

Unofficial Translation

21 October 2020

To: All Chairpersons and the Boards of Directors of Listed Companies

No. SEC.KorSor.(Wor) 48/2563 Subject: Promotion of Good Corporate Governance and Prevention of Frauds

Whereas the audit committee, the independent directors and the executives of listed company play an important role in promoting good corporate governance, driving the improvement of financial report quality, promoting an appropriate internal control system, and preventing frauds. The Securities and Exchange Commission (SEC), on September 29, 2020, held a public live talk on the topic, “*Strengthening Good Corporate Governance by Audit Committee and Independent Director: Experiences from Fraud Cases*” to discuss samples of fraud cases taking place around the world and to raise the awareness of the importance of preventive measures against frauds. In addition, the involved parties were encouraged to use the existing mechanisms and tools effectively to support their duty performance. Such efforts in good corporate governance can support the sustainable quality of financial reports preparation from which investors can access reliable financial information to support their suitable investment decisions.

The SEC has therefore summarized the key messages from the talk, which are expected to be useful for your duty performance, as follows:

1. *Fraud landscape*: Currently, financial reporting frauds increasingly come in various and complex forms and cast widespread impacts on the business and public sectors, as seen in frauds taking place globally, involving fabrication of financial statements and corrupted acts that are difficult to detect. For example, (1) fraudulent transactions through a subsidiary located overseas that has obscure business objectives and is hard to inspect, (2) trading transactions and expenses inconsistent with the market price without business reasons, (3) investment in complex assets or financial instruments that are not core transactions according to the entity’s business objectives, (4) management override of internal controls, (5) fabrication of accounting transactions in the information system by using the executives’ privileged access right to alter information, and (6) creation of numerous fictitious transactions to generate revenues and a falsify impression of giant-leap business expansion, etc. Given such landscape, encouraging listed companies to implement measures to prevent and detect frauds in a timely manner can help protect the interest of shareholders and build confidence in the managerial duty performed by management and confidence in the financial reporting system;

2. *Financial reporting ecosystem*: A well-balanced financial reporting ecosystem whereby the parties involved in the preparation process can perform their duties fully and appropriately contributes to the sustainability of financial reporting quality. Investors in turn can use reliable financial information from such reports to make the right investment decisions. In this regard, the management, as a policy-maker and executive authority, plays an important role in establishing an appropriate accounting system and internal control system, as well as arranging resources, mechanisms and tools that support the duty performance of the parties involved in the financial report preparation process such as the accounting and finance department, the

internal auditor, the audit committee and the auditor. Each element listed above is a crucial foundation of reliable financial report preparation;

3. *Audit Committee and independent director*: The audit committee and independent directors are considered a representative of retail investors as they have an important role in supporting the good quality financial reports preparation of listed companies and contributing to the deterrence of frauds. The audit committee's responsibilities include monitoring and oversight of the listed company to which they hold a position as a committee to ensure that the company prepares accurate financial reports, employs a proper internal control system, and establishes an efficient and effective risk management system. To perform such roles, the audit committee, therefore, needs adequate knowledge and understanding of business operation and risks specific to that company as well as sufficient time to perform their roles as a committee to ensure that the company will have an adequate preventive system and measures. In addition, the audit committee should keep abreast of news and information of the company, be observant and skeptical to raise suspicious issues that may cause a risk and seek clarifications from the management regarding the reasonableness of irregular transactions. The internal audit unit should also support the audit committee's work to enhance effectiveness. In addition, an adequate and appropriate internal control system helps to prevent and deter frauds. However, emerging frauds that cause considerable damage usually involve malfeasances committed by high-ranking executives. Therefore, independent directors and the audit committee play a critical role in creating a mechanism to verify for the reasonableness of important transactions of listed companies;

4. *Listed company*: Listed companies are required to establish an appropriate internal control system. A complaint handling channel and a complaint handling procedures for individuals, both internal and external, to submit information or tips related to domestic fraudulent activities or corruption in the company are an important tool to provide the audit committee with useful information to prevent and detect frauds, and implement measures to resolve such matters in an appropriate and timely manner. In addition, the availability of the above complaint handling system will help promote a culture of good corporate governance, transparency, and accountability. The effectiveness of the complaint handling system depends on the fair consideration of complaints by the responsible party and a protective measure for whistleblowers;

5. *Auditor*: Selection of auditors with high quality and expertise is key to the support for duty performance of the audit committee. Apart from knowledge, capability, and sufficient time and resources for engagement performance, the audit committee should consider the independence of auditors. In certain cases where auditors are well familiar with their audit clients, there may be an issue of duty negligence and failure to report deficiencies or suspicions of frauds. Therefore, the selection of auditor should not depend entirely on the audit fee factor but should take into consideration the qualitative factors as well. In addition, the audit committee is expected to communicate and share information with the auditor and make sufficient time for joint meetings. The dialogue should include the scope of audit work and audit procedures as well as how the auditor response to identified risks, key matters detected throughout the auditing process, and suspicion related to unusual transactions that may be an indicator of fraudulent act;

6. *Guideline*: The SEC supports a close collaboration between the audit committee and the auditor, having issued guidelines in the matter for the audit committee, as already published on the Thai Institute of Directors (IOD) website. For example, the guideline for the audit committee in considering and selecting auditors, a list of questions the audit committee may ask auditors for the purpose of reviewing financial statements, and the International Organization of Securities Commissions (IOSCO) Report on Good Practices for Audit Committee in supporting Audit Quality,

etc. This is to allow the audit committee to exercise their duty to oversee listed companies in preparing accurate and appropriate financial reports.

To view the recorded video of the live talk, please click on this link: <https://www.facebook.com/sec.or.th/videos/4406310502775324>. The SEC will continue to hold seminars to share useful knowledge and information to parties involved in the financial reporting ecosystem and will cordially invite you to join such events in due course.

Please kindly be informed accordingly.

Yours Sincerely,

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