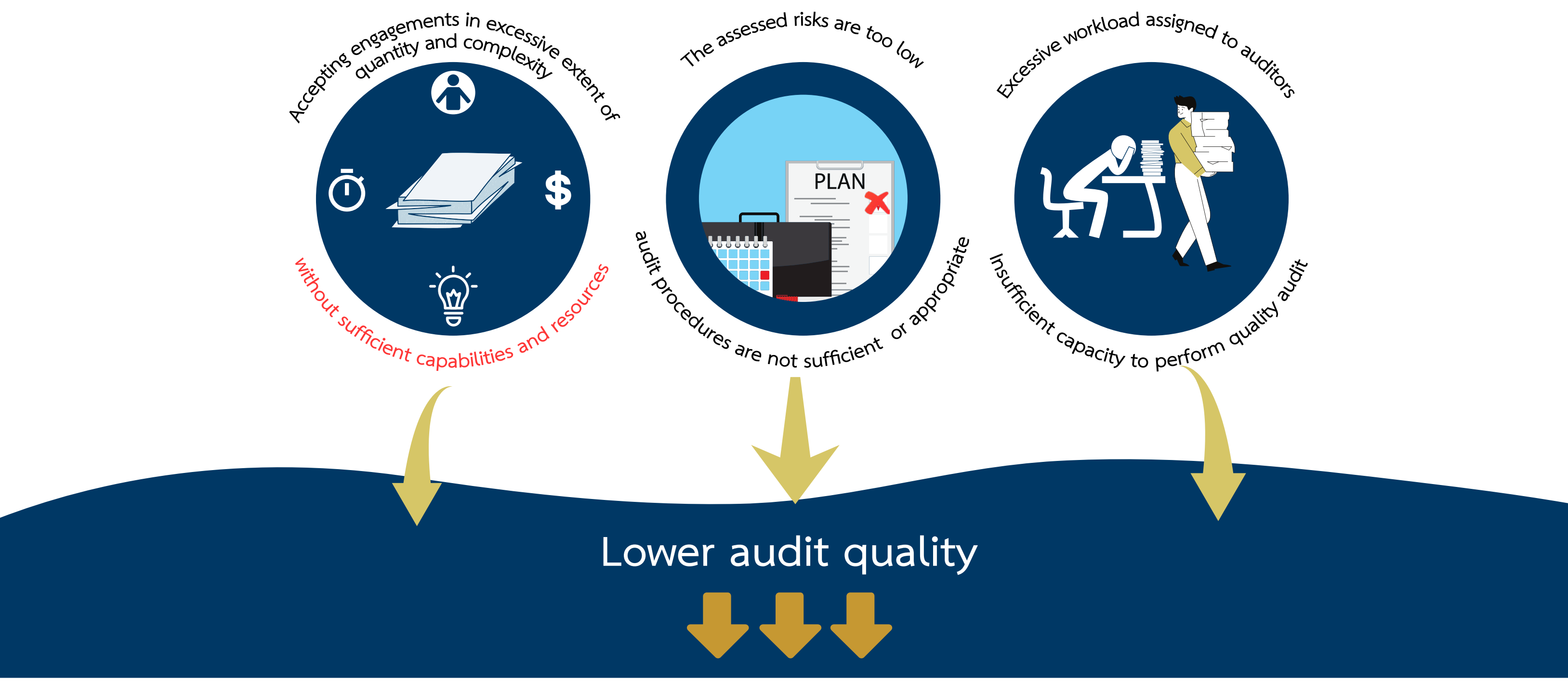
The SEC found that major shareholders of some audit firms were not professional accountants. Some audit firms were family businesses where the ownership of the firms was transferred to successors who did not practice auditing. In some cases, audit firms’ shares were solely owned by founding partners, not allowing new auditors who affix their signature on behalf of the firms an opportunity to become an equity partner.

Shareholders who are not professional accountants may not adequately understand or recognize the importance of the professional ethics, which leads to qualitative deficiencies. For instance, information on financial interest and position holding is not completely reported, resulting in issues on independence and conflict of interest. Another example is when the shareholders manage their audit firms as any other businesses with main focus on profitmaking, audit quality consequently tends to be compromised.

New auditors are employees of audit firms; they have neither the right to express their opinions nor sufficient authority to manage the firms. Also, they do not see an opportunity to become a part of the firm’s ownership; as a result, they do not feel engaged and only anticipate short-term benefits from the firm. Moreover, they are not motivated to further develop the quality control system, which is the foundation for long-term sustainable growth.

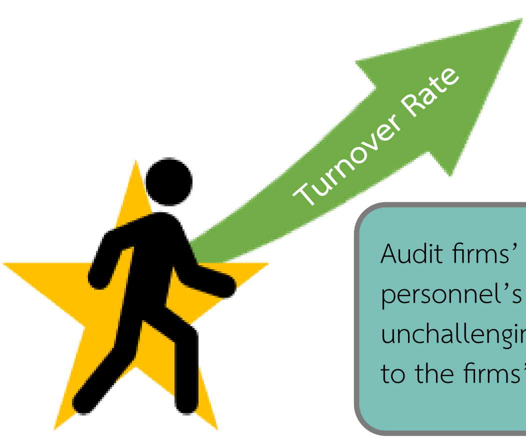
Therefore, audit firms should create a shareholding structure that provides promising auditors with an opportunity to grow and become an equity partner. This is to promote auditors’ engagement with the firms, encourage them to put efforts into their work and recognize the importance of audit quality. Moreover, partnership agreements whereby retired auditors are required to sell their shares to current auditors within the firms would maintain appropriateness of the shareholding structure and entice auditors to stay long-term

3. Appropriateness of workload and complexity of audit



New RCA

Audit firms' adaptability to the new normal



Audit firms have not sufficiently applied technology to improve efficiency of the audit process. As a result, they are unable to attract new generation employees.

Audit firms' insufficient recognition of the new generation personnel's desire, unsatisfactory compensation, unchallenging work as well as unclear career paths lead to the firms' inability to retain proficient personnel.

Poor work-life harmony results in a relatively high turnover rate. Additionally, the COVID-19 pandemic has brought about challenges and difficulties in performing audit work and gathering audit evidence.

5. Adequacy of experienced and knowledgeable personnel

Insufficient involvement of senior-level auditors

Staff's insufficient professional skepticism and experience in auditing

Small-sized audit firms face the challenges of attracting and retaining high-potential personnel.

Technical committee or monitoring team do not have sufficient capability, experience, and time.

"Failure to detect unusual transactions and material misstatements in the financial statements"

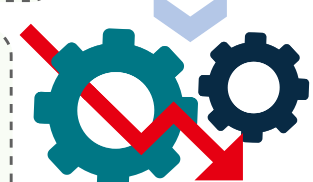
6. Adaptability to technological developments and changes in professional standards

"It is relatively costly to invest in technology and personnel with expertise in order to improve the manual to meet newly-adopted professional standards. As a result, small-sized audit firms are unable to adapt and keep pace with such development."

Audit Firm leaders have not given importance to adopting technology and employing personnel with expertise to enhance effectiveness and efficiency of audit execution.

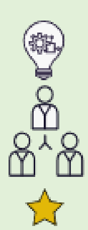
Lack of experts and capital to invest in technology, such as audit software and data analytics tools, in order to improve effectiveness and efficiency of audit execution.

Small-sized audit firms lack the economies of scale to invest in technology and human resources to enhance the effectiveness and efficiency of audit execution.



Lack of human resources who perform the duties of monitoring and propelling the accurate and timely adoption of newly revised professional standards, such as the adoption of the Thai Standard of Quality Management 1 (TSQM1) instead of the Thai Standard of Quality Control 1 (TSQC1).

Low efficiency and quality



Pool resource

Increase efficiency and quality

New RCA 7. Stakeholders do not recognize the value of audit

By performing root cause analysis, the SEC found that the major reason why some audit firms were unable to improve their audit quality control system was the shortage of human resources and investing capital. Analysis on issues in the Thai auditing industry demonstrated that relevant stakeholders in the financial reporting ecosystem had not sufficiently recognized the value of audit. This led to inadequate audit fees, which in turn hindered the auditors from overseeing the quality control system to continuously maintain the standard and attract high potential talents.

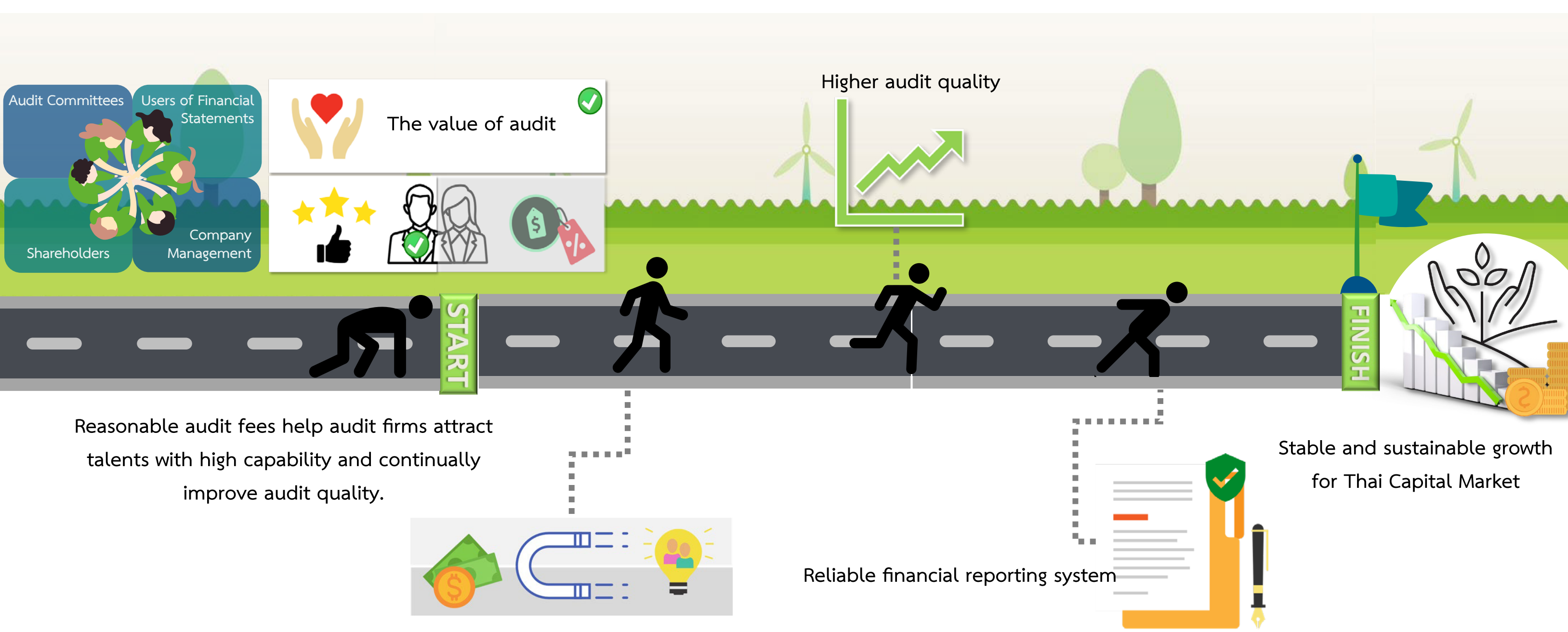
Select auditors mainly based on quality

Some listed companies select auditors mainly by comparing audit fees

resulting in the following issues:

- audit fee pressure leading to poor audit quality;
- auditor shortage resulting from auditors not being compensated in consistent with the tasks at hand and the risks exposed.

The SEC have collaborated with the Thailand Federation of Accounting Professions (TFAC) in launching the Value of Audit Project to promote awareness of the value of audit among relevant stakeholders. In this regard, the SEC provided the TFAC with funding to engage researchers to conduct a research as to why stakeholders do not adequately recognize of the value of audit. The researchers also studied measures used to alleviate this problem in foreign countries and offered suggestions on short-term and long-term schemes to address the issue in Thailand. This is for the TFAC and relevant entities to adopt the plans in order to promote recognition of the value of audit among stakeholders, bringing about a sustainable development of audit quality.



Road Map in 2022

"The SEC develops a road map to support key stakeholders in the financial reporting ecosystem in fully performing their duties to sustainably enhance the well-balanced financial reporting ecosystem and the financial reporting quality of entities in the Thai capital market."

Road map for enhancing the quality of financial reporting system

Promote Self-Discipline

1. Strengthening preparers' and audit committees' knowledge
2. Enhancing audit quality

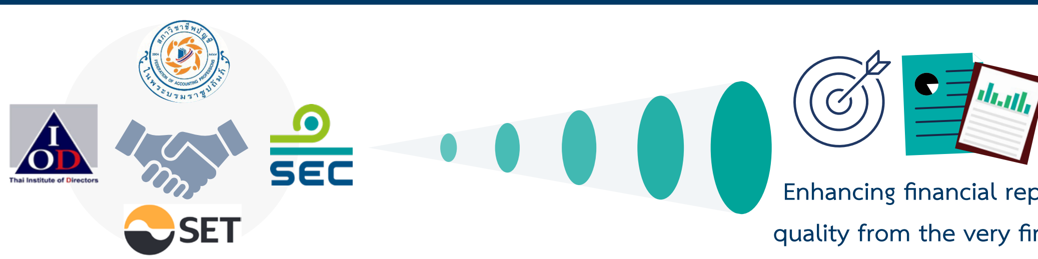
Build Market Force

3. Developing market force as a mechanism for enhancing the quality of auditors
4. Promoting the value of audit among relevant stakeholders

Develop Regulatory Discipline

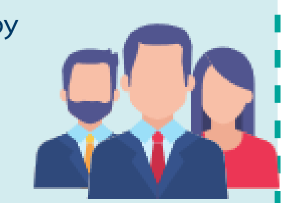
5. Enhancing the efficiency and effectiveness of regulations on audit oversight
6. Improving the efficiency of internal operation through the use of technology

1. Strengthening preparers' and audit committees' knowledge



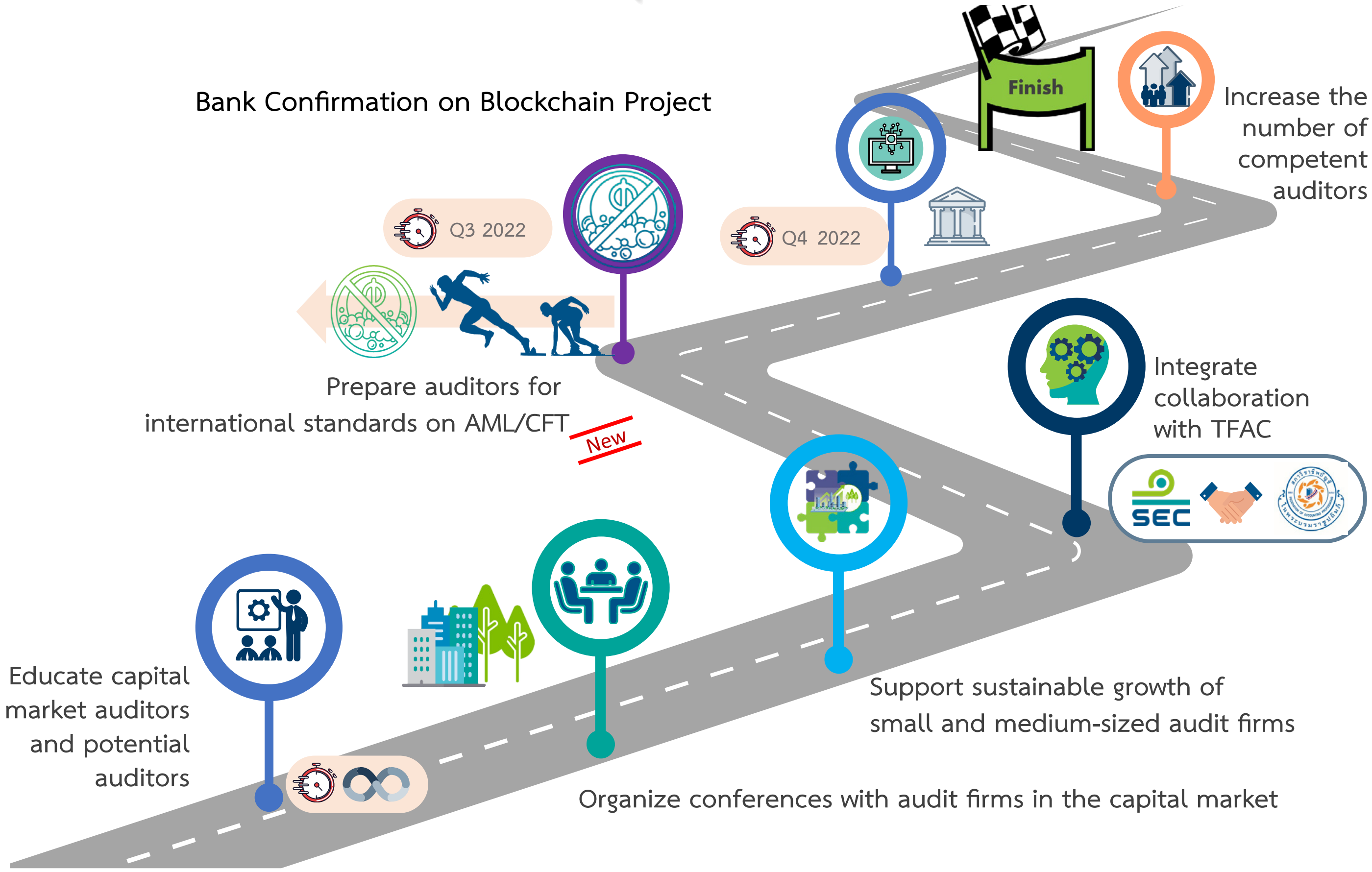
Enhancing financial reporting quality from the very first step

The SEC cooperates with relevant organizations to strengthen the knowledge of preparers and audit committees and promote their awareness of the responsibility to accurately prepare financial reports from the very first step and of good corporate governance. The cooperation also points out the importance of financial reporting process and supervision in order to enhance the reliability of the financial reporting system, which in turn brings about the trustworthiness and sustainable growth of the Thai capital market. The SEC plans to achieve these objectives by organizing training sessions and seminars on various topics, for example:

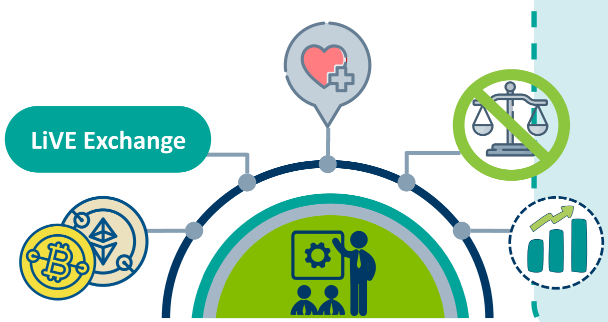


- monitoring the quality of financial reporting and analyzing anomalies in financial statements ("F/S") through case studies;
- case studies on frauds and F/S manipulations;
- information and tools that help support the audit committees to fulfill their duties; and
- sessions for SMEs on getting ready for listing, important matters on F/S preparation, and maintaining proper accounting systems and internal control.

2. Enhancing audit quality



The SEC promotes auditors' awareness of the importance of their responsibility to strengthen the reliability of the financial reporting system, which is a mechanism for investor protection. The SEC also enhances auditors' knowledge and preparation for relevant matters. This is to support auditors in carrying out their roles at the fullest capacity. The SEC's plan in this regard includes:



Organizing training sessions and seminars on a continuing basis for approved auditors in the capital market and those preparing to get approval.

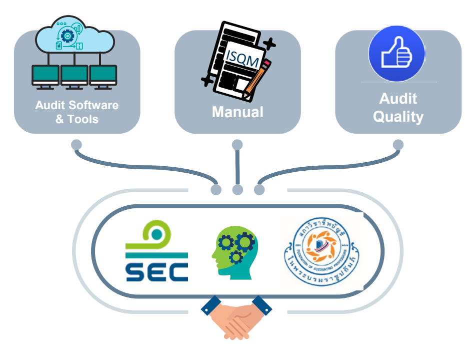
- International Standard on Quality Management 1 and 2 (ISQM 1 and ISQM 2);
- Issues in performing audits and common audit findings;
- Requirements relating to Non-Compliance with Laws and Regulations (NOCLAR), which cover anti-money laundering;
- Emerging issues such as accounting for digital assets;
- Fundraising rules, regulations for preparing and submitting financial statements to support fundraising for SMEs.

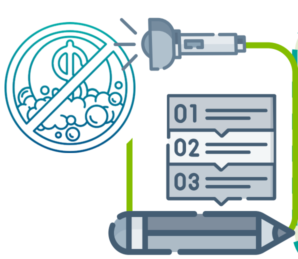
Arranging regular meetings with all audit firms in the capital market to continually discuss the plan for enhancing the audit quality and supporting audit firms in performing their audit work. For instance, providing advice on professional standards through a hotline consultation project, communicating common findings arising from audit working paper inspections and financial statement surveillance, as well as theme inspections and key focus areas on audits of financial statements.

Promoting sustainable growth of small and medium-sized audit firms by promoting the audit firms to maintain a working system that enables them to keep in pace with the changing professional standards and manage sufficient and proficient human resources in relevant fields in order for the firms to provide services to companies in the capital market, which are expanding and becoming more complex. For instance, encouraging amalgamation of small and medium-sized audit firms, which can enhance economies of scales for investment in working systems within the firms and attract professionals from different fields to join the audit firms.

Integrating collaboration with the Thailand Federation of Accounting Professions ("TFAC")

- Continue collaboration for quality management (ISQM) manual project as well as IT audit software and tools development project for small and medium-sized audit firms;
- Discuss a plan to continuously enhance audit quality by, for example, developing manuals/ methodologies for important matters.





Q3 2022

Promoting the National Strategic Plan regarding Anti-money Laundering and Combating the Financing of Terrorism ("AML/CFT") by developing guidelines for auditors in the capital market in reference to professional standards and the code of ethics for professional accountants in order to support the auditors' compliance with AML/CFT standards.

Promoting the development of bank confirmation system via blockchain (Bank Confirmation on Blockchain Project) to alleviate problems of accuracy and completeness of the information provided by banks, prevent frauds, enhance efficiency, and expedite the process of obtaining information from bank confirmations.

Q4 2022

Reducing the application fee for new auditors from audit firms in the capital market who submit the application for approval between 1 Feb to 30 Jun 2022, from 50,000 Baht to 10,000 Baht.

Cooperating with the TFAC in supporting and providing consultation to non-capital market audit firms that are interested in entering the capital market to prepare them to become an auditor in the capital market.

Pushing forward to support auditors in providing audit services to SMEs that are preparing for listing by conducting activities for SMEs with potential to meet and consult with capital market auditors.

Organizing educational activities related to capital market and the accounting professions for university students in different regions to motivate them to become more interested in the auditing professions, which could alleviate the shortage of auditing professionals and promote an increase in the number of auditors in the capital market.

3. Developing market force as a mechanism for enhancing the quality of auditors

- Encourage audit firms in the capital market to disclose their firm inspection reports
- Urging audit committees to select auditors based on quality
- Promote the importance of selecting auditors with quality among investors

Encouraging audit firms in the capital market to disclose their firm inspection reports on the SEC website to provide relevant stakeholders, including listed companies and audit committees, with sufficient information on the audit firms' quality to be able to assess and appoint an auditor appropriate to size and complexity of the companies. This also motivates the audit firms to rectify the deficiencies related to their quality control system and further enhance their audit quality in order for them to become a suitable choice for auditing companies in the capital market.

New

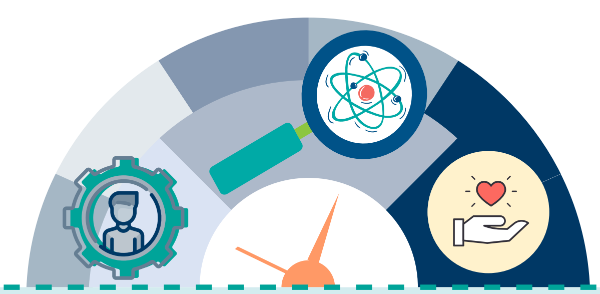
Urging audit committees to select auditors based on quality by conducting training sessions and seminars as well as publishing an article on “Selection of a Quality Auditor through the Use of Firm Inspection Report” in order for relevant stakeholders along with audit committees, to understand how to apply quality-related information in the firm inspection report to the auditor selection decision, which will serve as a mechanism for encouraging audit firms to focus on enhancing their audit quality rather than price competition.

New

Promoting the importance of selecting auditors with quality among investors by providing knowledge on financial statement analysis together with case studies related to the accuracy and reliability of financial reports in order for investors to realize the importance of the quality of auditors, which will enable them to confidently use financial information in their investment decisions. In addition, insight on how to obtain quality-related information on audit firms and auditors from audit committees and listed companies will be provided to investors. This will put pressure on listed companies to essentially select auditors appropriate to their size and complexity rather than price.

New

4. Promoting the value of audit among relevant stakeholders



Cooperating with the TFAC to initiate a project on building up the recognition of the value of audit among relevant stakeholders (“the value of audit project”) by studying the root causes of why relevant stakeholders do not recognize the value of audit, and giving advice on how to solve the issues. This is to jointly develop both short-term and long-term plan to promote the recognition of the value of audit among relevant stakeholders, which will alleviate audit fee pressure problem and stimulate quality competition among audit firms. This in turn will urge audit firms and auditors to further improve their quality.

New

5. Enhancing the efficiency and effectiveness of regulations on audit oversight

1

Revise auditor sanctions guidelines

Revise auditor sanctions guidelines to support proportionality of the penalties appropriate to the severity of the offense and define factors that lead to the increase or decrease of the penalty

2

Develop an online application system for approval of auditors in the capital market

Develop "e-submission" system which allows auditors to submit online application form and supporting documents for approval to be auditors in the capital market to provide more convenience to auditors and audit firms

New

6. Improving the efficiency of internal operation through the use of technology

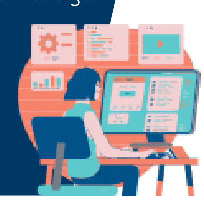
Build an environment conducive to working in the digital age

Improve capability of personnel to keep pace with changes in the digital age

- Award scholarships to the high-potential SEC staff to pursue master's degree in information technology and financial technology both overseas and in Thailand;
- Provide internships in the areas related to the use of technology in audit oversight;
- Organize staff training on digital assets and blockchain.

Use technology to support the audit firm quality control system and audit workpapers inspections

- Develop a machine-readable database of auditors and audit firms;
- Use data analytics in analyzing statistical data (AQIs) for risk consideration and inspection planning;
- Continue the development of a knowledge sharing platform that will also contribute to external parties in the future.

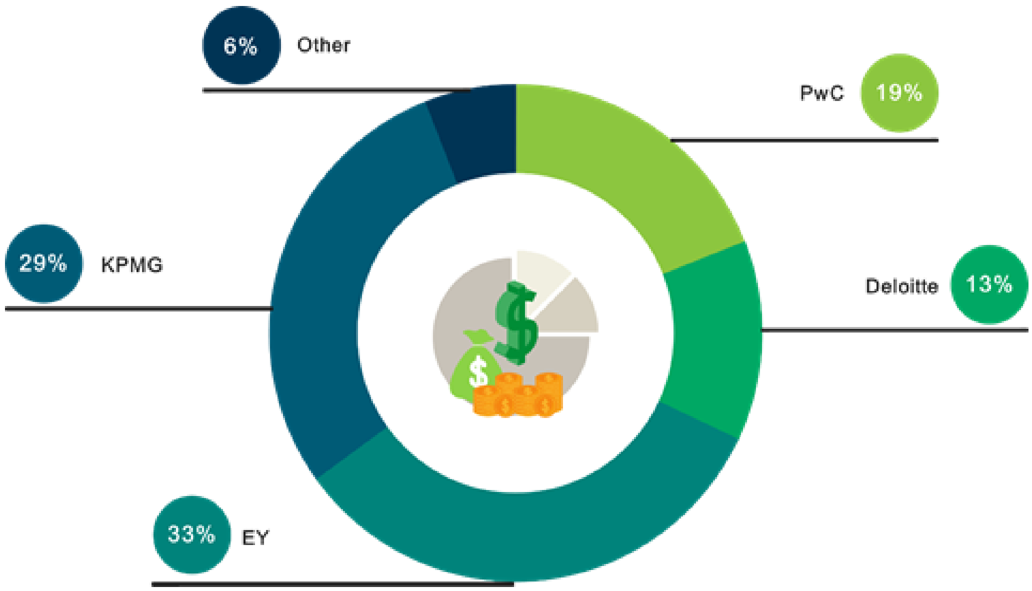


Essential Statistics

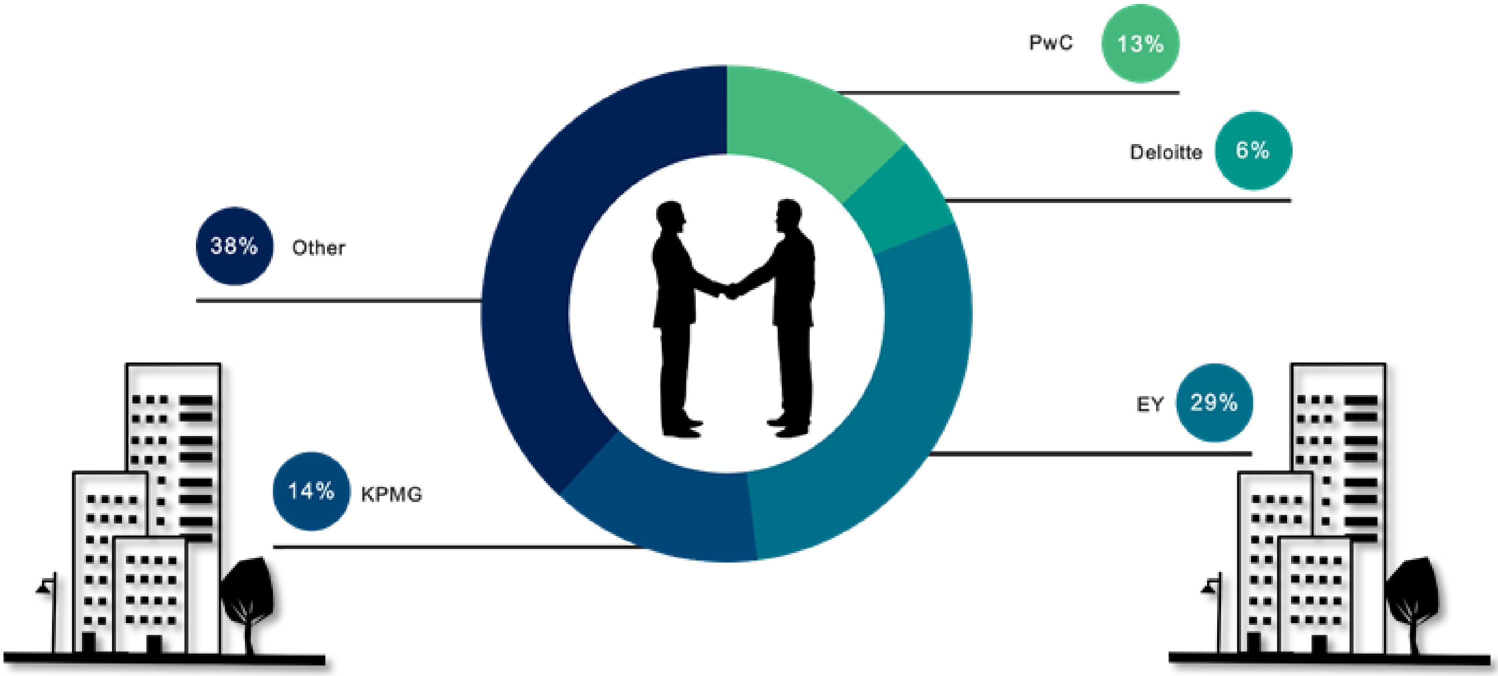
Record of audit firms' quality control inspection result and record of approval of auditors

Year	Number of inspected audit firms	Number of applicants (excluding withdrawal of application)	Number of approved auditors		Number of rejections	Number of withdrawals
			New	Renew		
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	-	-
2021	15	79	31	48	-	1

Proportion of listed companies audit clients of each audit firm, sorted by market capitalization as of December 31, 2021



Proportion of listed companies audit clients of each audit firm, sorted by number of listed companies as of 31 December 2021



Record of actions imposed on the listed companies' financial statements

unit: company

Actions taken	2017	2018	2019	2020	2021
(1) Rectification of financial statements	2	1	-	-	-
(2) Special audit	1	-	-	-	-

Record of mandates to rectify listed companies' financial statements

unit: company

Reasons for rectification	2017	2018	2019	2020	2021
(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 sanctions imposed on auditors

unit: person

Wrongdoings	2017	2018	2019	2020	2021
Failure to fulfill his or her duty as auditor as required by professional standards	2 warnings	-	1 suspension	-	1 warning and disclosure on the SEC website

Remarks:

As of 31 December 2021, the SEC was in the process of considering an audit deficiency case. The case was completed in January 2022 and resulted in the capital market auditor's status being suspended for six months, starting from 19 January 2022. Details of the case can be found in this following link:
https://www.sec.or.th/TH/Pages/News_Detail.aspx?SECID=9292&NewsNo=11&NewsYear=2565&Lang=TH

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

unit: person

Wrongdoings	2017	2018	2019	2020	2021
Using draft audited financial statements not yet publicly disclosed to aid in securities and futures trading	-	-	3	-	-

CONTACT INFORMATION

- This report can be downloaded from www.sec.or.th
- For more information about this report, please contact:

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