INDEPENDENT AUDIT INSPECTION ACTIVITIES REPORT

2015

Securities and Exchange Commission, Thailand

INDEPENDENT AUDIT INSPECTION ACTIVITIES REPORT 2015

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Executive summary

High quality financial report is an essential tool that provides useful information for users of financial statements, especially investors, so they can make well-informed financial decisions. This type of information could stimulate trust and confidence in the capital markets, which would in turn sustain long-term economic growth in Thailand. Striving to achieve such quality, it is necessary that all parties involved in preparing financial reports understand their roles and responsibilities relevant to the quality of the financial reports. Due to the in-depth understanding of both the nature of their business and the details of their business transactions, preparers, namely Chief Executive Officer (CEO), Chief Financial Officer (CFO), and financial controller, are vital in ensuring the relevance and reliability of financial reporting by selecting suitable accounting policies and implementing effective internal control systems. In other words, they are the first line of defense in financial reporting. Next group is directors and audit committees, our second line of defense, whose roles focus on strengthening governance of entities and providing oversights on the management's implementation and operation of the accounting and internal control systems. The third line of defense is the auditors, who must conduct audits and reviews of financial statements in accordance with their professional standards to be able to express their opinion objectively as to whether the financial statements are faithfully represented.

Through our oversight system, the Securities and Exchange Commission of Thailand ("SEC") has continuously encouraged and monitored the improvements of both the quality of audit firms and that of individual auditors and we have noted that auditors and audit staff who belong to audit firms with effective quality control systems are more likely to produce high quality audits. In light of this observation, it is crucial that when audit committees select an auditor, the quality of the audit works and the quality control systems of the audit firms should be the main selection criteria, rather than the amount of audit fees.

The results of the second-cycle audit inspections (2013 – 2015) suggest that both the audit firms and the auditors have improved significantly on the overall audit quality and on each element of their firm-level quality control systems, compared to the results from the first-cycle audit inspections (2010-2012). In addition, the proportion of the auditors who passed the inspections with no or only minor deficiencies increased from 25 percent in 2013 and 2014 to 50 percent in 2015. Although there are a few audit firms that, due to deficiencies found during the inspections, are in the process of implementing a more effective quality control system especially on the elements of engagement performance and monitoring, it is with limited impact as the audit clients of these firms only accounted for 10 percent of total market capitalization, as of the end of 2015.

Deficiencies during this second cycle were found in the following areas: audit sampling, audits of revenue recognition under percentage of completion method, audits of inventory and cost of sales, and the process of forming an audit opinion. After analyzing the root cause of these deficiencies, the SEC believes that they were caused by inadequate and/or inappropriate risk assessments during the audit planning stage. Therefore, it is important that the auditors carefully assess the audit risks and plan their audits accordingly. This becomes particularly important as the effective date of the new auditor's report is fast approaching, where the auditors have to discuss key audit matters in their audit reports. This new auditor's report will be effective for audits of financial statements for periods ending on or after December 31, 2016.

Another main cause for the deficiencies of the quality control at firm level and engagement level is the insufficient amount of audit fees, when considered in relation to the amount of work and the level of complexity. Insufficient audit fees mean inadequate resources, which inevitably leads to long and strenuous work hours at all levels of the audit personnel. This eventually results in high turnover of audit staff, as well as making it difficult to attract new talents. To improve the retention rate of high-potential employees, several audit firms started to adapt their strategy and policies concerning employee compensation and career advancement, build a culture that enhance employees' morale and loyalty to the firm, as well as create the work environment that would better suit the younger generations. However, to mitigate such shortcomings requires time and much collaboration from all relevant parties before any positive results would start to emerge.

In the third-cycle inspection of 2016 - 2018, the SEC will continue to focus on audit oversight at both engagement level and firm level. In addition to utilizing the audit inspection programs to enhance the overall audit quality, the SEC and the Federation of Accounting Professions ("FAP") will jointly facilitate and accelerate the remediation of the deficiencies found by providing a group of experienced consultants to guide the audit firms and the auditors in their efforts to progress towards the higher audit quality. Also, the SEC has encouraged the audit firms to publish their transparency reports with the information on the firm's structure, governance system, policy and quality control system. This increase in transparencies among the audit firms will further propel these firms to improve their work quality and will naturally help shift the focus of the competition from audit fees to audit quality. Finally, the SEC, together with other organizations, have implemented the model of financial reporting ecosystem, in which the quality of the financial reporting would be strengthened and sustained from the aspects of all stakeholders, especially the preparers of the financial statements. Through various planned activities, from increasing awareness of their financial reporting roles and responsibilities to providing them with necessary supports, we expect the quality of financial information to improve by a noticeable margin.

Quality Assurance Review Panel ("QARP")

The responsibility of the Quality Assurance Review Panel ("QARP") includes providing opinions and recommendations to the SEC on the audit inspection results at both firm level and engagement level. In 2015, the SEC adjusted the composition of the QARP by including professional practitioners on the panel to benefit from their views on practical issues and to ensure careful consideration from all aspects before concluding the inspection results.

The QARP composes of 6 non-practitioner members and 3 practitioner members. To retain the independence of the QARP and their opinions, the SEC requires that the number of attending non-practitioner members must be greater than the number of attending practitioner members and must not have any relationships to or any interests in cases under consideration.

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Non-practitioner Quality Assurance Review Panel Members

1. Mr. Nontaphon Nimsomboon
2. Prof. Thavach Phusitphoykai
3. Mr. Natasek Devahastin
4. Ms. Chongchitt Leekbhai
5. Mr. Pakorn Penparkkul
6. Mrs. Pranee Phasipol

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ACTIVITIES FOR ENHANCING AUDIT QUALITY

In our relentless efforts to improve the quality of financial reporting, the SEC, in strategic collaboration with other organizations such as the Federation of Accounting Professions ("FAP"), the Stock Exchange of Thailand ("SET") and other regulators, has focused on activities that would increase awareness and understanding of roles and responsibilities for all stakeholders, particularly auditors, CEOs, CFOs, and audit committees. This goal, if achieved, will enhance the quality of financial reporting and establish a well-balanced and sustainable financial reporting ecosystem.

Strengthening the audit professions

The SEC regularly hosts seminars for auditors, whose agenda normally cover accounting standards, auditing standards, and practical issues. In July and November 2015, the SEC held the seminars on the new auditor's report and on implementing audit quality indicators or AQIs. Key inspection findings, especially those related to risk assessments and to audit planning for specific industries, such as construction, manufacturing, and services, were also communicated during these events.

One of the common deficiencies found from past inspections is the audit of revenue recognition using percentage of completion method. Specifically, this type of audits is inherently complex and relies heavily on the work of an expert in estimating budget costs and assessing the progress of a construction project so audit deficiencies found in this area were not surprising. To address this problem, the SEC invited a construction planning specialist to share with the auditors his knowledge and experience on tools and approaches used in estimating construction cost.

Furthermore, as the capital market expands relatively quickly, the SEC aims to increase the number of the SEC-registered auditors in the same proportion and, during 2014-2015, we partnered with the FAP to launch a training program, called "Developing Auditors for Thai Capital Markets" that covered both the theoretical and practical aspects of the audit works for auditors and audit firms planning to register with the SEC. At the end of the program, the FAP then performed initial assessments on the quality control systems of those participating audit firms and provided feedbacks and recommendations regarding their compliance with the TSQC1.

Strengthening listed companies' CFOs and audit committees

In April 2015, the SEC held a seminar on the topic of "CFO in the new financial world" to educate CFOs of listed companies on current and upcoming financial reporting standards, accounting issues and problems, as well as innovative financial instruments. Additionally, roles and responsibilities of CFOs on the financial reporting quality were communicated, aiming to enhance the quality and reliability of listed companies' financial reports.

In December 2015, the SEC and the FAP jointly hosted another seminar to raise awareness on the new auditor's report for CFOs, audit committees, and financial analysts and also to get them ready for a subsequent seminar called "the UK experience on implementing the enhanced auditor reporting", held in January 2016. This new auditor's report will be effective for the audits of financial statements ended on or after 31 December 2016.

The SEC participations on regional and international levels

The SEC had implemented the audit inspection systems in order to elevate the audit quality in Thai capital markets and since then, we actively participate in several international organizations and forums to stay up-to-date and to ensure that the effectiveness of our inspection systems is on par with the international standard. We first joined the International Forum of Independent Audit Regulators ("IFIAR") in 2010. The IFIAR is a forum where members share knowledge and practical experiences of their audit oversight programs and through various IFIAR events, participating members mutually benefit from each other's experiences and from the strengthened cross-border relations. On a smaller scale, the SEC is one of the founding members of ASEAN Audit Regulators Group ("AARG"), whose objective is to be a platform for ASEAN audit regulators to share their knowledge, experiences, practical issues, and deficiencies found during audit inspections and to hold a dialogue with representatives from other ASEAN countries about their techniques and development in performing audit regulatory duties. Currently, the AARG members include Singapore, Malaysia, Indonesia, and Thailand. The SEC has actively participated in all annual events hosted by the IFIAR and the AARG. One of the main events hosted by the AARG is the audit inspection workshop, which is an annual event to share practical experiences of audit regulators with among the AARG members as well as with regulators from other ASEAN jurisdictions, such as Cambodia, Lao PDR, Myanmar, and Vietnam; it is part of a collaborative effort of the ASEAN audit regulators to improve the overall audit quality and financial reporting quality within the region.

Due to our participation with the IFIAR and the quality of our audit oversight system, we have gained recognition from the European Commission ("EC") as being equivalent to those of the European Union ("EU") member states since 2013. This recognition enables Thai entities to use their financial statements, audited by Thai SEC-registered auditors, to raise capital in Europe without the need for our auditors to re-register with regulators of the EU member states, allowing for a more efficient cross-border fund raising of Thai entities.

In addition, the SEC is a member of the International Organization of Securities Commissions ("IOSCO"), an international organization of securities regulators from various jurisdictions, and the SEC is also a representative of IOSCO to be a member of International Financial Reporting Standards ("IFRS") Advisory Council for 2015-2017. The IFRS Advisory Council is a formal advisory body to the International Accounting Standards Board ("IASB") and the Trustees of the IFRS Foundation. The meetings of the IFRS Advisory Council are held a few times a year, where strategic issues such as work plans, the IASB directions, and other important developments are discussed.

As a member of the IOSCO, the SEC joins IOSCO's Committee on Issuer Accounting, Audit and Disclosure ("IOSCO Committee 1"), which aspires to promote high quality professional standards, including the rigorous application and enforcements of those standards. The IOSCO Committee 1 holds three meetings annually, giving members opportunities to comment and discuss new developments in the international accounting and auditing standards, as well as professional code of conducts and other ethical requirements, and to share their practical experiences both among themselves and with other parties, such as the IASB, the International Auditing and Assurance Standards Board ("IAASB"), the International Ethics Standards Board for Accountants ("IESBA"), and the Big 6 accounting firms.

Summary of Audit inspection results

A. Firm level

A robustness of the firm's quality control system is an important factor affecting the overall audit quality of audit engagements, and consequently enhancing the quality of the financial reporting. This robust quality control system works as an effective supporting mechanism for auditors and audit staff to perform and deliver high quality audits.

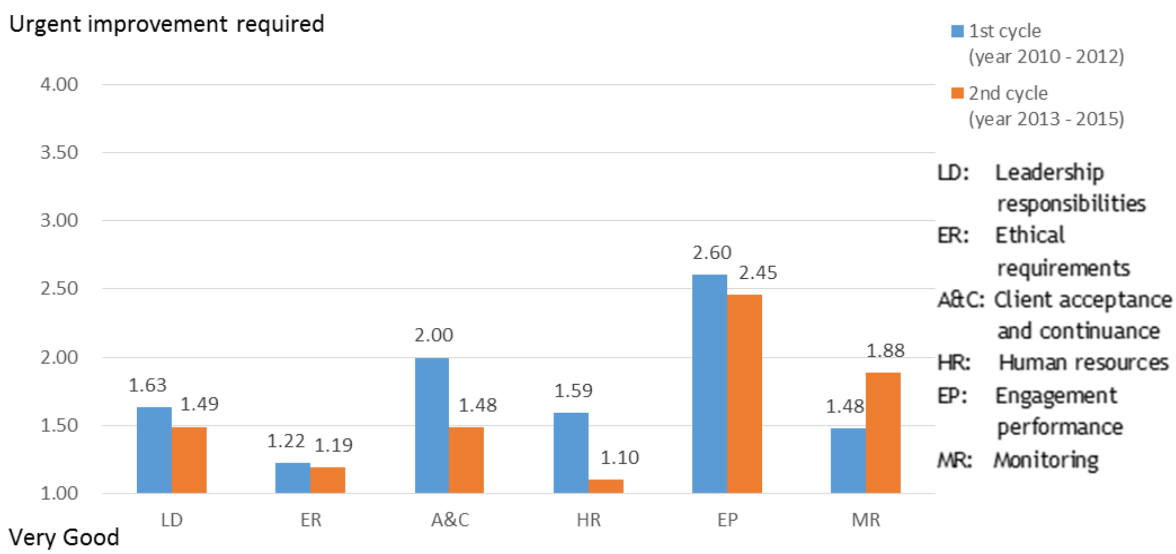
The statistical information of the second-cycle audit inspections (1 January 2013 – 31 December 2015), as illustrated in figure 1, clearly showed that the auditors who were granted approval by the SEC with no deficiencies or with only minor findings were audit partners of an audit firm with effective quality control systems in place. Therefore, the effective quality control system of the audit firms should be one of the auditor-selection criteria considered by the audit committees.

Figure 1 Relationships between firm-level inspection scores on the overall firm's quality control system and average engagement-level inspection scores of the engagements for the 25 audit firms

Note: The criteria for firm-level and engagement-level inspection scores are as follows Firm-level inspection scores received for the overall firm's quality control system is based on a scale of 1-5 (from very good to failing the SEC-approval process) Engagement-level inspection scores received for the audit quality of the engagements of each individual auditor is based on rating scale of 1-4 (approval given with no deficiencies found to failing the SEC-approval process)

Even with the raised expectations for each element during this second-cycle audit inspections, the SEC observed significant improvements, compared to the results from the first cycle, on most aspects of the feedbacks and recommendations given by the SEC, as well as satisfactory inspection scores on most elements of the TSQC1. The firm-level inspection scores of most elements obviously showed better results than that of the first-cycle inspection (2010-2012), as presented in figure 2. Such improvements naturally reflected the emphasis and determination of firm leaders and their staff on improving the level of audit quality.

Figure 2 Comparison of weighted average scores for each TSQC1 element from the first-cycle and the second-cycle of firm-level inspections



The SEC found that the audits of listed companies' financial statements were of high quality and were conducted in accordance with auditing standards. Although some audit firms were still in the improvement process for their quality control system, especially on the elements of engagement performance and monitoring, the clients of these audit firms only accounted for 10% of total market capitalization at the end 2015. Key findings in each element are described below.

1. Leadership responsibilities

Firm leaders are in a crucial position to promote internal culture that values audit quality and their attitude toward the audit quality is a key factor to steer the firm in the right direction. Only after the firm leaders give priority to the audit quality and invest accordingly would the overall quality control system be effective and conforms to the professional standard, the TSQC1. The followings are key deficiencies of this TSQC1 element.

Performance evaluation and remuneration of audit partners

A quality-driven firm would design a pay structure that reflects the quality of audit engagements of audit partners and promote quality-oriented mindset among the audit partners. Based on the firm-level inspections, several audit firms, which did not previously link pay to quality, have now linked their partners' performance evaluation to this factor and given greater weights to measures that relate to the audit quality. Moreover, some audit firms would penalize audit partners whose work quality were found deficient by internal reviewers or the SEC. However, the following deficiencies in this area still remained for some audit firms.

- There was no linkage between the performance evaluation of audit partners and the quality of their audit engagements. For example, we found that some firms compensated their audit partners based on total audit fees of each audit partners, while other firms' partner compensation schemes would totally be at a discretion of the firm leaders or senior partners.
- No explicit criteria on audit quality were used in the performance evaluation or no rationales were documented for the assigned ratings, especially when the evaluations were exceedingly positive or negative and when adjustments were made to the final evaluations.

To build a strong internal culture that values audit quality over short-term profit, clear expectations and performance evaluation criteria that are appropriately tied to the audit quality are an absolute necessity.

Assignment of audit engagements

Appropriate organizational structure and suitable assignments of audit engagements would enhance the quality of the audits and of services provided to its clients. When assigning audit engagements, the audit firms should always consider fundamental factors, such as audit partner's capabilities and experiences. During the 2015 audit inspection, the SEC found that complicated audit engagements of listed companies were sometimes assigned to the auditors with insufficient experiences, and as a result, weakening the audit quality in areas that involved complex business transactions or those that required considerable amount of professional judgment. We also noted that some audit partners took on too much workload than what they could have reasonably handled and that indeed affected the quality of their works.

To aim for the optimum level of audit quality under resource constraints, the firm leaders need to ensure that acceptance of new clients and work assignments are undertaken after a careful consideration of all relevant factors, especially workloads, expertise and experiences of both the partners and the audit teams.

Leaders' responsibility to deficiencies of quality control systems

Being a chief executive of an organization, a firm leader is ultimately responsible for the firm's quality control system and its effectiveness. Therefore, to fulfill that responsibility, he or she has to ensure that adequate resources are allocated and suitable policies and procedures are in place for the functioning of the quality control system (TSQC1). Consequently, the number of key deficiencies found, their severity and any delays in resolving them would reflect poorly on the ability of firm leaders to discharge their responsibilities successfully, resulting in the SEC lowering the score of their TSQC1 element on leadership responsibilities accordingly.

2. Ethical requirements

When audit firms strictly follow ethical best practices and take actions to resolve any issues of non-compliance, it is to be expected that these ethical conducts would bring about trust in their work quality, and thus inducing a more trustworthy market environment for investors. Based on our 2015 inspections, the SEC observed significant improvements in several areas within the element of ethical requirements. For instance, audit firms have established policies and procedures to prevent any conflicts of interest that might arise from business transactions with their audit clients. Moreover, audit firms have seriously adopted measures to improve and ensure their independence against the undue influence from long association, high audit fee clients, and assurance services provided by audit staff in their personal capacity. While these improvements have been substantial, we believe that issues in the following areas could be improved further.

Non-audit services

Implementation of proper policies and procedures regarding the non-audit services provided to audit clients and the consideration of its impact on the independence of auditors are very crucial when identifying threats to auditors' independence and potential conflicts of interest, which, in turn, could negatively affect the reliability of the audit works. The SEC noted that the audit firms had been quite committed in maintaining the independence of both their firms and their personnel, and hence established the process through which potential conflict of interests would be evaluated before the acceptance of any non-audit services. One of the important tools used by several audit firms is the development and maintenance of databases for managing client lists, including types and nature of services that the audit firms, as well as their network firms, provided to their clients.

During 2015 inspections, there were some findings related to the evaluation and acceptance of non-audit services that could be addressed through adequate consultations and proper documentation of judgments to demonstrate clearly that before providing such services, the firms had considered all relevant aspects and were certain that the nature and scope of the non-audit services provided to their audit clients would not jeopardize their independence. For any particular circumstances in which non-audit services possibly create threats to auditors' independence, the audit firms should set up appropriate safeguards to eliminate or reduce those threats to an acceptable level. In some cases, the SEC found that the audit firms did not seem to evaluate whether there were any threats to independence or any conflicts of interest before issuing engagement letters to clients.

Beyond implementing proper policies and procedures to provide the audit firms with reasonable assurance that the firms and their personnel remain independent as required by the ethical requirements, it is crucial that the audit firms effectively communicate such policies and procedures to the staff of their own firms and those of their network firms to ensure that all of them are aware of and fully comply with the firms' policy regarding ethical practices. Moreover, the independence of both the firms and their personnel might be called into question if the process lacks adequate consultations and proper documentation. Therefore, to unquestionably demonstrate their independence both of mind and in appearance, the SEC strongly recommend that the audit firms ensure that their documentation include all relevant aspects of non-audit services under consideration and their independence evaluation such as the substance of the issues, the details of any judgments made or discussions held, any safeguards set up to reduce threats to their independence, and the decisions made. In the case of audit firms and network firms that offer various types of consultative services, it is advised that the firms provide scope of work and guidelines on the types of non-audit services that are permitted, restricted, or prohibited.

Policies and procedures for confidentiality and independence after the termination of employment

When audit staff are about to leave the audit firms to join the audit clients, there might be concerns over their professional conducts being compromised due to potential bias and incentives given by those audit clients. To comply with the Code of Ethics for Professional Accountants, many audit firms have established policies and procedures concerning confidentiality and the independence requirements for resigning employees in order to ensure that former staff continuously maintain confidentiality of information and independence even after the end of their employment with the audit firms. During the second-cycle annual audit inspection, the SEC observed that some audit firms did not take these measures seriously and did not assess whether there were ethical concerns and whether there was a need for any safeguards to eliminate those threats. An example of such preventive measures includes requiring a resigning personnel to inform the audit firms about their new employers and to sign an independence and confidentiality declaration before leaving their positions. More importantly, the audit firms ought to apply additional measures to any members of an engagement team, especially senior personnel and above, who are about to join their audit clients as an employee. This is because such situation could create familiarity threats and could have considerable influence over the quality of the audit. For this kind of situations, it is therefore deemed necessary that the audit firms take actions to avoid conflicts and apply appropriate safeguards, such as reviewing the previous works performed by those personnel on the engagements to determine whether objectivity and independence according to the Code of Ethics for Professional Accountants were properly maintained, as well as rotating those individuals off the audit team.

In light of the ethical standards, audit firms should clearly establish policies and procedures for confidentiality and independence in case of resignation, including the requirements to inform the audit firms of the name of their new employer. In the situation where the resigning audit staff were to join their audit clients, they should be required to submit a notice at a much earlier time prior to their resignation than what is usually required in the normal circumstances to allow the audit firms to take any necessary precautions to reduce the risk of impaired independence.

Related parties

From our previous inspections, the SEC observed that a number of audit firms had several related parties, resulting in quite a complex group structure, which could put their independence at risk. For the current cycle, the SEC, therefore, concentrated on verifying the completeness of audit firms' disclosures of their related parties and assessing the effectiveness of safeguards implemented by the firms to manage threats against the firms' and their auditors' independence.

Results of the 2015 inspections showed that the incompleteness of the related-parties disclosures remains an issue because some firms had yet to set out clear definition of related parties. Not only does this issue affect independence of the auditors and the firms, but it also undermines the efficacy of the firms' client acceptance and continuance process.

The SEC believes that it is important that the audit firms establish a set of effective policies and procedures to collect information on conflicts of interests disclosed by shareholders and top management, as well as to verify and follow-up on completeness and accuracy of the disclosed information. Moreover, robust disciplinary actions should be set out against those who fail to comply with the firms' ethical requirements in order to prevent any breaches of the Code of Ethical Principles. Finally, in a long run, audit firms might consider revising their group structure to minimize these threats to their independence.

3. Client acceptance and continuance

Appropriate client acceptance and continuance process could help audit firms to ensure that they have sufficient available staff who have capabilities and appropriate level of expertise to perform the audit engagements under consideration. During the 2015 audit inspections, the SEC observed noticeable improvements in this area. The results of the inspection clearly showed that all of the inspected audit firms have already implemented policies and procedures for the acceptance and continuance of client relationships in accordance with TSQC1. Some audit firms have developed and used databases and search engines to thoroughly verify information regarding related parties and management integrity, which would undoubtedly help fortify the firm's quality control system. The SEC believes improvements on the following issues would further strengthen this element of the firm-level quality control.

Risk assessment during client acceptance and continuance process

An appropriate risk assessment during client acceptance and continuance process is an important step in evaluating engagement risks and developing audit procedures in response of those risks, enabling firms to fully comply with auditing standards. Many audit firms have properly designed risk assessment templates, covering all significant factors in accordance with TSQC1. However, improvements in the following areas would provide additional reinforcement to the firms' quality control.

- Audit firms did not utilize all significant factors in their risk assessments for client acceptance and continuance decisions. Furthermore, an approach selected and its application, together with how to identify significant factors and how to assign proper corresponding weights, were not clearly communicated to all relevant personnel, resulting in inconsistent, and sometimes inappropriate, application of the risk assessments. For example, an audit firm gave equal weights to all factors for the risk assessment of a potential audit engagement, including fraud risks by management that was prone to be a significant risk area. As a result, this engagement was concluded as having a moderate risk level, instead of that of a high risk, although management's integrity of the prospective client was in doubt. Hence, engagements with significant risks, including the fraud risks, could mistakenly be identified as acceptable or tolerable.
- There were occasionally inadequate documentation of the risk assessment process, as well as on the process of identifying the potential responses to the identified risks. Accordingly, before accepting any new audit clients, the audit firms should ensure that their processes and documentation are effectively implemented to ensure availability of sufficient resources, in terms of audit staff and their capabilities, such that high quality audits could be achieved for all of their engagements.

The SEC expects audit firms to improve their risk assessment on client acceptance and continuance process by identifying all important factors, together with assigning the appropriate corresponding weights for each factor, that should be considered in assessing risks, and being thorough in their documentation of the risk assessment process. Also, the success of this process could only be ascertained through clear communication to the audit teams on the functions and processes of this specific aspect of the firm's quality controls. Furthermore, it is expected that the firms appropriately respond to the assessed risks in all relevant aspects, including scope, timing and extent of audit works, since this would be the only approach to make sure that only the audit engagements, for which the firms could execute with a high quality standard of work, are accepted.

Assessment on the adequacy of human resources and their capabilities

A thorough assessment of the amount of available resources and level of competence in satisfactorily performing the engagements is necessary in the firm's decisions whether to undertake or to continue relationships with the audit clients as it would ensure the delivery of high quality audits for all their engagements. During the second-cycle audit inspection, the SEC noted that some audit firms did not consider some of these crucial factors when deciding whether to accept new audit clients. For instance, an audit firm did not consider its capability before accepting an audit engagement as a group auditor for a group of companies that had an associated company operating overseas. This associated company was audited by a local auditor whose audit works were documented in a local language, however, the audit firm, acting as the group auditor, had no staff with the proficiency of the local language, leading to a failure to communicate with that associated company and its auditor. Consequently, an audit firm could not satisfactorily perform a review of the associated company's financial statements and of its local auditor's working papers, and therefore did not obtain sufficient audit evidence to conclude whether the investment in the associated company and its share of profit or loss were fairly stated in the consolidated financial statements.

Accordingly, before accepting any new audit clients, the SEC recommends that the audit firms fully implement the procedures for this process to ensure sufficient availability of resources to deliver high quality audits for all their engagements. The SEC believes that this process would also result in the suitable human resource planning, appropriate audit fees charged, and sufficiency of estimated engagement hours, eventually leading to high audit quality.

Approval of audit services

It is vital that final decisions whether to accept a prospective client or to withdraw from an ongoing engagement or from both the engagement and the client relationship are approved by an authorized person in accordance with the firm's policies to ensure that all requirements and relevant information are carefully considered. One of the deficiencies that was frequently found is that the engagements were occasionally accepted before the completion of the risk assessment process or before obtaining the confirmation from predecessor auditors without executing any substitute procedures to ensure that the auditors could fully comply with relevant ethical requirements.

It is very important that the audit firms obtain all relevant information before finalizing the decisions to accept new clients or to continue relationships with existing clients. This approach would prevent the audit firms from accepting or continuing engagements with associated risks that are too high. In a situation where a risk level is higher than normal or there is a potential conflict of interest or a possible lack of independence, the audit firms must put in place necessary audit procedures, as well as fully document the decisions and all relevant information, to respond to those risks before accepting or continuing the engagements. In a circumstance where an issue of auditor's independence arises after the acceptance of an engagement, the audit firms shall determine whether it is necessary to decline the engagement and exclude themselves or not.

4. Human resources

Human resource is essential for audit professions and it is a key driver for audit quality as the audit firms depend heavily on their personnel to achieve their goals. An audit engagement cannot be completed by one auditor, especially that of listed companies which are normally large-scaled and complex. The auditor, therefore, requires assistants in collecting audit evidence and performing audit procedures as required by the auditing standards. An audit team typically consists of an audit partner and an audit team, which includes an audit manager, a senior auditor, and audit assistants. To achieve high-quality audits and minimize audit errors, all team members need to possess sufficient knowledge, capability, time as well as a strong determination that focuses on quality. A quality control system relating to this element, hence, plays an important role in promoting overall quality of the audit engagements.

The results from the second-cycle inspections clearly indicated continuous improvements and outstanding development on human resource management. For 2015, the SEC focused on resource planning, recording working hours, performance evaluation and follow-up processes for audit personnel's training.

Human resource planning and allocation

Advanced and appropriate human resource planning and allocation will ensure that audit firms are capable of obtaining capable workforce and are able to allocate adequate time for their staff to complete audit work as required by the auditing standards. Based on our inspections of audit firms' human resource structure, the SEC was concerned about both the current and future adequacy of the firms' human resources. In particular, there has been a lack of competent workforce in the audit profession due to the audit firms' high turnover rate. Furthermore, a declining number of new recruits into the audit profession in recent years has been one of the reasons for inadequate audit staff to service an increasing number of audit clients, while maintaining the audit quality as prescribed by the professional standards. In addition, small and mid-sized audit firms in the capital market still need to carefully consider both their short-term and long-term human resource planning to ensure sufficient workforce that could cope with the expected workload of the firms.

However, some audit firms dealt with this problem by seeking to draw in high-potential individuals, especially new graduates, using challenges of the audit profession and well-defined career path. For example, many audit firms regularly held career fairs with several universities to promote the audit profession to the students, granted scholarships to students with excellent academic achievement, and provided attractive internship opportunities to students to give them hands-on experience with the audit works.

Succession plan

To sustain their operation, it is critical for audit firms to carefully design and follow through their succession plans, particularly for high-level positions. Past inspections suggested that some audit firms had difficulties implementing the succession plan due to their unbalanced human resource structure. This unbalanced structure either from the shortage of senior staff or from the large number of part-time staff, became a major obstacle for the audit firms in developing and promoting their audit staff to the mid- and high-level management positions.

For 2015 inspections, the SEC found an improvement in this area as audit firms had started to implement clear succession plan and policies to attract and retain competent audit personnel. For example, some audit firms retained their high-potential staff by offering more opportunities for career advancement such as secondment opportunities abroad, adjusting work environment to better suit younger generation's needs and values, as well as regularly hold relationship-building activities for employees at all levels.

Recording employees' working hours

The audit firms should fully collect man-hour data for staff at all levels in order to obtain precise and adequate information for resource planning, to assess resource availability for a continuance of existing clients, to set appropriate audit fees, and to assess whether an engagement partner and EQCR involvement are appropriate and sufficient.

Audit staff in most audit firms are required to keep records of their work hours in the system or relevant forms. For 2015 inspections, however, the SEC found that some mid-sized and small firms lacked an effective system to ensure accurate records of work hours for each level of staff, resulting in an incomplete man-hour data that were much needed for planning.

Employee performance evaluation

To emphasize the importance of audit quality, audit firms should align staff and partner compensations and promotions with this ultimate goal of high quality. By properly compensating and promoting employees based on quality factors, the audit firms would be encouraging their employees to strive for further professional improvements and this, in turn, would allow the firms to retain the competent and self-driven audit staff. Though most audit firms have included the audit quality factors as part of employees' performance evaluation, the SEC noted some findings in this area.

- Some of the audit firms did not set clear expectations, nor identify relevant factors that would be taken into account, when evaluating staff performance. Moreover, the firms did not openly communicate a defined set of scoring criteria to be used consistently across the firms such that there was a lack of transparency in the evaluation system. In addition, no supporting reasons were documented when the results of the evaluations were above or below a normal level, nor when actual performance grades were different from self-evaluated ones.
- Employees' promotions and compensation did not correlate with the quality of their performance. For example, an employee with a low score in performance evaluation was promoted and received higher compensation than the one who received a high score.

Ineffective monitoring for staff trainings

To avoid their audit staff's capabilities being called into question, audit firms should highlight the importance of learning and keeping the applicable knowledge updated, as well as establish effective monitoring and follow-up measures to ensure that their staff are sufficiently up-to-date with the important changes to remain capable at their works.

The SEC found that some audit firms had neither monitoring process to follow up on their staff training, nor effective policies outlining necessary actions for those who failed to complete their trainings within an appropriate time frame. This issue becomes more serious when there were recent updates in audit manuals or in the accounting or auditing standards.

5. Engagement performance

A control system on the engagement performance element has a direct effect on the audit quality of each individual auditor. According to the inspection results, an auditor from an audit firm with good engagement performance rating tends to deliver high quality audits, as defined by relevant standards. This is due to the fact that good quality control system on engagement performance normally means the firms having effective policies, guidance and tools to enhance audit quality, such as audit manuals, audit programs, engagement review and supervision, consultation process, EQCR, and files archiving.

Our 2015 inspections revealed much improvement on audit manuals and audit programs to always fully comply with the accounting and auditing standards. As a result, the 2015 inspections on engagement performance element showed better results than that of previous year. This element, however, contains more key deficiencies than other ISQC1 elements and thus remains an area of key concern for the SEC. The inspection findings are discussed in the following details.

Audit manuals and audit programs

Tools, such as complete and up-to-date audit manuals and audit programs and adequate staff trainings, provide support for the audit teams in performing consistently high quality audits across all audit teams. According to our 2015 inspections, some mid-sized and small audit firms had significant development on improving their audit manuals and guidance to be in accordance with auditing standards. Nevertheless, some deficiencies concerning the completeness of the audit manuals and guidance remained, as followed.

- There were incomplete audit manuals and audit programs as required by auditing standards in some areas. Moreover, audit programs were not in sufficient details to benefit the audit teams in performing their audits. For example:
    - Audit manuals did not contain guidelines in assessing inherent risk, control risk and risk of material misstatements.
    - Audit manuals did not prescribe the criteria in selecting materiality base, as well as the percentage, in order to determine an appropriate materiality level.

- Audit manuals neither established guidelines in determining sample size for tests of control and tests of detail as require by the auditing standards, nor did they provide adequate examples of factors that might affect the determination of sample size.

- Archive of audit files, in both paper and electronic forms, did not comply with the firms' policies.
- There was inadequate documentation on consultation process, particularly about the process and the conclusion reached.

In addition, although the firms had developed their own audit manuals and audit programs in accordance with the auditing standards, their audit teams, in many cases, did not completely follow the set guidance. The firms, hence, should clearly communicate the importance of the aforementioned matters to their staff, along with encouraging the implementation of those principles. To achieve this, it is suggested that the firms arrange a small-group training for audit staff to update changes made in their audit manuals and audit program. A case study would also aid in boosting the audit teams' understanding.

Involvement in audits by engagement partners and EQCRs

Adequate involvement of engagement partners and EQCR would enhance the quality of the audits because engagement partners and EQCRs have more working experiences than audit assistants and therefore, they could better assess the sufficiency and relevance of audit evidence and are more effective in exercising their skepticism and judgment. Consequently, they are more likely to detect significant risks and key audit issues than other audit staff with fewer years of experiences and if situations warranted, they could rightly direct the teams to perform further investigations to collect more audit evidence before making a final decision. In addition, the involvement of the engagement partners and EQCRs allows for timely consultation when the teams encounter any problems during the audits.

FIGURE 1 : TIME RECORDED BY ENGAGEMENT PARTNERS

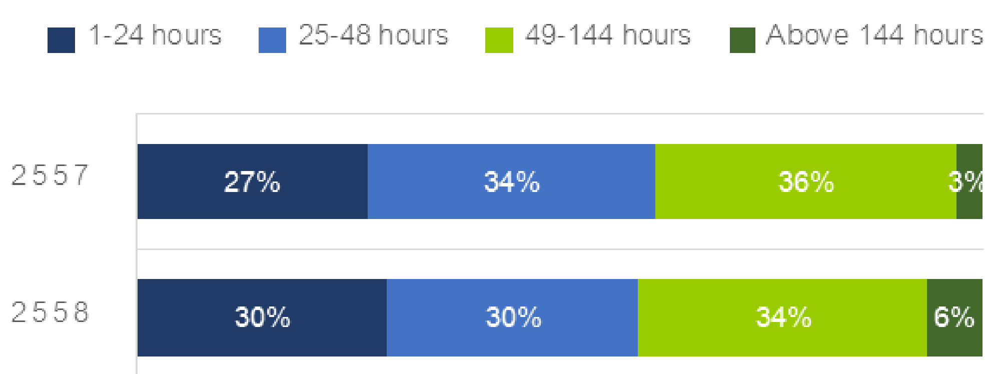


FIGURE 2 : % OF ENGAGEMENT PARTNERS INVOLVEMENT

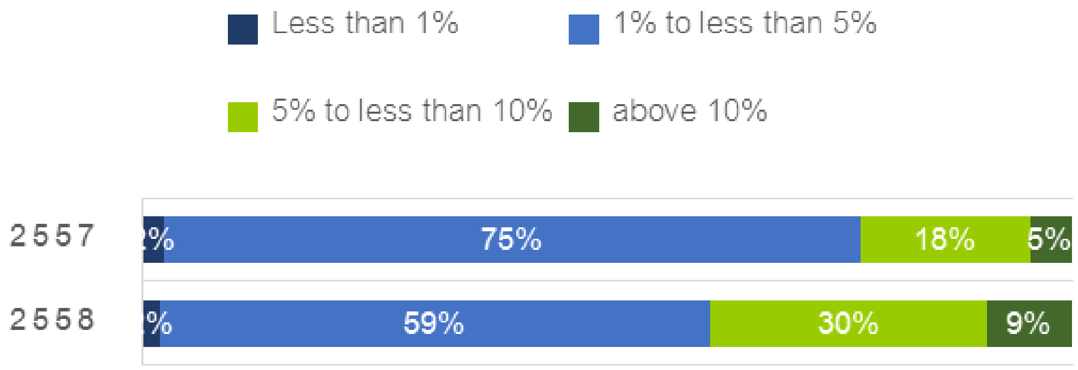


FIGURE 3 : TIME RECORDED BY EQCRS

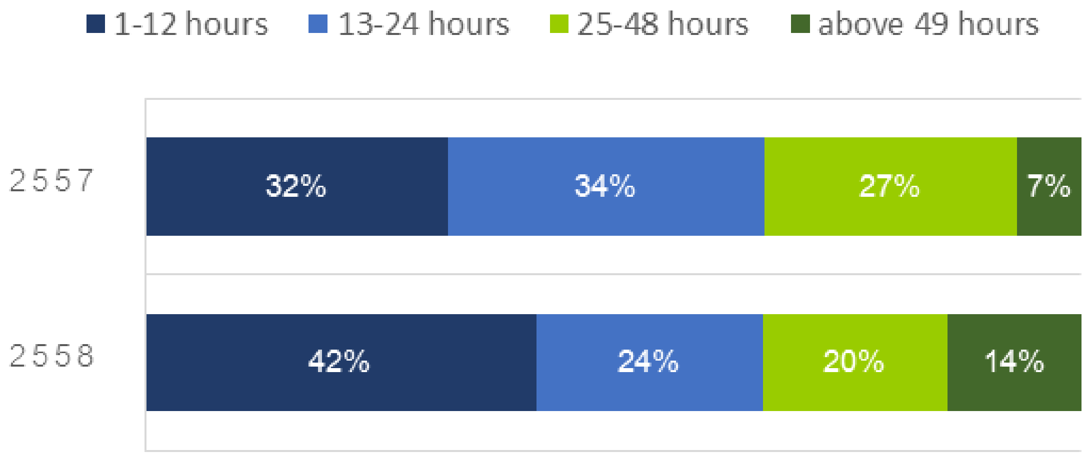
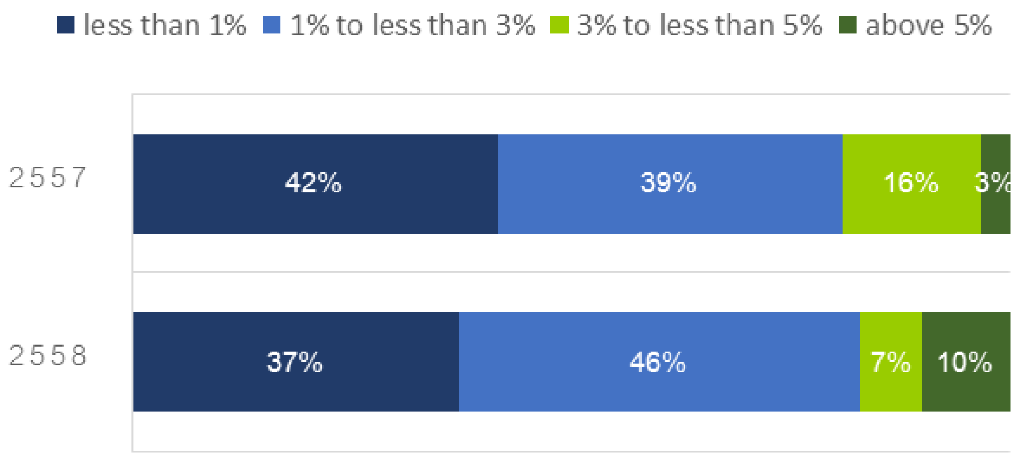


FIGURE 4 : % OF EQCRS INVOLVEMENT



In general, the SEC found that this year's EQCR involvement was higher than that of last year, evidenced by a higher proportion of the "above 5%" and a lower proportion of the "below 1%" of EQCR involvement than those numbers from last year. Moreover, the level of engagement partner involvement in 2015 could be considered higher than the 2014 results as the percentage of the "above 5%" category was considerably higher than that of 2014. In order to assess the sufficiency of partner involvement, the SEC considers both the actual hours and percentage of time spent to the total engagement hours, as well as risks and complexity of audit engagements. Also, the SEC took into account the results from both our and the firm's monitoring activities. There was indeed quite a correlation between partner involvement and the monitoring results; specifically, engagements with low level of partner involvement tend to be riddled with more deficiencies.

With this seemingly clear relationship between the involvements of the engagement partner and the EQCR and the audit quality, it is prudent that the audit firms should encourage and facilitate the partner and EQCR involvements with their audit engagements. This could be achieved, for example, through implementing and earnestly maintaining a system to keep track of partners' and EQCRs' hours spent on an audit engagement. Additionally, the audit firms should consider this factor when assigning audit engagements to the partners and the EQCRs to ensure that both have ample amount of time to get involved with the engagements.

6. Monitoring

To enable the audit firms to resolve any key deficiencies quickly and in time, the audit firms need to at least ensure the followings: the proper planning of their monitoring activities; appropriate assigning of this task to the right teams with sufficient level of competence and time; and timely communications of any key deficiencies to audit teams. Effective monitoring would, in turn, strengthen the quality control system both at the engagement level and at the firm level.

The SEC observed that several audit firms had noticeable improvements in their monitoring process. They had, for instance, set clearer and more robust policies and procedures and revised their manuals to be more comprehensive and easier to apply. During this second-cycle inspections, the SEC noticed real efforts that the audit firms put into improving their monitoring process to be in compliance with the TSQC1, such as setting monitoring policies, implementing monitoring and follow-up programs, analyzing root causes and drafting timely remediation plans for key deficiencies. Nonetheless, the SEC sets higher expectations for this element for this inspection cycle, causing additional deficiencies to be detected. These deficiencies are discussed in the following section.

Setting and implementing monitoring policy and guidelines

Policies, guidelines and manuals of monitoring activities that are sufficiently detailed, as prescribed in the TSQC1, could definitely ease and facilitate the process, possibly resulting in a more effective monitoring. Effective monitoring would then provide feedbacks for further improvements and planning. Most audit firms have already set the policies and implemented the monitoring guidelines at both firm level and engagement level. Other areas with potential to be improved further are the followings.

- Monitoring guidelines at firm level did not cover some key areas, for example, reviews of non-audit services provided to audit clients, policies on independence check when having business transactions with audit clients, and performance evaluation of partners and employees.
- Quality control manuals did not include guidelines or factors to be considered when selecting audit engagements and transactions and setting the scopes for reviews.
- Quality control manuals did not provide recommended criteria in giving scores and prioritizing deficiencies found in each area. For instance, the firm, reviewing deficiencies at engagement level by considering only the number of deficiencies found while ignoring the impact of those deficiencies, such as the qualitative and quantitative impact on the possible material misstatement in financial statements.
- The monitoring team did not perform monitoring function at firm level and engagement level sufficiently and appropriately because the team fails to detect key deficiencies and did not properly document the monitoring results.

Assignment of monitoring activities

Audit firms should assign the monitoring responsibilities to partners or those with adequate experience and authority within the firm, as well as being independent, to efficiently and effectively discharge such duties. To allow sufficient time for the monitoring teams, the audit firms should consider the monitoring duties of these individuals when allocating additional workload to the members of the monitoring teams. The inspection results indicated that most audit firms already assigned the monitoring responsibilities to the qualified and capable teams, however some mid-sized and small audit firms should consider improving on the following issues.

- There were incidents where monitoring teams reviewed their own audit works, which inevitably impaired the trustworthiness of monitoring results.
- Some audit firms assigned the monitoring responsibilities to outsourced personnel with no audit experience and inadequate time to execute the assigned tasks effectively.

Corrective actions and communication

The second-cycle inspection demonstrated that some audit firms did not assess the level of severity and significance of detected deficiencies and did not clearly and completely communicate such information to relevant parties.

The SEC expects the audit firms to carefully plan their monitoring activities, including clearly identifying the objectives, scopes, and timing of the monitoring activities, and to properly communicate the findings and remediation plans to those involved, and finally to follow up promptly on progresses of the corrective actions. Serious root-cause analysis for the deficiencies identified and the corresponding trainings would also help the audit firms to strengthen this element of the TSQC1.

B. Engagement level

In the second-cycle audit inspections, 109 auditors were inspected as a part of the SEC's individual auditor approval process. Out of these 109 auditors, 62 of them were renewing their SEC-registered status while the rest were new applicants. From the results of our inspections, 6 auditors did not pass the SEC inspections. The total of 286 engagements were selected for inspections in the second-cycle, within which 64 engagements were inspected in 2015 with 6 of them (9%), mainly from Big-Four audit firms, had no deficiencies. Moreover, figure 7 showed that the proportion of auditors who were granted approval in 2015 by the SEC with no deficiencies or with some insignificant findings was about 50% which was a significant improvement when compared to the ratio of 25% during 2013 - 2014.

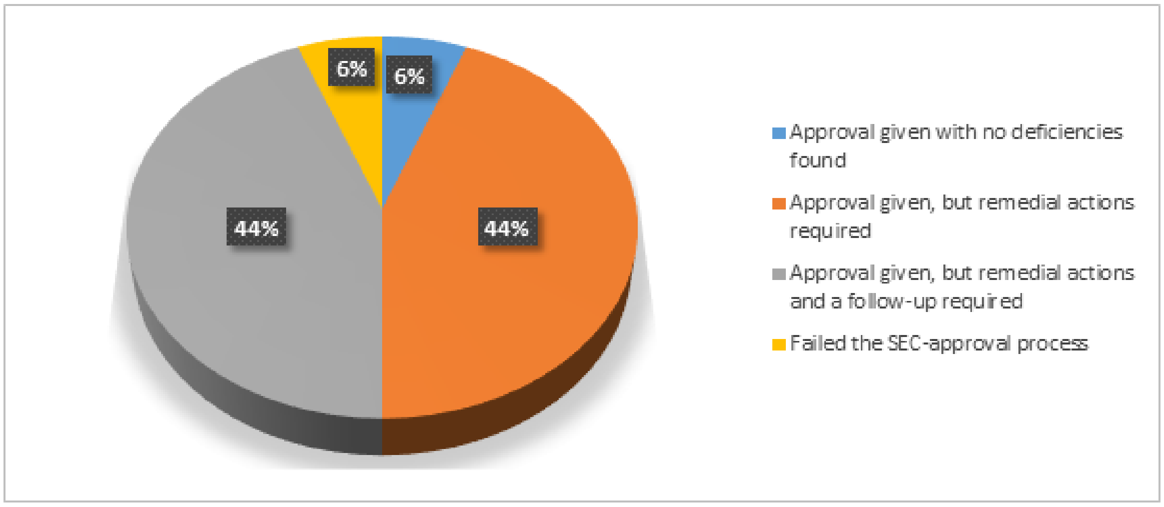


Figure 7: Engagements-level inspection results of the auditors in 2015 categorized by types of approval

Deficiencies from 2015 inspections could be grouped into the following audit processes: (1) audit planning – 29 inspected engagements (2) audit execution – 54 inspected engagements, and (3) audit completion and forming of an audit opinion – 20 inspected engagements.

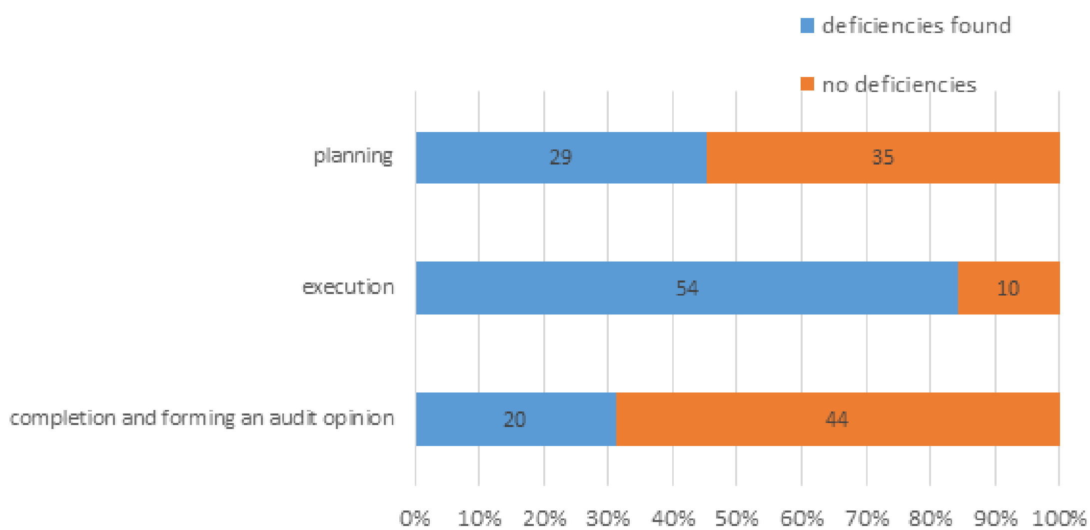
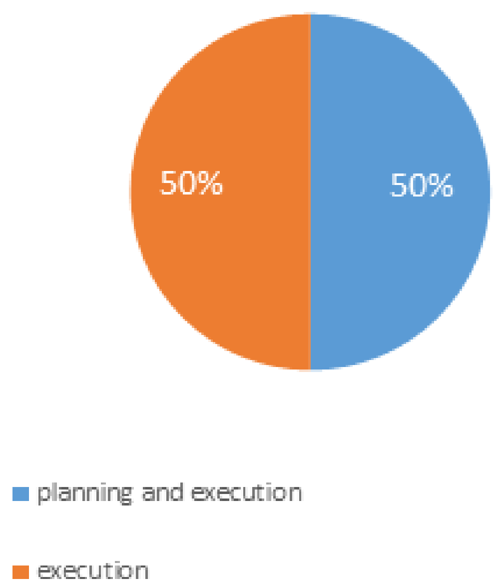


Figure 8: the number of engagements with deficiencies from 2015 inspections by audit processes

From the second-cycle audit inspection, the relationships of deficiencies found in different audit processes during 2013 – 2015 were similar. In particular, deficiencies in audit planning process seemed to be the cause of the findings in the audit execution process and the audit completion and forming of an audit opinion process. For example, out of all audit engagements with the audit-planning deficiencies, 50% resulted in the deficiencies in the audit execution process and 69% resulted in the deficiencies in the areas of both audit execution and the audit completion and forming of an audit opinion processes (Figure 9). The results indicate that the audit planning has significant impact on audit quality. Appropriate risk assessment allows auditors to appropriately identify audit procedures that are responsive to the assessed risks and to sufficiently gather appropriate audit evidence to support conclusions reached. Also, the appropriate audit planning process helps auditors perform audit works more effectively and efficiently. From the second-cycle audit engagement inspections, we found that the audit firms put efforts into improving their audit planning process; for example, non Big-Four audit firms had revised their audit manuals to ensure that their audit works comply with the applicable auditing standards and to identify important procedures that auditors need to consider in planning their audit engagements, and they provided trainings to the audit staff for the updated procedures of the revised audit manuals. In addition, the audit firms have established necessary audit procedures in the audit planning process mainly in the areas of the risk assessment and the determination of materiality. To strengthen the risk assessment procedure, the audit firms have included more audit procedures in areas such as understanding client's environment and kick-off meetings among audit team members to ensure that risks were appropriately identified and addressed.



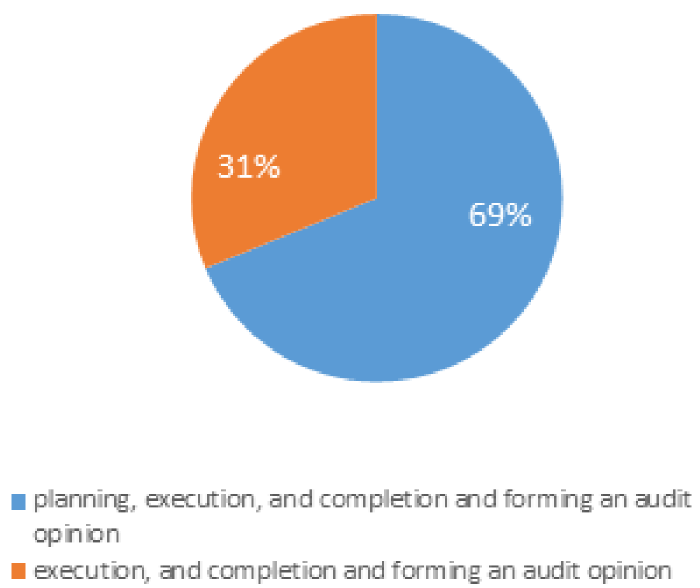


Figure 9: the percentage of inspected engagements in 2015 with deficiencies found as a result of inappropriate audit planning

Regardless of the improvements, the SEC had detected deficiencies in the processes of the audit execution and the audit completion and forming of audit opinion which arose from inappropriate and inadequate audit planning, particularly in risk assessment procedures that ultimately led to audit procedures not being responsive to the audit risks. The deficiencies in each audit process are discussed in more details in the following section.

Audit planning process

Identification and assessment of the risks of material misstatement due to fraud

According to Thai Standard on Auditing ("TSA") 240, auditors shall recognize the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management. This is because management has ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls. Assessment of the risks of material misstatement due to fraud, thus, is an important process, which would affect the adequacy and the appropriateness of audit procedures to respond to the assessed risks. With respect to the inspection of audit engagements in the second-cycle, the SEC found that auditors have increasingly focus on identification and assessment of the risks of material misstatement due to fraud. A clear example is that auditors have carefully identified and assessed fraud risks as significant risks regardless of companies' size and complexity. However, the inspections still revealed the following deficiencies on fraud risk identification and assessment in some engagements:

- Some auditors presumed that there were risks of fraud in revenue recognition but failed to evaluate which types of revenue transactions or assertions give rise to such risks and which approaches that management might use for perpetrating frauds;
- Some auditors incompletely identified and assessed the accounts that potentially associate with material misstatement due to fraud. For example, for some engagements in which management incentives were contingent upon companies' net operating profit, calculated by subtracting certain costs from total revenues, the auditors identified and assessed risks of material misstatement due to fraud only in revenue transactions but failed to consider that management may be motivated to manipulate the amount of net operating profit by lowering some costs to achieve their incentive targets.
- Some auditors failed to clearly identify what can go wrong at the assertion level for the fraud risks. This is because they identified and assessed the accounts and assertions that potentially associated with risks of fraud but failed to evaluate which approaches the management might use for perpetrating fraud. For instance, an auditor presumed that management may commit fraud in revenue recognition in occurrence assertion by recording fictitious sales transactions, however the auditor did not clearly identify which methods the management might use to record those sales transaction which could affect the appropriateness of audit procedures to respond to the assessed risks.

It is necessary for auditors to obtain sufficient understanding of the entity's business and internal controls so that the auditors could appropriately identify and assess the risks of material misstatement due to fraud at financial statements level and at assertion level for classes of transactions, account balances and disclosures. Moreover, auditors should properly link the identified fraud risks what can go wrong by identifying the accounts or assertions that may give rise to such risks and the approaches that management might use to perpetrate fraud in order to design appropriate audit procedures that could actually be responsive to the risks of material misstatement due to fraud.

Understanding of the information system and testing of the internal controls over the information technology system that are relevant to financial reporting

Nowadays, listed companies rely more heavily on information technology (IT) system to operate their businesses and prepare financial reports. The complexity of the IT systems varies depending on many factors such as the nature of the business, the complexity of transactions, and the software used by companies. Thus, obtaining an understanding of the company's information system and assessing whether internal controls over the IT system relevant to financial reporting are effectively designed and implemented are critical to the auditors when they identify and assess risks of material misstatements to appropriately plan their audits. In the second cycle of engagement inspections, the SEC detected deficiencies in the process of understanding the companies' information system and testing the effectiveness of controls over IT system relevant to financial reporting; examples of our findings are described below.

- Some auditors failed to obtain sufficient understanding of the information system and internal controls over IT system for general IT controls and application controls before they identified and assessed the risks of material misstatement at financial statements level, and at assertion level for classes of transactions, account balances and disclosures as well as determined the necessary audit procedures to respond to those risks. For example, some auditors obtained an understanding of the entity's information system and its internal controls by merely completing yes/no questionnaires without any details to demonstrate the adequacy and effectiveness of the entity's internal controls.
- The audit procedures used by some auditors to evaluate the appropriateness of the design and the operating effectiveness of general IT controls and application controls were inappropriate which lead to insufficient audit evidences to support conclusions reached about the effectiveness and efficiency of those controls. For instance, some auditors only inquired their client's personnel regarding the controls and prematurely concluded on the operating effectiveness of the controls without employing any other audit procedures, such as observing the application of specific controls, inspecting documents and reports and tracing transactions through the IT system relevant to financial reporting. Some auditors did not test the operating effectiveness of application controls even though the entity mainly use automated controls in the IT system to prepare financial reports.
- For some clients with complex IT systems, the auditors did not consider whether it was necessary to engage an IT expert to obtain an understanding of the entity's information system and to test the operating effectiveness of the controls even when the auditors themselves have no expertise to perform such works;

It is crucial for auditors to obtain proper understanding of the entity's information system and its internal controls over the IT system for both general IT controls and application controls that are relevant to financial reporting in order to appropriately identify and assess risks of material misstatement arising from the IT system as well as to design appropriate audit procedures to determine whether the controls are adequate and effective. The audit procedures to evaluate the effectiveness of the controls should include other procedures beyond making inquiries of appropriate personnel. Those other audit procedures could include observing applications of specific controls, verifying documentations and reports, and tracing sampled transactions through the IT system relevant to financial reporting. The auditors should consider whether the they have expertise required to obtain an understanding of the IT system and to test the operating effectiveness of the controls for both general IT and application controls, especially in situations involving complex IT system or automated controls. If necessary, the auditor should consider engaging IT experts, whether it be their own or a hired third party, to perform such tasks and in such scenario, they shall evaluate the competence, capabilities and objectivity of those experts.

Audit execution process

Audits related to fraud risks

According to TSA 240, risk of material misstatement due to fraud is a significant risk because there is always a possibility that a material misstatement due to fraud could exist even though auditors might observe good intention and integrity of the management in the past. This is because management is in a unique position that can override controls that would otherwise appear to be operating effectively. The risks of material misstatement due to fraud at the financial statement level usually involve recording inappropriate or unusual transactions, making biased accounting estimates, or selecting inappropriate accounting policies to achieve a particular presentations of an entity's financial position, financial performance, or cash flows. Large audit firms utilize various audit tools to help detect unusual transactions that might indicate frauds and to facilitate the auditors in their assessment and designs of audit procedures in response to the risks of material misstatement due to fraud. However, our inspections still uncovered certain deficiencies.

- In the audit procedure of reviewing journal vouchers, there was a lack of understanding of the nature of transactions using general journal vouchers, i.e., the auditors failed to understand which types of transactions were considered routine for the use of general journal entries and which were not. Consequently, the auditors could not determine the appropriate testing of journal entries and other adjustments to be able to detect unusual items which might be relevant to frauds.
- Some auditors did not perform the testing of journal entries and other adjustments made during the closing of reporting period in which fraudulent entries are more likely to occur. Furthermore, some of them did not even consider whether it might be necessary to test the journal entries and other adjustments throughout the reporting period.
- Some auditors did not evaluate the reasonableness of assumptions used for significant accounting estimates and failed to perform a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year to determine whether there were indicators of possible management bias from factual information.
- Audit procedures to respond to fraud risks were inadequate or inappropriate. For example, some auditors had identified fraud risks in revenue recognition that might result in an overstatement of revenues through recording fictitious revenues in journal vouchers but did not perform journal vouchers testing for revenue recognition transactions. Thus, the audit procedures used did not correspond to the fraud risks identified.

Audit procedures in response to the assessed risks of material misstatement due to fraud should be assigned to audit staff with sufficient knowledge, skills and experience. High level of professional skepticism is also quite crucial for this type of procedures, which might include employing unpredictable audit procedures and selecting the suitable scope to respond to the fraud risks. Additionally, obtaining proper understanding of the nature of journal entries and other adjustments is necessary in order to properly identify and select journal entries and other adjustments for testing that would allow the auditors to focus on any unusual items and significant accounting estimates which could be an indicator of fraudulent financial reporting.

Substantive analytical procedure

Substantive analytical procedure could be an efficient and effective means to detect material misstatements for large volumes of transactions that tend to be predictable over time. Our findings in the second-cycle audit inspections suggested that a number of auditors showed improvements in their use of substantive analytical procedure to ensure greater effectiveness and compliance with TSA 520 on analytical procedures. For example, the auditors assessed whether substantive test was an appropriate audit procedure by first analyzing results from the substantive analytical procedures. Both internal and external factors that affected accounting transactions were taken into account when setting expectations. Albeit the notable improvements, the SEC encountered instances where the performing of substantive analytical procedures could be improved to be more effective in detecting material misstatements:

- Some auditors used the data prepared by their clients, such as forecasts of profit and loss and forecasts of sales volume growth, to set the expectations without first assessing the reliability of such data. In particular, the auditors sometimes did not test the operating effectiveness of controls over the data preparation, did not evaluate the relevance of the data, did not assess the reasonableness of the assumptions used by the entity, or did not verify sources of the data.
- The assumptions used in setting expectations were not sufficiently inclusive to cover all key factors that would affect the expectations. For example, to calculate the expected amount of employee compensation, the auditors considered only the percentage of salary increase without incorporating staff turnover rate or differences in pay scales for employees in different levels.
- There was a lack of documentation on auditors' rationales to support the assumptions used in setting expectations. For example, there was no documentation on why using the industry average of an insurance premiums growth rate to set the expectation for their client's premiums amounts would be appropriate.
- The auditors set an expectation for the whole revenue account even when their clients had several revenue streams whose amounts relate to different sets of factors.
- Some auditors did not adequately consider the relevant factors, such as, the materiality and the desired level of assurance when they set tolerance thresholds and the acceptable discrepancies. They were found to use the tolerance threshold that was greater than the materiality which could result in undetected material misstatements.
- Some auditors investigated discrepancies from expectation only by inquiring the management without examining any supporting documents or using other audit procedures to assess the reasonableness of the management's response.

To effectively use the substantive analytical procedure to detect material misstatements, auditors should obtain a proper understanding of a client's business and its industry, as well as evaluate the reliability and the sufficiency of relevant data. Furthermore, this method would generate more precise expectations if it is applied to an appropriate level of disaggregation of data and also if the models incorporate both internal and external factors. In addition, the tolerance thresholds should be determined by considering the materiality level, the required assurance level and the probability of material misstatements, individually or in aggregate, to the financial statements as a whole. Also, appropriate and sufficient audit evidence to assess reasonableness of the detected discrepancies should be obtained.

Audit Sampling

An appropriate design for determining sufficient sample size and sampling approach could provide a reasonable basis for the auditors to draw conclusion about the population from which the sample is selected. Most of the larger audit firms have implemented proper audit sampling procedures in their audit manuals and small and medium audit firms had improved their audit manual to comply with TSA 530 on audit sampling. However, the SEC still observed findings during the second-cycle audit inspections in this area in some small and medium audit firms.

- When performing tests of control and substantive tests, some auditors did not consider all relevant factors that could influence the determination of sample sizes. For example, when determining the sample size, the auditors did not take into account the assessed risk of material misstatement and the desired level of assurance that the actual misstatement in the population would not exceed the tolerable level. Hence, it is possible that these auditors might not obtain sufficient appropriate audit evidence to support the conclusions reached.
- Through the use of inappropriate audit sampling approach, the samples selected were not representative of the entire population. Common deficiency on this issue is that the auditors used specific approach to choose the samples, such as selecting only items with large amount, items from certain branches, or items from certain time periods. Therefore, these samples could not provide a reasonable basis for the auditors to draw conclusions about the remaining population, especially when the amount of the remaining population is greater than or almost the same as the overall materiality.
- When performing tests of control and there is a wide range in characteristics of population, the population should be stratified into sub-populations, each of which should be a group of sampling units with similar characteristic. However, we found cases where the auditors did not stratify the population which contained different risks of misstatement and different control activities, resulting in a group of sampling units with significant differences in characteristics. As a result, the selected items were insufficient to be a representative of each particular characteristic of the population and the audit procedures were inadequately designed for each sub-population, contributing to the inability of the auditors to use such

items as a reasonable basis to draw conclusions on the entire population. For example, the auditor used only one set of sample to perform a test of controls for the revenue cycle when their client had revenues both from construction services and from rendering other services, whose risk characteristics and control activities were very different.

- In the circumstances where auditors found misstatements from the audit sample, the auditors did not further investigate nature and possible causes of the misstatements as well as did not consider using other audit procedures that might be required before concluding that those misstatements were an anomaly and deeming it unnecessary to project the misstatements found in the sample to the population. This creates a risk that all material misstatements within the population might not be detected.
- When misstatements found in the sample were not an anomaly, some auditors failed to project such misstatements for the population to obtain a broad view of the scale of misstatement and might lead to inappropriate conclusions about the population under consideration.

Regarding audit sampling, it is necessary that the auditors consider all factors influencing the determination of sample sizes and use an appropriate sampling approach to select a representative sample in such a way that each sampling unit in the population has a chance of being selected. Caution should be exercised when sampling units are specifically selected and the remaining unselected population is material to financial statements. In that case, the auditors should also select additional items from the remaining population for testing in order to obtain a reasonable basis for conclusions on the entire population. In addition, the auditors should investigate the nature and causes of the misstatements or deviations found in the sampling items to consider whether the misstatements are an anomaly or not. The auditors should also consider whether it is necessary to revise the methodology, timing and extent of any subsequent audit procedures.

Audits of revenue recognition under percentage of completion method

When percentage of completion method is used in revenue recognition of construction contracts, the percentage of completion is most often determined by the proportion of actual construction costs incurred to total budget cost. The ability to reliably estimate the budget costs is beneficial not only to the business operation but also to the financial reporting in terms of providing reliable information for the revenue recognition. Significant judgment is required in making estimations and therefore, it is important that the management possess the necessary expertise in this area to ensure that the estimated costs are reliable, which sometimes resulting in several entities using the works of experts, e.g., specialized engineers. Similarly, auditors of such entities also need to exercise their judgment to assess whether the percentage of completion was appropriately determined. Deficiencies detected in the audits of revenue recognition using the percentage of completion method potentially indicated that the auditors might not have the required skills or sufficient knowledge to evaluate the reasonableness and the reliability of revenue and cost recognition under this method. Examples of important findings in the second-cycle audit inspections were discussed next.

- The auditors did not obtain sufficient understanding of clients' internal controls in the budgeting process and sometimes did not review the appropriateness and reasonableness of the assumptions used and the calculation of the percentage of completion. This type of findings are especially troublesome when the proportion of actual costs to budget costs is used to determine the percentage of completion.
- The auditors did not obtain understanding of the process and methodology that experts used in determining the percentage of completion to assess the reliability and the reasonableness of the estimates. For example, some auditors only used a confirmation from an engineer or merely examined the engineer's assessment documents without trying to understand the process or methodology and without verifying the supporting documents upon which the engineer's assessment was based.
- When the proportion of actual costs incurred to total budget costs was used to determine the percentage of completion, there were instances where the auditors did not review the reasonableness of methods and assumptions used by management for estimating total budget costs, as well as entities' process of revising the budget costs, both of which significantly affected the reliability of the percentage of completion. For example, the auditors reviewed the amount of revised budget costs by simply verifying the authorization document which included reasons for the revision but did not examine the reasonableness of the revised amount.

To obtain sufficient appropriate audit evidence to conclude on the reasonableness and the reliability of the percentage of completion used in revenue recognition, the auditors need to consider whether or not it is necessary to engage their own experts to obtain reasonable assurance on the appropriateness of the budget costs and the stage of completion. Notably, the auditors should, during audit planning stage, obtain an understanding of both processes and relevant internal controls relating to their clients' estimation of the percentage of completion to responsively design the appropriate audit procedures. Moreover, auditors should evaluate the appropriateness of methods and the reasonableness of assumptions used by management to estimate the budget costs. They should also review whether the clients identify variances, at the end of each project, between the total budget costs and the total actual costs to improve their budgeting process for future projects.

Audits of inventories and cost of sales accounts

Inventories and cost of sales accounts are considered key items on the financial statements, especially for manufacturers. In the second-cycle audit inspections, the SEC found the following deficiencies in this area.

- Auditors did not verify the calculation of net realizable value ("NRV") of the inventories in order to determine whether the value of inventories presented in the financial statements are accurate and appropriate in accordance with the relevant accounting standards. For example, the entity calculated NRVs by subtracting estimated costs to sell from selling prices, obtained from the standard price list, but the auditor did not examined whether those selling prices actually represented the price that the entity expected to sell to their customers, possibly by comparing prices from the price list to actual sales transactions in subsequent periods.

- The auditors did not raise an issue when the entities failed to perform the NRV testing for raw materials even after there was an evidence that the selling price of finished products was lower than costs.
- The auditors merely recalculated the management's allowance amount of obsolete inventories determined in accordance with the entity's allowance policy but failed review the reasonableness of such policy. For an instance, an entity had inventories which had not been sold for a long time but because the entity's allowance policy left out this factor from the allowance calculation, the auditors concluded that the allowance amount was adequate and appropriate.
- When determining the scope for testing purchase cut-offs of inventories, the auditors failed to take into account the relevant deficiencies found during tests of controls of purchase and disbursement cycle. In addition, the auditors did not consider international commercial terms ("Incoterms") when testing purchase cut-offs of imported inventories to determine whether the purchases occurred near the end of the reporting period were recognized in the correct period.
- Audit procedures performed for costs of direct materials, direct labor, and overheads were found to be insufficient. For example, the auditors did not verify whether direct labor costs were inclusive of all production personnel. In other cases, the auditors recalculated the allocated overheads but failed to verify the appropriateness of the overhead allocation method and also failed to test the accuracy of the total amount of the costs of overheads before allocation.

To ensure faithful representation of inventories and cost of sales in the financial statements, auditors need to consider the reasonableness of the allowance policy for obsolete inventory and of the net realizable value (NRV) calculation. Downward trend of the price of raw materials is an indicator that the cost of finished goods inventory might be higher than its NRV and this situation warrants that the auditors particularly focus on the test of lower of cost or NRV. Moreover, the auditors should properly design the audit procedures to cover all significant components of inventories and costs of sales.

Audits of going concern assumption

As a basis for financial statements preparation, the going concern of an entity, i.e., its ability to continue its operations, is an important information for users of the financial statements, especially current and potential investors. Auditors, therefore, ought to appropriately and sufficiently design audit procedures to evaluate the appropriateness of management's use of the going concern assumption in the preparation of the financial statements. An auditor would initially assess the entity's ability to continue as going concern by considering whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, such as net current liability position, negative operating cash flows, and defaulted loans without any indicators that the entity will be able to repay the loans. In this area, the SEC noted the following deficiencies on audit procedures to respond to the assessed risks associated with the going concern issues.

- When there was an event or situation which might cast doubt on an entity's ability to continue its operations, auditors were found to have reached the conclusion that a going concern basis was appropriate without obtaining the sufficient supporting evidence. For example, there was no evidence of the management assessing the appropriateness of the use of the going concern basis or in case where there was such evidence, audit procedures were not performed to evaluate management's judgment on the use of going concern basis.
- Auditors did not assess the reliability of the information used in the preparation of estimated cash flows and/or did not adequately review the reasonableness of the assumptions used by management. For example, the auditor did not review supporting documents or details of the assumptions used by management to estimate the sales volume and therefore, failed to verify the reasonableness of the assumptions.
- In their assessment of the going concern assumption, the auditors did not assess the probability of the management's plans and did not evaluate whether these plans were feasible in the circumstances and whether the outcome was likely to improve the situation. For instance, there was no documentation to demonstrate why the auditor believed that the entity would achieve cost reduction in the future as planned.
- Although there was a significant discrepancy between the estimated cash flows and the actual results but the auditor did not find the causes of such discrepancy and did not take such information into consideration when assessing the reliability of management's estimates. In addition, the auditor did not inform the management to review their cash flow projections.
- In case where a company received financial supports from its parent company, there was a lack of the auditor's assessment of the parent company's financial ability.

Evaluating management's assessment of an entity's ability to continue as going concern is a challenging task for auditors as it involves assumptions regarding future plans and events. To accomplish this task, the auditors ought to evaluate the appropriateness of assumptions underlying the forecasts, as well as the feasibility of the management's plans.

Audit completion and forming an audit opinion

The assessment of the impact of uncorrected misstatements

Before concluding the audits and forming an opinion on whether the financial statements as a whole are free from material misstatement, the auditor needs to evaluate the effect of uncorrected misstatements in the financial statements. In particular, an auditor shall determine whether the uncorrected misstatements are material, individually or in aggregate, by considering the size and nature of the misstatements, both in relation to particular classes of transactions, account balances, disclosures, and the financial statements as a whole. In the second-cycle audit inspection, deficiencies were found in the following areas:

- Some auditors only assessed the impact of uncorrected misstatement on the overall financial statements without considering the impact of the uncorrected misstatements on the classes of transaction, account balances and disclosure. For example, an auditor estimated that the service revenue and cost of service that were overstated in approximately the same amount would have no impact on the net income and on the income statement. However, the amount of overstatement of both the service revenue and the cost of service exceeded the materiality of the financial statements; and as a result, the auditor's opinion that the financial statements were fairly stated was inappropriate.
- The auditor only assessed the quantitative impact of uncorrected misstatement without evaluating its qualitative considerations. For example, an entity inappropriately classified certain transactions on its statement of financial position and because they were quantitatively immaterial, the classification of those transactions were left uncorrected. This, however, was inappropriate due to the effect of the classification misstatement on debt covenants. In another example, a quantitatively immaterial misstatement was left uncorrected but had it been corrected, the entity would have presented a net loss, rather than a net income, for that period. Combined with the fact that this entity had never presented a loss before, this seemingly immaterial uncorrected misstatement now becomes qualitatively material and should not have remained uncorrected.

It is important that an auditor assess whether the impact of uncorrected misstatements is material both at the transaction level and at the financial statement level, as well as focusing on both the qualitative and quantitative aspects of the materiality. Only after that assessment is performed properly, would the auditor be able to appropriately express an opinion on the financial statements.

Forming an audit opinion on financial statements

An auditor’s report on financial statements is an important piece of information to users when assessing the reliability of the financial statements. Therefore, forming a proper audit opinion and expressing it clearly become a crucial part of the auditor’s responsibilities. Deficiencies found during the second-cycle audit inspection in this area include instances where auditors expressing a modified audit opinion without providing a full and clear explanation of the reasons or the circumstances that had caused the audit opinion to be modified. For example, an auditor reported a modified audit opinion regarding the balance of accrued expenses of a particular project and merely stated that the balance could not be verified through confirmation letters or any other means without providing further explanation on the underlying reasons of the modified audit opinion. In this particular case, sending confirmation letters was the only possible audit procedure to obtain reasonable assurance on the account but the management prohibited the auditor from doing so.

If the auditor concludes that the financial statements as a whole are not free from material misstatement or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor's report. In such circumstances, the auditor shall include in the basis for modification paragraph a description and quantification of the financial effects of the misstatement, unless impracticable. If, after accepting an engagement, the auditor becomes aware that management has imposed a limitation on the audit scope that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion, the auditor shall request that management remove the limitation. If management refuses, the auditor shall communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence. In severe circumstances, the auditor shall withdraw from the audit, where practicable and possible under applicable law or regulation.

Root cause analysis and examples of action plans to improve the quality control system

For the second-cycle audit inspections, the SEC considers audit fee pressure to be the main root cause of the detected deficiencies. Fee pressure would lead to audit fees that are usually too low for the amount and complexity of audit works required and this situation, if persisted, would eventually result in heavy workloads for audit staff, low morale, high staff turnover and insufficient overall resources for the audit firms to achieve and sustain high-quality audits. This issue most likely is a contributing factor to a growing problem of human resource shortage within the audit profession.

Whilst audit firms have been attempting to analyze possible needs of audit staff and modify their strategies relating to human resource management to attract and retain their talents, this problem continues to persist. This is a large-scale problem and thus, it needs a large-scale solution that requires efforts and cooperation from all relevant parties, such as, but not limited to, the audit firms, the Federation of Accounting Professions, academia, as well as the audit profession at large. The SEC is acutely aware of this problem and has begun their discussions with different stakeholders to find a pragmatic solution to the problem. Furthermore, another factor that could contribute to high audit quality is the ability of audit clients to produce high-quality financial reports in a timely fashion, which is possible only with management's understanding and earnestly undertaking of their roles and responsibilities relating to the preparation of financial reports, as well as the implementation of effective internal control systems. Timely submission of well-prepared reports and documents to the auditors would allow the auditors sufficient time to perform the necessary audit procedures, espeically in the areas of significant risks, and respond to the more complex and/or high-risk issues that would require the use of professional judgment and professional skepticism.

Audit firms analyzed root causes and implemented their remediation plans in order to prevent the reoccurrence of these deficiencies and the SEC observed the efforts that the audit firms and auditors put into improving the quality of their audits. Examples of remediation plans include:

- Apart from making adjustments to audit firms' strategies and policies relating to staff compensation and career advancement to attract and retain staff, audit firms have been striving to enhance organizational commitment of audit staff, coupled with creating an open-door policy and responding to employees' needs by improving working environment which included assigning challenging tasks while at the same time, allowing the staff to have a better work-life balance and a fair compensation package. In addition, the audit firms also communicate and closely work with audit clients to timely address important issues and make appropriate adjustments to audit plans and audit teams in order to ensure that their audit staff could have a better work-life balance. Also, to reduce workload during the year-end, audit firms would plan ahead and perform a portion of audit work before year-end. And most importantly, the audit firms would communicate with their clients to emphasize the importance of the clients' roles and responsibilities in properly preparing the financial statements, as well as in providing all relevant supporting document to the audit teams to effectively execute their audits.

- In the aspect of human resource planning, the audit firms focused more on quality-relevant factors such as complexity of audit engagements and budgeted hours when determining proper portfolio allocation for individual audit partners, audit team, as well as EQCRs. Moreover, the audit firms had set out policies to not accept new audit clients in situations where the audit firms had inadequate audit staff, enabling auditors to invest their time in resolving issues arising from previous inspections and allowing EQCRs sufficient time to carefully review the audit works
- Audit firms' structure and chain of commands had been improved to assign appropriate persons to be in charge of different aspects of the firms' quality control. This is a fundamental consideration to ensure effective oversight of the entire firm's quality control systems. The effective quality control then enabled the firms to detect deficiencies and implement any necessary remediation actions on a timely basis.
- Audit planning and audit procedures were modified to be more concise and specific to client-specific risks and to allow sufficient supervision, particularly on key audit processes and significant areas that require a meticulous audit execution.
- Staff communication and training were improved to ensure that any revisions to audit manual and audit procedures were communicated to all audit staff, especially when those revisions were made in response of changes in accounting and auditing standards. The firms also put in place a monitoring process to ensure that their staff has adequate knowledge and understanding to perform the audit works.
- The audit firms made changes to improve effectiveness of their monitoring process with the objective of achieving a sustainable audit quality which involved eliminating redundant deficiencies, conducting root cause analysis, and implementing remediation plans to resolve significant deficiencies. The firms appointed independent, knowledgeable, and capable persons, with sufficient time, to monitor quality control system. Furthermore, it is observed that some audit firms had established Audit Quality Indicators ("AQIs") in various aspects that are useful for the audit firms' management to timely assess and monitor the control system and the overall audit quality based on in-depth information, enabling them to timely prevent, detect, and resolve any issues arising from performing audit works.

To effectively solve the problems, audit firms should take into account their own environment, culture, and other limitations. Importantly, all stakeholders need to cooperate to promote high quality financial reporting.

Our focus for the third cycle of audit inspection

The SEC has been focusing on audit quality through the use of audit inspections to enhance the quality of financial reporting for listed companies. However, to rely purely on the work of the auditors, who provide the last defense of the whole financial reporting process, would not be as efficient and effective as to ensure a proper process of financial statements preparation. Good quality in financial reporting requires a well-balanced financial reporting ecosystem where all relevant parties take their responsibilities seriously. Therefore, in addition to the auditors, the preparers, including CEOs, CFOs and accountants, the board of directors and audit committee members play an important role in driving and promoting the quality of financial reporting.

For 2016 to 2018, the focus would be expanded to all relevant parties within the process of financial reporting preparation to ensure adequate understanding and execution of their roles and responsibilities. The quality of financial reporting of listed companies, therefore, should be improved through a better operation of the financial reporting ecosystem. The SEC, in strategic collaboration with other organizations, emphasizes on the quality of preparers and the adequate performance of board of directors and audit committees. To strengthen stakeholders in the financial reporting ecosystem, action plans can be summarized as follows:

Plans to reinforce the preparers

1. Communicating to the preparers their roles and responsibilities in financial statements preparation;
2. Establishing proper qualification for CFOs and accountants for listed companies such as sufficient work experience and continuing development on necessary knowledge through training in relevant fields;
3. Requiring CFOs and accountants to certify the accuracy of the financial reports;
4. Ensuring sufficient availability of educational activities, such as various seminars and courses aiming to improve the competency and expertise of the preparers, with a focus on updates of accounting standards and industry-specific training courses as necessary;
5. Providing consultations on complex accounting issues for IPO companies and listed companies, where appropriate; and
6. Collaborating with the FAP to heed concerns of listed companies about any implementation or application issues of the accounting standards.

Plan to promote the effective oversight by the audit committees

The SEC has led several initiatives to raise awareness among the audit committees on their roles and responsibilities to oversee the financial reporting process and internal control system. The SEC plans to continue to support the audit committees in their oversight roles through various activities, including providing practical guidelines and training programs.

Plan to strengthen the auditors

1. The SEC will continue to follow up and monitor the performance for both individual auditors and the audit firms. In the third-cycle annual audit inspection (from 2016 to 2018), the SEC will concentrate on deficiencies found during previous audit inspections, which were quite consistent with the results from the report of the IFIAR inspection survey in 2015; the concentration of those deficiencies were in the areas such as identifying and assessing the risks of material misstatement in the audit planning and risk assessment processes, performing tests of control, group audits, revenue recognition, and involvement of auditors and EQCRs in the audit process. In addition, we will emphasize on inspection of audit works relating to the new auditor's reports once it became effective, while keeping our focus on the root cause analysis and the implementation of remediation plans to improve the audit quality control system.
2. The SEC, in cooperation with the FAP, will continue to regularly provide training programs, where appropriate, to the auditors, especially in areas of audit deficiencies, practical issues and newly adopted auditing standards. One of the focus areas will be the recently-issued auditing standard on the new auditor's report where the SEC intends to provide training not only to auditors but also to relevant parties such as audit committees and CFOs of listed companies to promote their understanding on this new auditor's report before its effective date for the audits of financial statements for the year ended or after 31 December 2016. Workshops on the new auditor's reports will be arranged to ensure deep understanding of the standard with an emphasis on key audit matters that will be required in the new auditor's reports. It is encouraged that the auditors perform a dry run of the new auditor's report for the financial statements period of 2015 and then communicate any significant issues to management and audit committee before the aforementioned effective date.
3. The SEC will cooperate with the FAP in initiatives that aim to improve the quality of both the audit firms and the auditors in the areas where there are rooms for improvements; the activities will include arranging for experts to provide consultations on formulating appropriate and effective remediation plans. This collaboration will also extend to other activities to raise awareness of the users of the financial statements on the benefits and the importance of the quality of audits which, in turn, is expected to help strengthen the audit quality.
4. The SEC plans to increase the usefulness of Audit Quality indicators ("AQIs"). Since the previous cycles of audit inspections, the SEC has requested AQI information from the audit firms to assist in the analysis of the quality control system and encouraged the firms to use the AQIs internally as indicators of the firm's quality control system. As a next step forward, the SEC expects to raise awareness of important stakeholders in the financial reporting process, especially the audit committees, on the basic understanding and the benefits of AQIs in evaluating the audit quality. For instance, the audit committee may use AQIs as a starting point to inquire the audit firm and the auditors when assessing the quality of their works. Moreover, the SEC is considering providing AQI information to relevant parties within the financial statements preparation process.

5. The SEC will continue to encourage all audit firms with the SEC-registered auditors to prepare and publicly disclose their transparency report that includes information such as audit firm structure, corporate governance and policies and control systems relating to audit quality. Some audit firms had taken on this initiative and published their transparency reports since 2015. The transparency report is an important mechanism that would enhance the reliability of financial reporting by shifting focus away from pricing to audit quality when the listed companies choosing their auditors. As a result, it will also help the auditors to focus on continuing their efforts in improving the audit quality.

6. The SEC prepares to improve its registration process by putting more emphasis on the quality of the audit firms that could help expedite the auditor approval process and increase its efficiency and effectiveness in registering new qualified auditors.

Significant Statistical Information

Registration of Audit Firms and Individual Auditors as at December 31, 2015

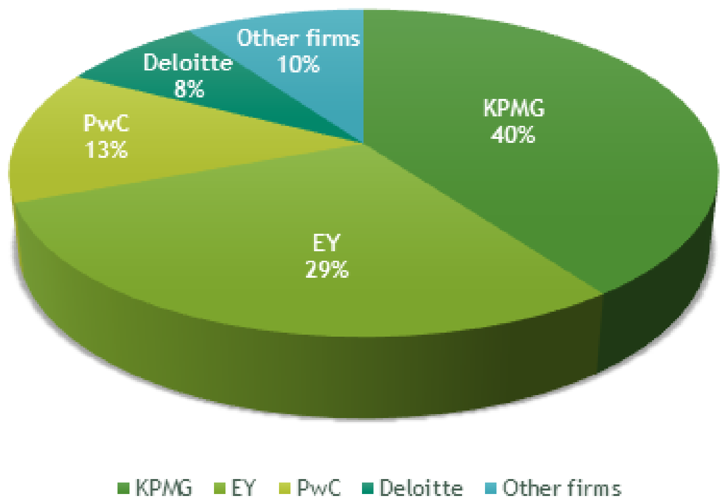
Audit firms	Number of audit firms	Number of SEC-approved auditors
Big-4 firms	4	99
International firms	3	12
Local firms	18	64
Total	25	175

Note: International firms are non-Big-4 audit firms that are full members of international network firms, use their policies and procedures, and are monitored regularly by the network firms. More information is available on http://market.sec.or.th/public/orap/AUDITOR01.aspx?lang=en

Number of audit firms inspected by SEC under the risk-based approach (RBA)

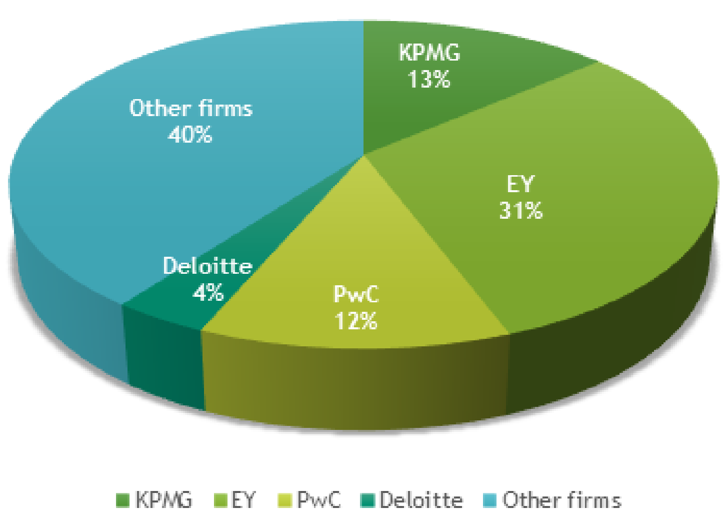
Year	Number of audit firms
2556	14
2557	12
2558	16

Percentage of market capitalization audited by the Big-4 firms



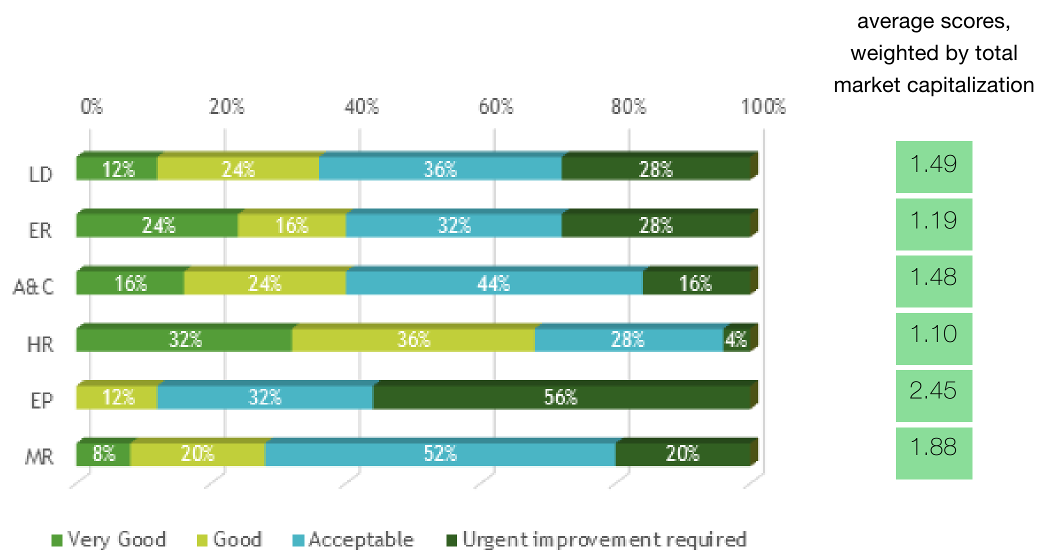
Note: Total market capitalization of the listed companies in Thailand as at December 30, 2015

Percentage of the number of listed companies audited by the Big-Four firms



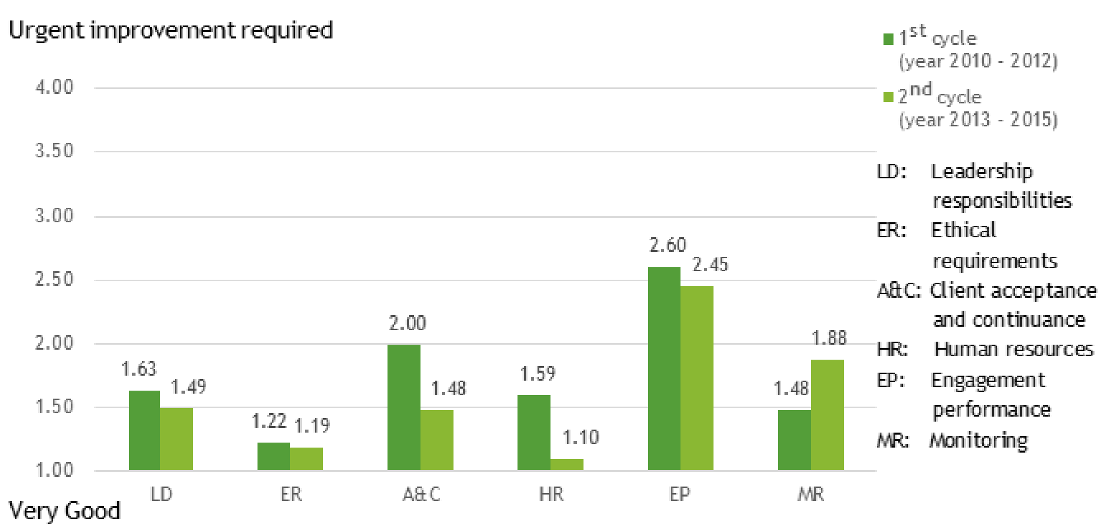
Note: Number of listed companies in Thailand as at December 30, 2015

Percentage of the number of audit firms based on inspection scores of each TSQC 1 element and the average score, weighted by total market capitalization



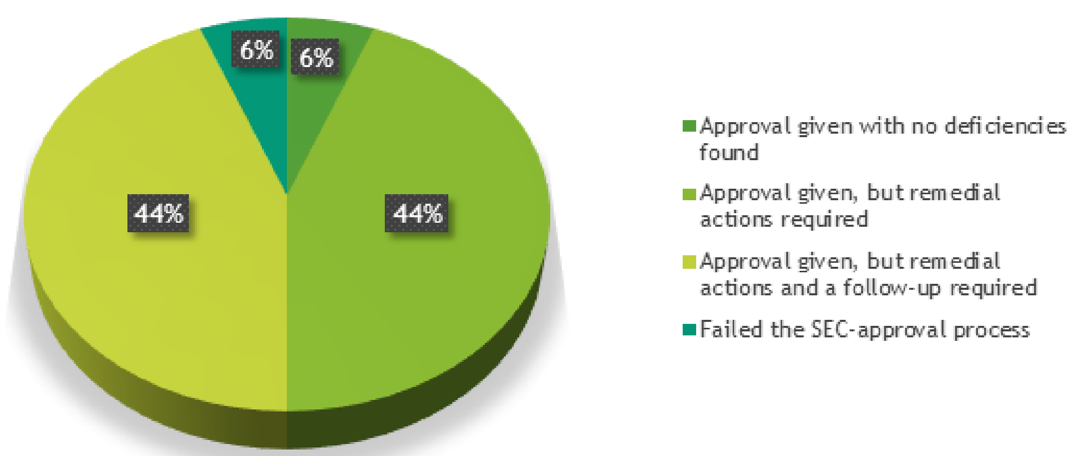
Note: The 2nd cycle firm-level inspection results are based on the inspections of 25 audit firms

Comparison of weighted-average scores from the first-cycle and the second-cycle firm-level inspections for each TSQC 1 element



Note: The firm-level inspection results from the 1st and the 2nd cycles are based on the inspections of 25 audit firms

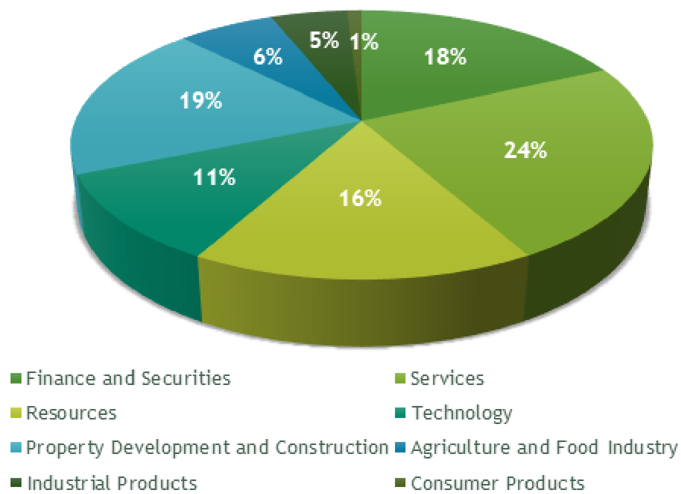
Engagement-level inspection results



Number of individual auditors approved by the SEC

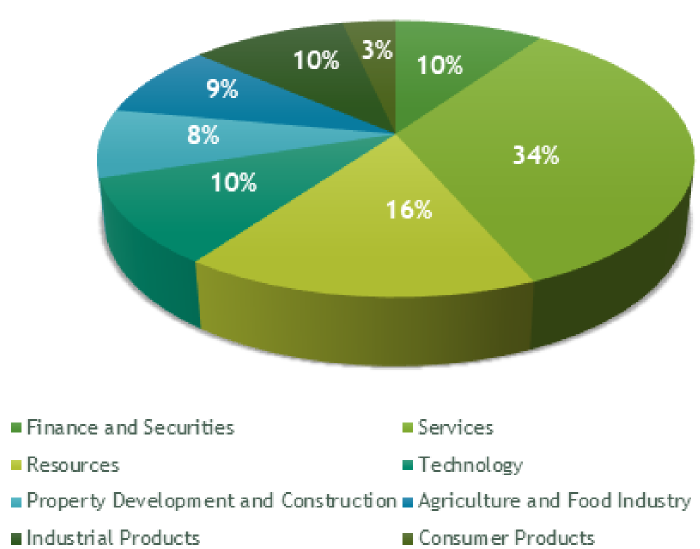
Year	Number of total applications submitted for SEC's approval	Number of inspections		Number of applicants failed the SEC-approval process
		Newly registered auditors	Renewed registered auditors	
2556	29	8	19	2
2557	46	15	29	2
2558	34	21	11	2

Percentage of market capitalization of the listed companies in Thailand by industries



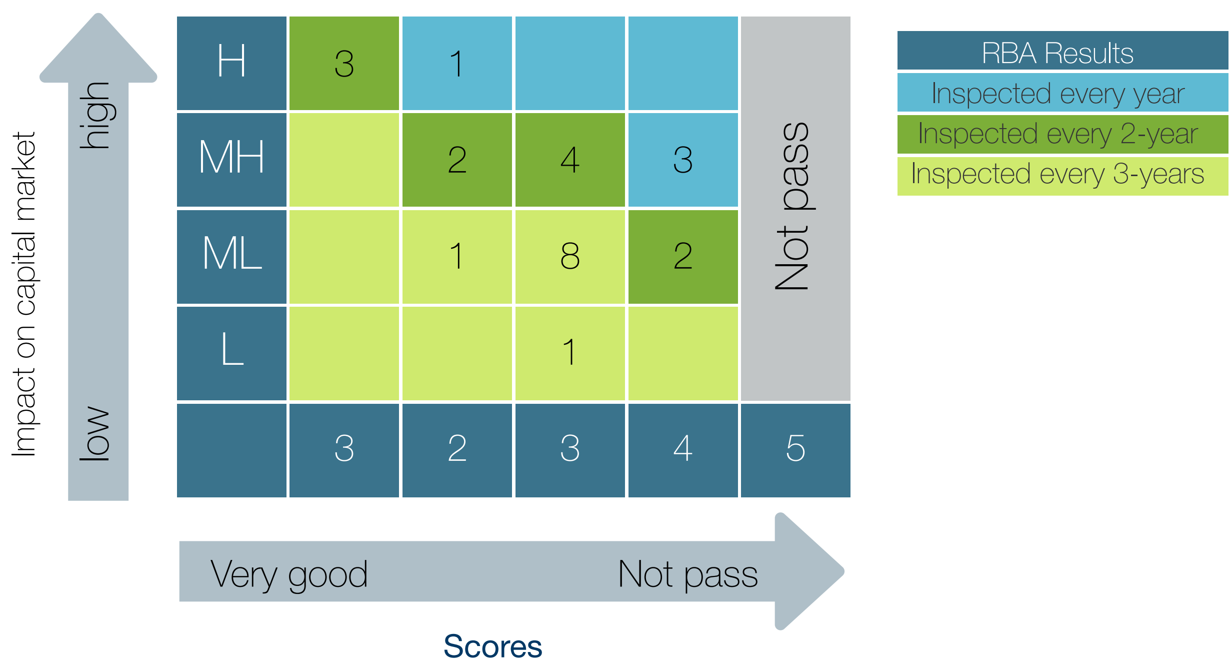
Note: Total market capitalization of the listed companies in Thailand as at December 30, 2015

Percentage of market capitalization inspected by the SEC in the 2nd cycle by industries



Note: Total average market capitalization of the listed companies in Thailand as at the end of year 2013, 2014 and 2015

Firm-level inspection findings under the risk-based approach (RBA)



H : High impact
MH: Moderate to high impact
ML: Moderate to low impact
L: Low impact

CONTACT INFORMATION

- This report can be downloaded from www.sec.or.th
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