SEC

Securities and Exchange Commission

Independent Audit Inspection Activities Report

THE YEAR *of* CHANGE

20*th* ANNIVERSARY

Independent Audit Inspection Activities Report for the 1st Cycle

1 October 2010 – 31 December 2012

Contents

Introduction

The Securities and Exchange Commission, Thailand (“SEC”), an independent state agency, was established under the promulgation of the Securities and Exchange Act B.E. 2535, with a mission to develop and supervise the Thai Capital Market to ensure efficiency, fairness, transparency, and integrity. In order to maintain fairness in the Capital Market and create confidence for investors, the SEC closely monitors and inspects individuals and entities under its supervision. To ensure investors have adequate protection and receive accurate and sufficient information for making decisions, as well as to enhance the quality of financial reporting, the SEC regulates auditors who audit and express opinions about financial statement in capital market in accordance with the Notification of the Office of the Securities and Exchange Commission No.SorShor. 39/2010 Re: Approval of Auditors in the Capital Market, dated 23 September 2010 pursuant to section 61 of the Securities and Exchange Act B.E. 2535 (1992). This regulation requires that registered auditors perform audit work to express opinions about financial statements in accordance with the codes of professional ethics, the provisions of law relating to auditors, and the SEC regulations. Furthermore, registered auditors shall work for audit firms that have an audit quality control system in compliance with Standard on Quality Control issued by International Federation of Accountants (“IFAC”). The SEC is therefore charged with conducting inspections to ensure that registered auditors and their audit firms have the qualifications according to the said regulation.

This report provides information activities for audit quality enhancement, a summary of inspection results, future work plans, and important statistical information.

Quality Assurance Review Panel ("QARP")

1. Mr. Nontaphon Nimsomboon

Position

- Expert Member, Securities and Exchange Commission
- Member of the Court of Directors, Bank of Thailand

Work experience

- Auditor General
- President, Institute of Certified Accountants and Auditors of Thailand

Education

- MBA, University of Iowa, U.S.A.
- Ph.D. in Accountancy (Honorary), Thammasat University

2. Prof. Hiran Radeesri

Position

- Honorary Member, Thammasat University Council
- Academic Member, Federation of Accounting Professions of Thailand under the Royal Patronage of His Majesty the King
- Chairman, Tax Auditor Examination Committee, Revenue Department
- Chairman, Corporate Governance Development Center for Listed Companies, Stock Exchange of Thailand
- Member, State Enterprise Directors Pool Commitee

Work experience

- Chairman, Price Waterhouse Co., Ltd.
- Member, Board of Governors, Stock Exchange of Thailand
- Academic Member, Accounting Profession Supervision Council, Ministry of Commerce
- President, Institute of Certified Accountants and Auditors of Thailand
- Chairman, Thai Institute of Directors Association

Education

- MBA, Wharton School, University of Pennsylvania, U.S.A.
- Ph.D. in Accountancy (Honorary), Thammasat University

3. Prof. Viroj Lowhaphandu

Position

- Audit Committee Chairman, Srithai Superware Public Company

Work experience

- Director General of Treasury Department
- Director General of Revenue Department
- Director General of Customs Department
- Director General of Excise Department

Education

- B. Com., LL.B., Thammasat University
- MBA (Taxation), The American University Washington, U.S.A.
- Higher Diploma in Accountancy, Thammasat University

4. Prof. Thavach Phusitphoykai

Position

- Chairman – Board of Director, Satien Stainless Steel Public Company Limited

Work experience

- Director, Stock Exchange of Thailand
- President, Institute of Certified Accountants and Auditors of Thailand

Education

- Executive Program in Business Administration, University of Columbia, New York, U.S.A.
- Ph.D. in Accountancy (Honorary), Thammasat University

5. Mr. Natasek Chimchome

Position

- Advisor to the Auditing Standards Committee, Federation of Accounting Professions of Thailand under the Royal Patronage of His Majesty the King

Work experience

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

Education

- Fellow of the Institute of Chartered Accountants in England and Wales

6. Emeritus Prof. Supapan Ruttanaporn

Position

- Emeritus Prof., Chulalongkorn University

Work experience

- Government permanent teaching staff, Faculty of Commerce and Accountancy, Chulalongkorn University

Education

- MBA (Accounting), Michigan State University, U.S.A.
- Bachelor of Accountancy (2nd class honours), Chulalongkorn University
- Certified Public Accountant (CPA Thailand)

7. Ms. Chongchitt Leekbhai

Position

- Associate Director of Academic Service and Training Center, Faculty of Commerce and Accountancy, Chulalongkorn University

Work experience

- Lecturer, the Faculty of Commerce and Accountancy, Chulalongkorn University

Education

- Bachelor of Accountancy, Chulalongkorn University
- Master of Accountancy, Thammasat University

8. Mr. Pakorn Penparkkul

Position

- Academic Council Member of 2 state universities
- Visiting lecturer at state and private universities

Work experience

- Partner of Price Waterhouse World Firm
- Secretariat and Member of various committees, Institute of Certified Accountants and Auditors of Thailand
- Member of the Education and Accounting Technology, Federation of Accounting Professions of Thailand under the Royal Patronage of His Majesty the King, for two consecutive terms

Education

- Bachelor of Accountancy, Chulalongkorn University
- Certified Public Accountant (CPA Thailand)

9. Mr. Samart Buranawatanachoke

Position

- Chairman of Audit Committee, Thai Credit Retail Bank
- Audit Committee Director, Energy Regulatory Commission

Work experience

- Chairman of Executive Board, Bangkok Asset Management Co.,Ltd.
- Chairman of Audit Committee, Secondary Mortgage Corporation
- Assistant Governor, Financial Institution Supervision Group, Bank of Thailand

Education

- Master of Management, Sasin Institute, Chulalongkorn University
- Advanced Management Program, Harvard Business School, U.S.A.
- Master of Accountancy, Chulalongkorn University

10. Mrs. Pranee Phasipol

Position

- Advisor, Federation of Accounting Professions of Thailand under the Royal Patronage of His Majesty the King
- Advisor, Thai General Insurance Association

Work experience

- Deputy Director General, Department of Insurance, Ministry of Commerce
- Deputy Director General, Department of Business Development, Ministry of Commerce
- Chief of Inspector General, Ministry of Commerce

Education

- Master of Science in Accounting, Thammasat University
- Bachelor of Business Administration, Major Accounting (2nd class honors), Thammasat University

First step with confidence

The financial crises in the United States and European Union, and the disastrous results of creative accounting practices employed by listed companies in foreign countries, such as Enron and Worldcom, led to an overhaul in international auditor supervision. The SEC has witnessed a shift from a system of Self-Regulatory Organization ("SRO") under a professional body to a more stringent regulatory system under an independent regulatory body. Inevitably, auditor supervision in the Thai capital market must be changed consistent with global trends. During the last 3 years, the SEC has revised regulations governing auditors to international standards by focusing on the quality assurance of an audit firm's procedures both firm level and engagement level. As a result, the quality of auditor supervision is recognised with the European Union ("EU"), World Bank, and audit regulators in ASEAN countries. In addition, the SEC was accepted as a Member of the International Forum of Independent Audit Regulators ("IFIAR"), an organisation established to promote collaboration between independent regulators that oversee auditors. It is also a Member of ASEAN Audit Regulators Group ("AARG").

The implementation of more stringent supervision in line with international standards as well as international recognition of the SEC's auditor supervision are increasing investor confidence in financial reports and disclosures of Thai listed companies and facilitate fundraising in foreign countries. For example, if a Thai listed company wishes to offer securities in the EU countries, since the company's auditor will be exempted from registering with individual auditor regulators of EU countries. The confidence gained from practices and supervision conforming to international accepted standards enhances the competitiveness of Thai capital market and serves the nation as a whole.

Activities for audit quality enhancement

The SEC encourages its inspectors to continue their professional development by providing internal and external training with excellent support from the World Bank. The inspectors have been trained in technical and practical areas, as well as having participated in several international workshops.

Internal training for inspectors

In April 2012, Mr. Jim Vessey, an expert in audit inspection from the UK Financial Reporting Council, provided training about reviewing auditors of banks and financial institutions.

- A workshop led by a consultant from the UK Financial Reporting Council ("FRC") on the inspection of auditors of banks and financial institutions including sharing common deficiencies found from the UK FRC inspections.
- A workshop was given by a consultant from the United States about regulation and enforcement of individual auditors and audit firms.
- All SEC inspectors studies and completed the 1 year ICAEW (Institute of Chartered Accountant in England and Wales) online training programme on clarified International Standard of Audits ("ISAs") and received the ICAEW certificate.

Membership in International organizations and participation in meetings and trainings

In April 2012, the SEC participated in IFIAR plenary meeting at Pusan, Korea.

The SEC joined various international organisations in order to develop inspection processes and gain international recognition. The SEC also participated in international meetings to give an opinion to benefit Thai capital market and region.

- In April and October, the SEC inspectors participated in IFIAR plenary meetings at Pusan, Korea and London, England, respectively. The SEC has been participated in IFIAR meeting regularly since 2010 which the SEC was acknowledged as an IFIAR's Member. The IFIAR is an international forum for independent audit regulators, provides an international platform for them to participate and contact with other international organizations which have a common interest in audit quality or use auditor's works and gain opportunity to share insights knowledge of audit market environment, global audit regulatory developments, and practical experiences of independent audit regulatory activities as well as promote collaboration on regulatory activities and matters pertaining to the public accounting profession. Being an IFIAR Member helps building up an acceptance from international regulators in terms that the SEC is independent from audit profession and the audit oversight system in Thailand is in line with international standards. Therefore, this will help enhancing investors' confidence on financial reporting and further strengthen the effectiveness and robustness of the audit regulatory environment in Thailand.

- The SEC, the Malaysia Audit Oversight Board ("AOB") and the Singapore Accounting and Corporate Regulatory Authority ("ACRA") have held ASEAN Audit Regulators Group meetings since the formation of the ASEAN Audit Regulators Group ("AARG"). The AARG was established by cooperation of the AOB, the ACRA and the SEC to promote closer collaboration among audit regulators in the ASEAN region in order to promote audit quality. The AARG holds meetings regularly to exchange information, technical knowledge, and experience in audit oversight as well as to improve cooperation between and ensure consistency among audit regulators. This supports the ASEAN capital market linkage plan and cross border listing as it will be even more important for regulators to work together to ensure information shared across countries is properly audited and adopts consistent standards.

- In November 2012, the SEC inspectors participated in a workshop held by the US Public Company Accounting Oversight Board (US PCAOB) in the United States.

- The SEC assigned a representative to Committee1 under IOSCO. Committee1 is responsible for aiding in the development of the international accounting, auditing, and disclosure standards. Being a Member of this committee is a good opportunity for the SEC as it has not only provided the SEC

In January 2012, the SEC participated in the AARG Inspection Workshop 1 at Singapore.

In May 2012, the SEC participated in AARG meeting at Malaysia.

In December 2012, the SEC held an annual seminar about common deficiencies found in quality reviews and led a panel discussion about how to address human resources problems in the auditing industry.

In September 2012, the SEC held a seminar for audit committees on the topic of "How a Quality Auditor Can Support the Performance of AC?"

The OAG and the SEC signed a Memorandum of Understanding about strengthening audit quality of listed State Enterprises to be consistent with auditing standards at the SEC in September 2012

In October 2012, the SEC co-sponsored with the World Bank a clarified ISA training for staff of Office of the Auditor General of Thailand.

with updated developments in international accounting, auditing, and disclosure standards, but Membership is also a channel for the SEC to comment on these standards relative to their application in Thailand.

Professional and capital market stakeholder enhancement

The SEC is deeply committed to elevating the audit profession and the Thai capital market to the standards set by international organisations. Thus, the SEC sets up many seminars for registered auditors and other capital market stakeholders.

- In January 2012 and December 2012, the SEC held seminars for audit firm leaders and registered auditors about common deficiencies found in quality reviews. In December 2012, the SEC also held a panel discussion to discuss solutions to the human resources problem in the audit industry.
- In September 2012, the SEC issued guidelines for audit committees to select high-quality external auditor. The SEC held a seminar for audit committees about the importance of the auditors' role in supporting performance of audit committees of listed companies in assuring quality of audit work and financial reporting, thereby elevating corporate governance standards and promoting investors' confidence in the capital market.
- The SEC and the Office of the Auditor General of Thailand ("OAG") signed a Memorandum of Understanding for strengthening audit quality of listed State Enterprises to be consistent with auditing standards. The World Bank supported this project by providing a specialist in the ISAs to train OAG staff and by granting registration fees for ICEAW's online training program on ISAs. The SEC coordinated with audit firms in the capital market to set up a secondment program for OAG staff to work with their international network firms where staff will

have an opportunity to exchange their practical knowledge and experience on auditing. The SEC and the OAG will collaborate to exchange practical knowledge and experience to elevate the audit quality of listed companies as a whole, which is very important to Thai capital market. This cooperation helps increase confidence in financial reporting and makes the Thai capital market more attractive to investors.

Global acceptance

- Thailand's auditor oversight has recognition in European countries. The European Commission has categorized Thailand as being in transition because an independent public oversight system for auditors has been established. During this transitional period, Thai SEC registered auditors are allowed to provide auditing services to Thai companies that wish to list on exchanges within the EU jurisdiction without needing to register separately with the competent authorities. At present, the EU is considering recognizing Thailand's auditor regulation system as equivalent in the EU. This recognition will enable EU Member states to rely on the supervisory work of Thailand' oversight system (mutual reliance) and increase the ability of Thai listed companies to raise funds in EU countries.

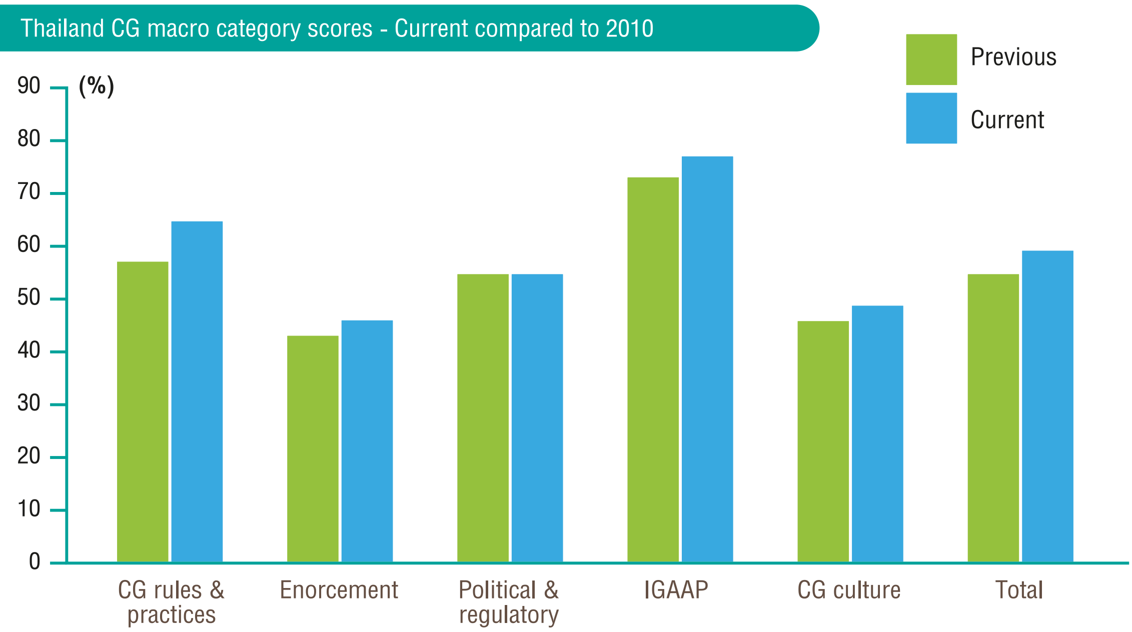
- Asian Corporate Governance Association (ACGA) and CLSA Asia-Pacific Markets conducted CG Watch 2012 - a survey of corporate governance of Asian capital markets. Among 11 countries included in the survey this year, the Thai capital market is ranked the third, following Singapore and Hong Kong. This is an improvement from previous survey when Thailand was ranked the fourth. This year Thailand made progress in 4 out of 5 categories (CG Rules and Practices, Enforcement, IGAAP, and CG Culture), while Political & Regulatory is remained unchanged. Thailand fared very well in Accounting and Auditing (IGAAP), moving from 73 percent to 80 percent. Thailand is ranked the second following only Singapore in this area due to the SEC's independent oversight system and robust supervision of audit quality assurance on par with international standards. The SEC also completed its assessments on quality assurance of audit firms in accordance with international standards.

Market category scores

(%)	TOTAL	CG RULES & PRACTICES	ENFORCEMENT	POLITICAL & REGULATORY	IGAAP	CG CULTURE
1. Singapore	69	68	64	73	87	54
2. Hong Kong	66	62	68	71	75	53
3. Thailand	58	62	44	54	80	50
4. = Japan	55	45	57	52	70	53
4. = Malaysia	55	52	39	63	80	38
6. Taiwan	53	50	35	56	77	46
7. India	51	49	42	56	63	43
8. Korea	49	43	39	56	75	34
9. China	45	43	33	46	70	30
10. Philippines	41	35	25	44	73	29
11. Indonesia	37	35	22	33	62	33

Note : Category scores above are rounded. However, total scores are an average of the category scores to the second decimal place. Source : ACGA

Thailand CG macro category scores - Current compared to 2010



Source : ACGA, CLSA Asia-Pacific Markets

Summary of inspection results

A. Firm level

The SEC achieved its goal to complete audit quality inspections for all audit firms, totalling 26 firms in 2012. This outcome indicates most of firms attentively dedicated resources to developing and improving internal procedures. While each has put in place quality assurance systems in compliance with professional standards, certain practices may need improvement so as to meet the new standards which have currently become effective in Thailand. The SEC identified that better quality assurance systems render better quality audit work in general.

Significant findings from inspections

1. Leadership responsibilities

The leadership of some audit firms did not set the right tone for promoting a culture that recognises quality is essential in audit work. Policies relative to performance evaluation, compensation, and promotion fail to recognise high quality work. Additionally, a lack of clear communication to all levels of the firm's audit staff about the importance of quality may cause inconsistencies with audit quality control policies.

Example 1 : An audit firm had no staff evaluation form and did not have proper performance evaluation for its partner. The audit firm compensated the partner either by an hourly rate or based on a percentage of the audit fees for each individual's portfolio. Its audit partners were compensated based on either the number of working hours or the fixed percentage of their audit fees because it did not implement a performance evaluation system for its audit partners. As a result, the audit engagements' quality had no effects on their remunerations.

Example 2 : An audit firm did not verify the qualifications of the people assigned operational responsibility for the firm's system of quality control. In addition, some audit firms did not identify clear roles and responsibilities and did not create a specific team to monitor these issues.

2. Relevant ethical requirements

Most auditors adhere to professional ethics, and most audit firms have established policies, procedures and staff manual in compliance with the codes of professional ethics. However, inspection systems need improvement to ensure audit staff strictly complies with the codes of professional ethics. Most of the findings are in Engagement Quality Control Reviewer ("EQCR") rotation, non-audit service, individual acceptance, and independent monitoring.

Example 1 : There was no policy about EQCR rotation and no policy for EQCR and engagement partner to apply a cooling-off period.

Example 2 : There was no documentation of inquiries regarding non-audit services from network firms. In addition, in client acceptance process, some audit firms did not have policies to identify whether audit clients have relationships with the network firms' non-audit clients.

Example 3 : No policies and procedures were in place to address conflicts of interest arising from when staff provides private audits. The audit firm did not require the staff to declare their private audit services in writing. There was also no evidence indicating the audit firm actually reviewed conflicts of interest that did occur.

Example 4 : The confirmations of independence and written conflict of interest declarations did not cover staff's family and did not provide guidance to staff through examples of relationships that might lead to a lack of independence.

Example 5 : There were no policies requiring non-audit staff, such as consultants, external experts, outsource auditors and trainees to confirm their independence or to maintain client confidentiality.

Example 6 : There were no policies or procedures for the event staff resigns from an audit client.

Example 7 : There were no policies requiring the engagement team to confirm their independence for each engagement.

Example 8 : There were no policies or procedures for situations where the audit firm's independence may have been impacted, for instance, when the audit fee from a single audit client constitutes a significant portion of the firm's total income.

3. Client acceptance and continuance

Most audit firms established audit engagement acceptance policies and procedures in compliance with ISQC 1. However, in practice, the audit engagement acceptances still relied principally on the auditors' experience; consequently some audit firms need to improve their acceptance systems, compliance with procedures, and documentation of these processes. In addition, inappropriate sequence of client acceptance process leads to risks in client acceptance process because audit firms did not concern over significant client's issues before accept those clients.

Example 1 : There was insufficient documentation regarding client acceptance evaluation. In addition, some evaluation forms only had "Yes," "No," or "N/A" answers with no additional details.

Example 2 : The audit firm issued an engagement letter prior to completing its client acceptant evaluation.

Example 3 : Risk assessment did not cover significant issues such as the business background of the board and shareholders, indicator of limited scope, the engagement team's competency, potential to be public interest entity, the complexity of IT systems, group audit, and accrued audit fees.

Example 4 : The prior year's audit report issued by a predecessor auditor gave a disclaimer opinion. The client informed that predecessor auditor did not propose current year audit fee. During inspection, the SEC did not find a response letter from predecessor auditor. The SEC found that during the risk assessment process, an auditor was not concerned about the reason why the client changed auditors and indicator in disclaimer opinion. The audit firm concluded that client had medium risk.

Example 5 : An audit firm did not have procedures for mitigating risk when the firm accepted high-risk engagements.

Example 6 : There was either no risk assessment or insufficient risk assessment for rating new client as high risk in order to have same standard and reduce assessor's judgment.

4. Human resources

While there were fewer issues observed in Human Resources than compared with other elements, some audit firms have issues to be addressed, such as training curriculum, training monitoring, and staff evaluation.

Example 1 : An audit firm had no written policy establishing minimum training hours for each staff level. There was also no evidence of setting training courses for specific industries.

Example 2 : Since an audit firm did not collect information about staff Members' training, there was a lack of information that could be used for staff evaluation and development.

Example 3 : There was lack of follow-up and action taken with staff absent from core modules training.

Example 4 : Staff performance appraisal did not include quality of work and did not have a clearly weighted score for each factor. Consequently, audit staff did not recognise the importance of audit quality.

Example 5 : An audit firm did not set key performance indicators ("KPI") or communicate KPI to its staff in order to express the firm's clear expectations.

Example 6 : An audit firm did not include the conclusion of staff performance evaluations from each engagement that they had audited when evaluating staff's performance and offering them reward. There was also no robust criteria used to consider salary adjustments and staff compensation for each staff level.

Example 7 : An audit firm did not establish policies regarding quality control over outsourcing.

5. Engagement performance

Some audit firms have issues in many areas relative to engagement performance. For example, audit manual and/or audit programme were out of date or not cover specific industry. In addition, there was lack of consultation in complex areas and inadequate quality control review system. The SEC found that EQCRs did not review some important work papers or spent insufficient time to review each work paper when compare with the total time spent on reviewing the whole engagement. Furthermore, there was unclear policy and procedure regarding file archiving.

Example 1 : An audit firm did not have a complete audit manual, which caused each engagement to be different in audit scope and in basis of selection.

Example 2 : An audit firm used its network's audit programme; however, the audit firm did not apply it in a way suitable for the Thai environment.

Example 3 : An audit firm had no audit programme in some areas such as specific industries, general IT control, and identifying and assessing risk of fraud and response to those risks.

Example 4 : The disclosure checklist did not contain current disclosures as required by other regulatory bodies such as the SEC and the Department of Business Development.

Example 5 : An audit firm only used a check list without offering any explanations to help understand internal control system and/or other assessments such as understanding general IT control and going concern issues.

Example 6 : An audit firm did not document the source of audit scope and basis of selection, both in test of control and substantive test of details. A significant number of samples did not comply with the audit manual. The samples did not cover the whole year and did not separate populations based on risk.

Example 7 : An auditor did not perform risk assessment regarding inherent risk and control risk and he did not identify nature, timing and extent of audit methodologies from different risk levels.

Example 8 : The current year summary of uncorrected misstatements did not include a summary of the prior year's uncorrected misstatements. In addition, some audit firms considered only the amount of uncorrected misstatements, but they lacked concern about overall quality.

Example 9 : The EQCR and partners did not sign off on significant workpapers.

Example 10 : The EQCR had less experience than the engagement partner. Also, the audit firm set inadequate apparent roles and responsibilities for the EQCR.

Example 11 : The EQCR was not involved in the planning phase or the execution phase.

Example 12 : There were no criteria to identify complex issues or when to use the technical committee's opinion.

Example 13 : There was no written procedure regarding assessing, approving, and audit file archiving.

6. Monitoring

Some audit firms were still in the early stages of establishing and implementing policies and procedures for monitoring, and consequently did not implement all of the procedures, inappropriate sampling as well as unclear communication and documentation.

Example 1 : An audit firm did not communicate findings of deficiencies to its staff. The firm also did not prepare resolution plans and did not provide training related to these issues.

Example 2 : An audit firm did not have monitoring system in the following areas:

- Evaluating whether the firm's leader communicated the need for audit quality to all levels of staff;
- Identifying if the firm's policies and procedures were consistent with the latest professional standards;
- Reviewing if partner and EQCR rotation were consistent with firm policy;
- Reviewing whether auditors performed properly in the client acceptance process;
- Evaluating whether audit files are archived timely;
- Monitoring if staff's performance reflects audit quality;
- Evaluating whether training courses are suitable for attendees.

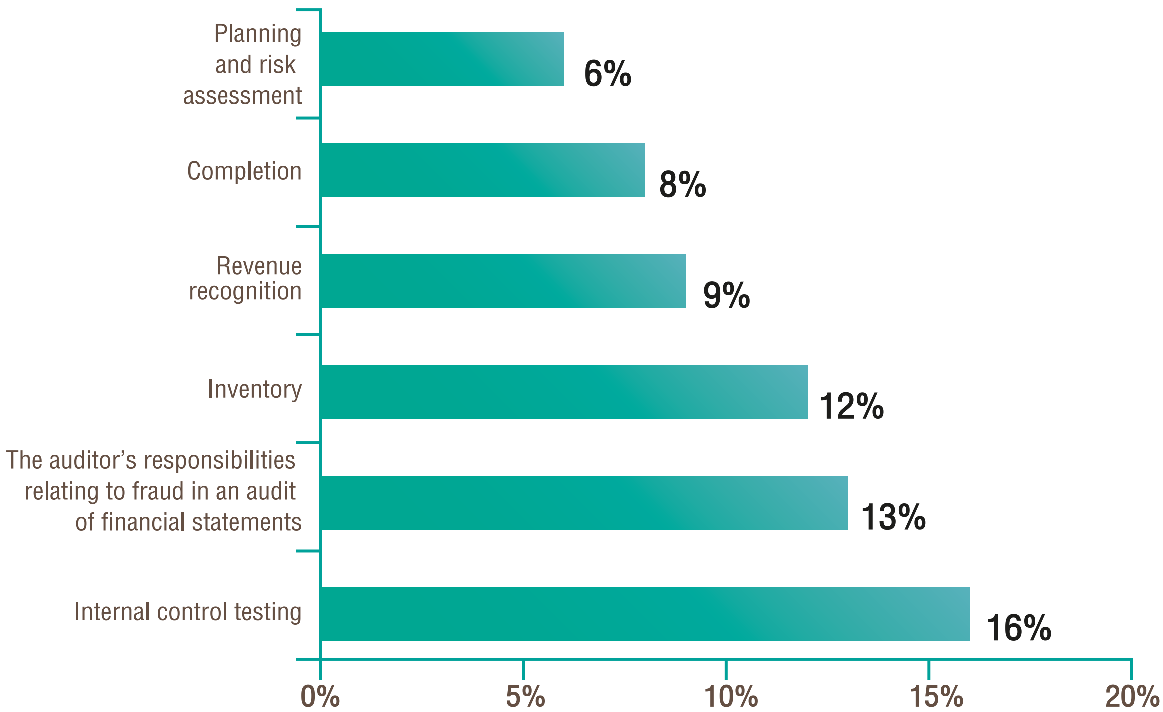
Example 3 : A monitoring team did not monitor quality of workpapers in substance, but only checked for completeness in each workpapers in form.

Example 4 : An audit firm had no written documentation regarding scope of monitoring and the basis for selecting an engagement file for reviewing. The SEC found the audit firm did not select high risk engagements, such as listed companies and specific industries.

Example 5 : A monitoring form used in both the firm level and the engagement level only indicated "Yes","No" answers. It did not convey whether the scope of monitoring and the associated workpapers complied with the firm's policies and procedures.

B. Engagement level

During the first cycle, the SEC inspected engagements from 91 registered auditors, 30 of which were new auditors whom applied for approval from the SEC and 61 of which were renewed registered auditors. All but two of the 30 new auditors was approved and became new registered auditor. The inspections revealed six major issues:



Remark: percentage of observations calculated from total observation in the first cycle inspection

1. Inspection of tests of controls

The major issues identified from inspections of tests of controls are insufficient determination of the audit scope, samples selected for testing did not cover the appropriate periods, and samples selected were not a good representative of the population.

Inappropriate sample selection

Example 1 : Regarding to the inspection of banks and financial institutions, the auditors determined the audit scope for collateral management system by selecting 5 transactions having the highest value. These samples alone could not meet the testing objective since transactions carrying the risk of non-compliance with the system can be found in low value collaterals. Furthermore, the outcome of these tests of controls influenced determination of the scope of substantive procedures relating to the adequacy of allowance for doubtful account.

While, the Bank of Thailand requires banks to estimate an allowance for doubtful accounts base on a specific percentage of each level of the net credit balance after deduction of the present value of the collateral, and the NPL amount, which carries a high risk of being uncollectible. Consequently, banks need to possess effective control systems to maintain the ability to value collaterals constantly and at the present value.

Example 2 : Workpapers did not document audit scope or sample selection methods for transactions used for testing controls.

Example 3 : The samples selected were not adequate to be a proper representative of the whole population. For example, an inadequate number of samples were taken and the samples were not selected based on the nature of risk or audit objectives.

Example 4 : An auditor used purchase orders as the only source to test controls for the cost of property development. Therefore, it did not include significant purchases or expense transactions, and it did not completely document those transactions.

Example 5 : An auditor planned to select 24 transactions from every process in the revenue cycle to audit, including collection process. Only 11 transactions were followed up during the collection stage since the other transactions had not yet been collected. None of the remaining transactions or additional transactions to be audited were selected to follow up by the year ending period.

Example 6 : During the understanding stage of production's control system, an auditor understood the production process through flow charts and narrative. However, an auditor did not identify key controls and or assertions from each control system. Furthermore, an auditor did not conduct tests of controls in the production system; an auditor simply performed the test of controls upon raw materials received and the inventory cut off system without implementing an overall control testing plan for the production system.

Test of controls did not cover key control areas

Example 7 : Key manual control was not documented in working papers from an inspection of a banking business did not document key manual controls such as documentation relating to credit balance (credit limit, interest rate, repayment conditions), collateral information, interest receivable recalculation upon changes to the interest rate, recognition and de-recognition of revenue, and changing the interest rate in the system to reflect regulation from the Bank of Thailand.

Example 8 : None of the key testing controls were separated in an examination of branches of a retail business, which had many payment methods and different control systems including cash sales and instalment sales; these have different controls such as customers' record checks and the cash collection system.

Example 9 : In order for an auditor to achieve reasonable assurance the transactions of a consignment goods were properly recorded through a test of controls, he audited the inventory withdrawal report from the warehouse, which was operated by a third party. An auditor did not test the reliability of the report, even though it was used to assess the existence of consignment goods when he performed a test of detail in the substantive procedures.

Example 10 : In a test of controls for the revenue cycle of a property development business (condominium), revenue should normally be recognised when the legal ownership is transferred to the buyer. The SEC found that when an auditor performed the test of controls for the revenue cycle, he did not test transactions to the point when legal ownership was transferred to the buyer. In addition, the selling prices of the selected contracts differed from the list prices but an auditor did not follow up with these discrepancies.

Example 11 : An auditor did not test controls for revenue recognition, which was based on the percentage of completion method, while only substantive testing procedures were applied. An auditor set the scope of substantive testing procedure by using the percentage of completion method and selected projects having a contractual value more than THB 5 million. Therefore, projects having a contractual values less than THB 5 million, where as still material to the financial statements was not audited.

Example 12 : When inspecting revenue from the domestic sales, the SEC found an auditor did not examine significant matters such as evidence of an authorised person's signature, a receiver's signature, and the selling price. The accuracy of the monthly sales report summary and the summary of total sales and total checks received were not audited. The auditor also failed to examine the sale conditions and bills of lading when auditing the revenue from export sales.

Use of internal auditor's report

Example 13 : An auditor referred to the company's internal audit report, but did not consider their integrity and independent, and did not explain how an auditor determined why the internal audit work was adequate and appropriate to be used as audit evidence.

No extensions of audit scope when errors were found in tests of controls

Example 14 : An auditor did not extend the scope of work and concluded that the test of controls procedures were effective despite deficiencies identified from control testing such as no segregation of duties, no authorised person identified in the instructions, and no authorisation required to process additional purchase transactions.

Test of controls do not cover the entire reporting period

Example 15 : The scope of control testing for the revenue cycle did not cover the entire reporting period and an auditor did not document in the workpapers that he could assure the effectiveness of sale transactions for the remaining untested month. Therefore, an auditor should not have assumed the company had an effective control for the whole reporting period.

Simultaneous test of controls and substantive procedure (dual purpose testing)

Example 16 : An auditor simultaneously tested both controls and details during the substantive procedure stage. While the objectives of a test of controls and a test of details may differ, an auditor did not establish separate testing procedures for each objective, so that they could assure that the scope of work, samples selected and testing procedures were appropriate to achieve the objectives of both tests. An auditor only performed an additional analytical procedure and cut-off testing in substantive procedures.

2. Identifying, assessing and responding to the risk of fraud

During inspection, the SEC found that auditors had deficiencies in identifying and assessing the risk of fraud when examining journal vouchers.

Examination of journal vouchers

Example 1 : Testing of journal vouchers did not link the audit procedures with the risk of material misstatement arising from fraud. This was due to the auditor not understanding the transaction recording system through the use of journal vouchers. In addition, an auditor did not separate journal vouchers into normal and abnormal transactions and did not establish the means for selecting samples suspected of containing material misstatements due to fraud which or management override of control. Meanwhile, most of the samples selected were normal transactions.

Example 2 : An auditor documented in the audit plan that the client had a risk of fraud in relation to management override of control. However, an auditor established an audit scope that only selected for examination journal vouchers occurring in the last month prior to the year ending period and valued more than the materiality level. Furthermore, the auditor did not review journal vouchers occurring in the remaining months to identify abnormal transactions, as stated in the audit plan.

Example 3 : An auditor only selected journal vouchers which occurred during the year and valued more than the materiality level to examine. Even though some of the selected transactions lacked supporting documents, reviewer approval and approval from an authorised person, an auditor concluded these transactions were normal and appropriately recorded, despite the deficiencies.

Example 4 : A work paper cited a probable observation that could lead to suspicion of an abnormal transaction in the journal vouchers. However, an auditor did not provide the additional procedures to follow up the reason for these findings. For example, the client did not properly run journal vouchers in a sequential order, lacked supporting documents for most journal vouchers related to the transfer of cash between bank accounts, and some journal vouchers were not reviewed by authorised person.

Example 5 : Lack of workpapers testing the completeness of journal vouchers

Example 6 : An auditor did not understand the recording system through the use of journal vouchers. An auditor did not classify journal vouchers or establish the means for sample selection while most of the samples selected were normal transactions.

Example 7 : An auditor documented that the audit client may have motivation to realise a higher percentage of net income from the project revenue. Since this percentage was significantly higher than in the prior year, management could feel additional pressure to generate a higher net income. The work paper also mentioned that in the audited year, the client had submitted its IPO application to the SEC, in response to the possibility of fraud, an auditor failed to assess the risk of fraud or the addition of "window dressing" in the financial statements.

Example 8 : An entity received architectural services, but the architect asked the entity to make the payment to another person and use another person's name for withholding tax. Therefore, it was highly probable that this transaction was an unusual transaction arising from fraud. Nevertheless, an auditor failed to document additional audit procedures for these findings, did not communicate these unusual findings to the entity's those charged with governance, or question the reasonableness of this transaction in the workpapers.

3. Inspection of inventory

The SEC found that some auditors have deficiencies in auditing inventory balance, such as inventory physical count observation, unit cost testing, net realisable value testing and examination of management's assumptions and accounting policies.

Inventory physical count observation and roll forward of inventory balance from the count date to the statement of financial position date

Example 1 : When the physical count of inventory was performed prior or after the fiscal year-end date, an auditor did not select samples to reconcile the movement of inventory balance between the inventory physical count date and the fiscal year-end date with supporting documents.

Example 2 : The inventory roll forward from the inventory physical count date to the fiscal year-end date was not adequate since an auditor only examined the sales report, production report, and raw material report, but did not examine the accuracy and completeness of those reports and did not examine the source documents.

Example 3 : The clients use an outside warehouse operator to stock and manage their inventory flow. An auditor did not test controls over the goods withdrawal process, test the existence of inventory balance at the warehouse, review the contract made with the operator, or observe the inventory physical count process. An auditor requested a confirmation letter from the warehouse operator but sent the letter via the audit client, which the warehouse operator replied via e-mail. An auditor did not perform any procedures to assure that the correspondent was an authorised person and the electronic response was sent directly by the warehouse operator.

Example 4 : An auditor did not apply the significant risk identified during the planning stage to establish the sample selection method for an inventory physical count observation. He also did not evaluate the inventory physical count plan and the method management used to record and control the inventory physical count process.

Example 5 : An auditor documented in workpapers that he could not observe the counting work in process because it is a continuous process. Meanwhile, they could not observe the raw material count as it was kept in a huge bucket. Therefore, they obtained the inventory balance information from the computer system, which was directly linked to the machines and capable of calculating the inventory balance. The SEC found that an auditor did not obtain audit evidence assuring the reliability of the computer system.

Example 6 : While examining consignment goods, an auditor did not observe the inventory physical count process, but simply sent a confirmation letter to the consignor. The letter did not require the consignor to send correspondence directly to the auditor and the evidence was obtained in a photo copy version. Since the reply confirmation letter was sent via the audit client, it is probable that the procedure used to send the confirmation letter was inappropriate since the consignor did not reply directly to an auditor. In addition, an auditor did not test controls over the inventory withdrawal process from the consignor to assure inventory existence.

Example 7 : The date on the inventory report used to observe inventory physical count differed from the actual count date and an auditor did not examine the accuracy and reliability of the report. As a result, it is inappropriate to use this inventory report as a reference for the count date. Furthermore, an auditor did not document inventory cut-off on the count date in the workpapers.

Unit cost and standard cost testing

Example 8 : An auditor simply performed an analytical procedure between inventory unit cost for the current year and for the prior year, but he or she did not select samples for performing unit cost testing of inventory balance still outstanding on the statement of fiscal year-end date.

Example 9 : An auditor did not examine the accuracy and reliability of the reports used in recalculating unit cost such as the summary of production hour usage report and the production level report.

Example 10 : An auditor did not recalculate and test the reasonableness of standard costing used and did not review the accuracy of variances' allocation.

Example 11 : The variances between standard costs and actual costs were quite significant for a new production plant; therefore, the company allocated the variances to the cost of goods sold as of fiscal year-end date. Since the variances actually resulted from various reasons including excessive production waste and low usage of production capacity, they should not have been allocated all of them as the cost of goods sold. However, an auditor failed to document any consideration of this issue in his workpapers.

Example 12 : An auditor only reconciled unit cost between inventory report and bill of materials and tested variances' allocation. However, he did not test the reasonableness and appropriateness of standard costing elements such as purchase cost, conversion cost and allocation of fixed cost to conversion cost. Nonetheless, an auditor accepted the production costs in the company's report without examining the accuracy of the information the company used to calculate those costs.

Net realisable value testing

Example 13 : An auditor calculated the cost to sell based on a percentage of sales from the prior year. However, he did not include as part of the cost of the sales commission, which has a significant influence in determining the cost to sell. Therefore, not figuring in the cost of the sales commission may have distorted the net realisable value.

Example 14 : A company had slow moving inventory and during the year used the selling price of these items to calculate net realisable value, which value is higher than its cost instead of market price after year ended date, to calculate net realisable value. However, only 8 percent of the long outstanding balance was actually sold in that year. Therefore, the selling price used may not reflect the appropriate value in the net realisable value.

Example 15 : An auditor performed sample testing on the net realisable value of finished goods and spare parts and found that the inventory cost was THB 3.3 million higher than the net realisable value of the items selected for testing. However, an auditor did not include the cost to sell when calculating the net realisable value and did not document the reasons for excluding the raw material and work in process from the net realisable value testing although he had indicators that the net realisable value might be less than its cost since the finished goods and spare parts were recorded at the value which was higher than net realisable value.

Example 16 : An auditor did not test the net realisable value of inventory balance as the company produced their products based on purchase orders and sold them within one week.

Auditing assumptions or management's policies or reliability of the reports

Example 17 : An auditor documented in his workpapers that the company allocated 75 percent of wages, depreciation expenses and production costs to the cost of each production process in the first stage, and allocated 25 percent to cost of the second stage of production processes. However, he did not test the appropriateness of such allocation policy.

Example 18 : An auditor did not examine the assumption nor exercise professional skepticism when estimating inventory provision for impairment.

Example 19 : An auditor documented in his workpapers that the company applied standard costing when calculating conversion costs and indirect costs. However, they did not examine the reasonableness of the management's determination for standard costing and did not understand the elements of overhead costs which were used in calculating the unit cost.

Example 20 : An auditor used an inventory aging report to estimate provision for obsolete and slow moving items. However, he did not test the reliability of inventory aging report before incorporating it into his work.

Example 21 : An auditor did not examine the appropriateness of the inventory return policy and the percentage used to estimate the provision for returned goods. When the company changed their inventory return conditions without adjusting the policy, an auditor did not incorporate these changes and exercise professional skepticism in his calculation of the inventory return provision.

Substantive procedures testing

Example 22 : An auditor marked that he agreed with the cost of raw material, work in process and finished goods on the latest invoices. As the company continues is the manufacturing of the work in process and the finished goods, sales invoices are inappropriate audit evidence to audit cost of work in process and finished goods. Moreover, no additional procedures were done to assure the accuracy of work in process and finished goods.

Example 23 : While auditing inventory purchased during the year, an auditor did not test the allocation of freight cost, tax expenses and import expenses to each type of inventory which was purchased at the same time. He only audited inventories purchased at the end of the year, the values of which are immaterial to the financial statements. Furthermore, an auditor did not test whether the information contained in the inventory purchase report was complete and accurately recorded in the general ledger despite the inventory purchase system not automatically updating the general ledger system.

4. Revenue recognition

The SEC found deficiencies in recognising revenue in special businesses and overall deficiencies as follows.

Construction and property development businesses

Example 1 : An auditor obtained only pictures of the audited construction project but did not exercise professional skepticism and did not examine the reasonableness and reliability of project's percentage of completion, as evaluated by the engineer.

Example 2 : Even though an auditor found significant discrepancy between accountant's and engineer's views regarding percentage of completion, they did not follow up with this finding.

Securities business

Example 3 : An auditor did not perform necessary procedures to obtain the reasonable assurance that the stock price and trading quantity used to calculate sales commissions were accurate and complete.

Example 4 : In financial advisory services, the varieties in the nature of those services cause the revenue recognition pattern to be different for each service provided such that it becomes necessary for an auditor to test for the accuracy of those revenue amounts ; however, an auditor did not examine the details contained in the service contracts to consider whether the company appropriately recognised those revenue transactions. An auditor also did not perform a revenue cut-off procedure and review events after the reporting date to identify any unrecorded revenue transactions at the fiscal year-end date.

Consignment business

Example 5 : An auditor examined revenue from fashion goods on consignment by stipulating to the revenue balance contained within the department store's monthly sales report. However, he did not adequately verify the accuracy and reliability of the report. This is due to the fact that an auditor only tested one brand from single branch, agreed the inventory balance to the department store's sales summary report, and examined cash received only from sales during last month of the year.

Purchasing, management and collection of deteriorated account receivable factoring business

Example 6 : The SEC did not find workpapers testing accounting policy which stated in notes to financial statement that the firm would cease to recognise revenue from undeteriorated accounts receivable that had been outstanding more than 3 months,

Example 7 : An auditor did not exercise professional skepticism and did not examine the reasonableness of the company's assumption for estimating future cash received from investment in loan and receivable.

Example 8 : The workpapers mentioned that the client will adjust the real interest rate for revenue recognition if the actual cash flow is 3 percent over or 25 percent less than the forecasted cash flow. However, an auditor did not evaluate the appropriateness of this policy. Although, the differences fell within the policy range, it may be larger than materiality level determined by an auditor. An auditor did not document the evaluation of this impact in his workpapers.

Common findings

Example 9 : No workpapers examined sale discount transactions, which were material to total sales volume.

Example 10 : An auditor did not test controls over revenue and collection cycles, but simply performed a substantive test. Consequently, the determined audit scope of sales transactions did not cover significant matters of revenue account. For example, selected revenue transactions covered only 10 percent of total revenue account.

Example 11 : In auditing the revenue transactions for a major account, an auditor only performed an analytical review, which was not in compliance with auditing standards. Furthermore, he did not perform substantive procedures such as tests of detail or substantive analytical procedures that have a set threshold and expectations. An auditor should have extended his audit scope if abnormal trends or deviations from the threshold were found. However, when an auditor found that sales discounts and goods returns had significantly increased, he only explained the reasons of those abnormal transactions. He did not review any documents and did not use any other procedures to obtain reasonable assurance about management's explanation. An auditor did not extend the audit scope once discrepancies were found.

Example 12 : The determination of audit scope for sales transactions did not cover all risks found from tests of controls.

Example 13 : An auditor tested controls on dividends received from investments in securities and concluded that the firm recorded the dividend receivable on the date that it was declared, which was accurate and appropriate. However, relative to IAS18, Revenue Recognition, dividends could be recognised when the shareholder's right to receive payments has been established, which is on the record date not the dividend declared date.

5. Conclusion of audit work

The SEC found some auditors have deficiencies in aspects such as transaction adjustments, work revision, and conclusion of audit work.

Presentation of misstatement information which were found from the audit procedures

Example 1 : A company recognised revenue from prepaid travel card at face value for the first usage. This is not in compliance with the accounting standards since the company has liability to provide future services and therefore the company had over-recorded the revenue. Even though the finding was below the materiality level, an auditor did not document it in summary of uncorrected misstatements, did not communicate the uncorrected misstatements to the company, and did not document the auditor's consideration of this issue in the workpapers.

Example 2 : An auditor found errors from recording accrued construction costs, deferred revenues, and revenue recognition on a percentage of work completed that was close to the materiality level. Although an auditor documented summary of uncorrected misstatements in his workpapers, he did not include the prior year's uncorrected misstatements. If the effects of uncorrected misstatements from the prior year's accrued construction costs and deferred revenues were considered, it would be higher than the materiality level. As an auditor had not considered the impact of these uncorrected misstatements while auditing the current period, he did not comply with the IAS 450, evaluation of misstatements identified during the audit.

Auditing

Example 3 : An auditor and the EQCR signed workpapers after the audit report date including workpapers that summarised an auditor's opinion before issuing the audit report and workpapers that summarised transactions requiring additional auditing procedures to be performed. The engagement team Members also used the workpapers to communicate amongst themselves. As a result, this indicated an auditor gave an audit opinion about the financial statements before he could conclude whether the financial statements were free from material misstatements.

Lawyer or legal confirmation

Example 4 : A company was sued since it did not repay the guarantee on work performed to their supplier. An auditor did not send a letter to the lawyer to inquire about the cases which were outstanding at the reporting date. Therefore, an auditor did not use a lawyer confirmation letter when evaluating the results of the lawsuit, which had either already occurred or were likely to occur, so that he could evaluate the impact on the financial statements. An auditor also did not obtain a management representation letter to confirm the lawsuit.

Collection of workpapers

Example 5 : There were disagreements in audit workpapers between the electronic version and the paper-based version when both were used as sources of evidence.

Example 6 : An auditor documented in his workpapers that he had already received all confirmation letters from debtors. However, a number of confirmation letters were not filed in audit workpapers which in total outstanding amount were material to the financial statements and application of additional procedures for these items was not found.

Subsequent events after the financial statements date

Example 7 : The workpapers documenting that an auditor had performed subsequent the event procedures up to the report date were not found. An auditor had only obtained a management representation letter stating that they did not expect any contingent liabilities after the financial statements date, which either should have been adjusted in the financial statements or presented in the notes to the financial statements.

Example 8 : An auditor did not document the scope, method, and evidence of audit work for examining the subsequent events after the financial statements date. He only documented the auditing procedures for subsequent events and determined if there was a need to adjust the financial statements or present additional information in the notes to the financial statements. Even though an auditor concluded that he reviewed the subsequent events and did not find any issues, he did not document details of this finding.

Management representation letter

Example 9 : The management representation letter did not cover significant matters or covered inappropriate matters as follows.

- An auditor did not amend the contents in management representation letter to suit each engagement;
- An auditor did not require management to certify the effects from the presentation of uncorrected misstatements;
- When an auditor performed the audit and gave opinions on the consolidated financial statements, he did not require the management to certify that the preparation of the consolidated financial statements is the responsibility of management and to ensure the completeness of information related to the consolidated financial statements in the management representation letter;

- An auditor did not require management to certify the information the actuary calculated in the management representation letter;
- An auditor did not require the management to identify all of the minute of meetings in the management representation letter.

6. Planning and risk assessment

Issues relating to planning and risk assessment processes were found, such as ambiguous documentation of planning processes and inappropriate procedures for calculating the materiality level.

Materiality level

Example 1 : An auditor calculated the materiality level based on net profit before taxes while the information used derived from the half year financial statements and was only an estimation. The actual net profit before taxes for the year was lower than the estimated amount, which resulted in a decreased in materiality level and an under-audit. An auditor failed to document the impact of this issue on the adequacy of audit evidences.

Example 2 : An auditor did not have any apparent method to determine the uncorrected misstatements level. When an auditor found misstatements that were over the uncorrected misstatements level, he did not include those items in the summary of uncorrected misstatements.

Example 3 : As net income is a core factor that readers of financial statements use to make economic decisions, it is more appropriate to use net income as a base for calculating materiality. However, an auditor used the gross revenue as a base for calculating the materiality level. The materiality level calculated from net profits before taxes was significantly lower than it would have been if calculated using the total revenue base. Therefore, there was an increased risk that an auditor might not find misstatements that could have significant influence on the financial statements readers' decision making due to the inappropriate scope of work and conclusion of findings resulting.

Risk assessment

Example 4 : An auditor did not identify risks that were related to matters that management had assured for each account that had risk and did not identify audit assertions which were related to matters that management had assured for each account examined.

Example 5 : An auditor did not evaluate the appropriateness of a going concern assumption for preparation of the financial statements despite finding inappropriate indicators. For example, the company had negative net working capital, negative cash flow from operating activity, and liabilities were greater than assets and net loss.

Next step for stability

For the second cycle (1 January 2013 - 31 December 2015), the SEC plans to continuously improve the audit quality and enhance the efficiency of the audit works. The SEC plans to inspect 26 audit firms within 3 years. The audit firm that has major influence on the capital market and has high risk will be inspected more often than those that have low impact and risk. The SEC plans to inspect at least 15 audit firms each year and intends to improve quality of both firm and engagement levels, as follows.

Firm level

For the second cycle, the SEC requires audit firms that were rated as "needs improvement" to analyse root causes and establish a remediation plan, and then submit the plans to the SEC so their appropriateness can be determined. Each plan shall include;

- Deficiencies needing improvement immediately;
- Analysis of the actual causes of the deficiencies;
- An remediation plan, process, and scope of work;
- A time line for implementing the improvements with the ultimate completion date Person in charge;
- Future outcomes and methods used to evaluate the result

The audit firm must submit the improvement plan to the SEC within 3 months from the date they received the inspection report. The SEC and the audit firm will then collaborate so the audit firm can remediate their deficiencies in the proper direction with higher quality. Ultimately, the SEC will reinspect the audit firm to evaluate whether the audit firm is following the improvement guidelines and to evaluate the effectiveness of the improvement plan.

Engagement Level

From previous inspections, the SEC found that auditors have deficiencies in many areas as detailed in this report. Therefore, during the second cycle, the SEC will focus more on audit quality in areas relevant to the primary cause of deficiencies as follows:

- Revenue recognition
- Professional skepticism
- Fraud risk
- Documentation of audit results

These issues have a decided influence on the accuracy and quality of financial statements. Therefore, auditors must exercise due care, especially when auditing these areas. Auditors can fulfil this goal through employee training, efficient audit plans, and adequate and appropriate allocation of resources. The SEC is looking forward to seeing continuous improvement in audit quality in these areas to be consistent with the auditing standards, both on the firm level and on the engagement level.

Conclusion

Since the SEC changed auditor regulatory systems from established self-regulatory organisation to be oversight by the SEC which is an independent audit regulator, Thailand has earned recognition from international organizations for this. For example, the European Commission recognised Thailand as being in a transitional phase and allowed Thai's auditors to audit the Thai's listed companies which desire to offer their securities to trade in European Union. The Asian Corporate Governance Association (ACGA) and CLSA Asia-Pacific Markets conducted CG Watch 2012, a survey of corporate governance in Asian capital markets. The Thai capital market is ranked third, following Singapore and Hong Kong. Thailand showed great improvement in the Accounting and Auditing (IGAAP) category moving up an impressive to be ranked as the second in Asia this year.

The SEC is pleased with the results of the first inspection cycle. Every audit firm inspected has established quality assurance systems in compliance with the ISQC 1. However, there is still room for improvement. Some audit firms need to improve in specific areas because they have just started to implement policies and procedures. Another reason is that quality assurance review is a new area for audit firms in Thailand, particularly for local audit firms that have no international network firms and have to implement their quality control systems for the first time. In addition, at an engagement level, there were observations caused by changes in accounting standards. Another possible reason is a lack of professional skepticism which mainly derives from constraints on human resources in the auditing industry. The SEC recognises these problems and in response, the SEC conducts seminars to educate auditors, accountants, managements, audit committees and investors so that they have an appropriate understanding of auditing and accounting standards, importance of preparing correct financial statements, and their responsibilities. In addition, the SEC plans to collaborate with Federation of Accounting Professions to enhance quality of accountants. For the Second Cycle, the SEC set a goal to elevate Thai professional standards to be internationally recognised. The SEC will partner with audit firms to analyse and seek solutions to problems audit firms face. In addition, the SEC will collaborate with international independent organizations to continue sharing information and knowledge. This will aid in the commitment of the SEC to create a robust capital market through effective regional audit oversight.

Significant statistical information

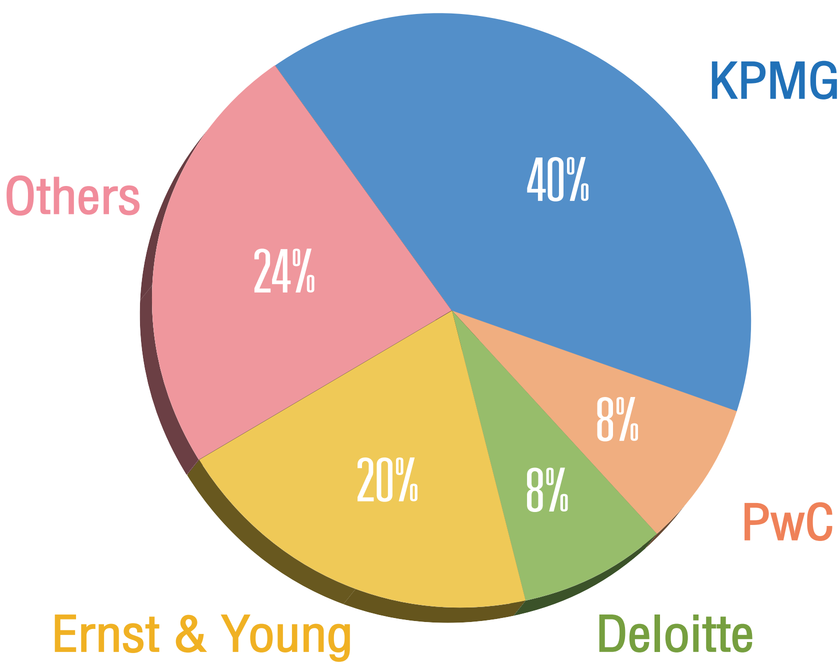
Firm level

- **Type and number of audit firms**

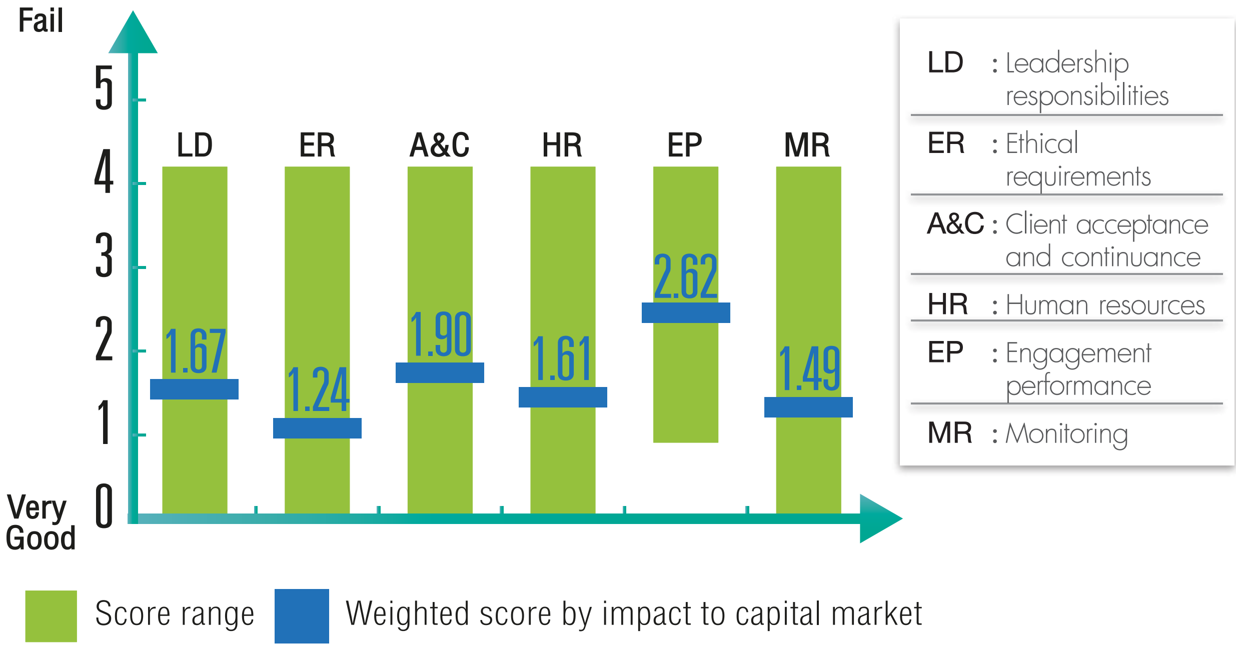
Audit firms	Number of audit firms (firms)
Big-4 firms	4
International firms*	4
Local firms	18
Total	26

Note : "International Firms" means audit firms that use policies and procedures established by international organisations, and are monitored by international firms, but excludes the Big Four firms.
The full list of audit firms is available for download at http://market.sec.or.th/public/orap/PublishAccountantAuditor.aspx?lang=en

- **Audit clients' market capitalization of significant audit firms**



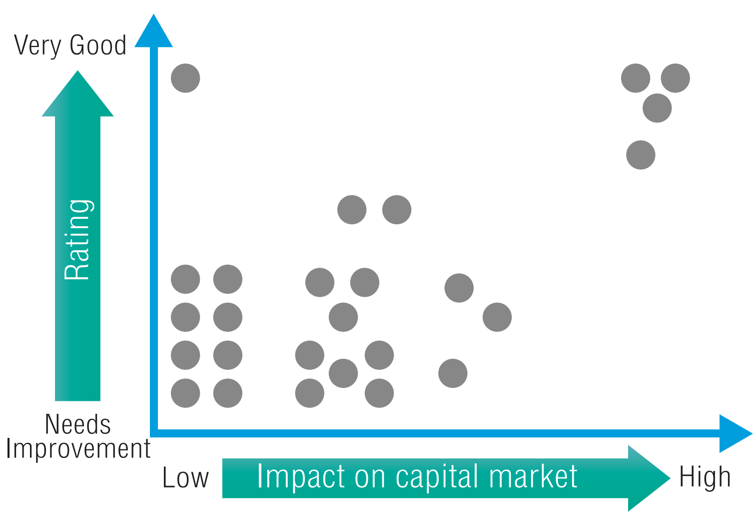
- **The range of scores (minimum and maximum) that each audit firm received based on the ISQC 1 element and weighted ratings by market capitalization.**



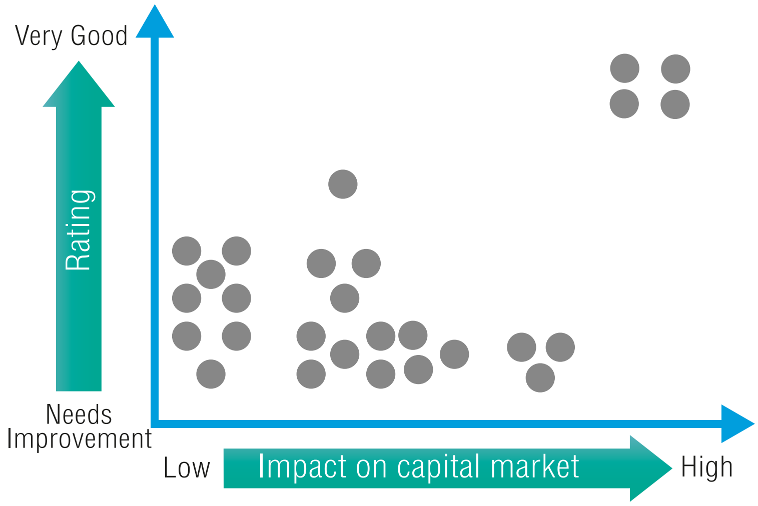
As shown in the above illustration, the range of scores audit firms received differs for each ISQC 1 element. All elements range from "Very Good" to "Needs Improvement" except for engagement performance, where no audit firm received a "Very Good" rating.

- **Scatter diagrams of ratings, by ISQC 1 elements**

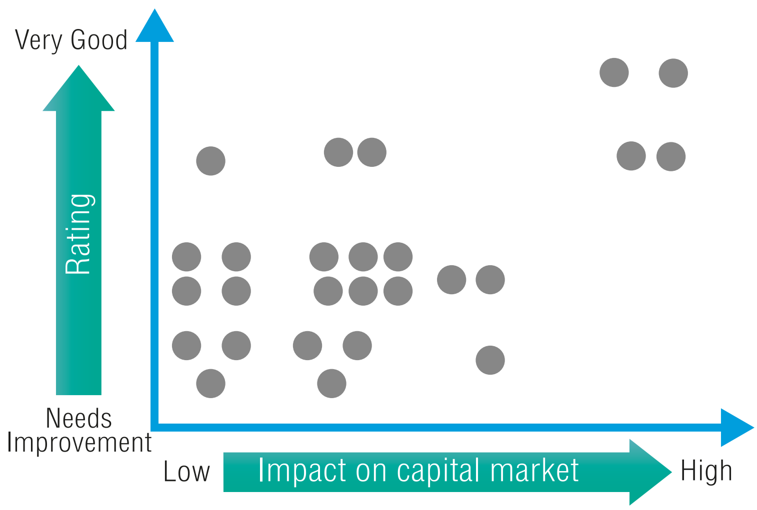
1. Leadership responsibilities



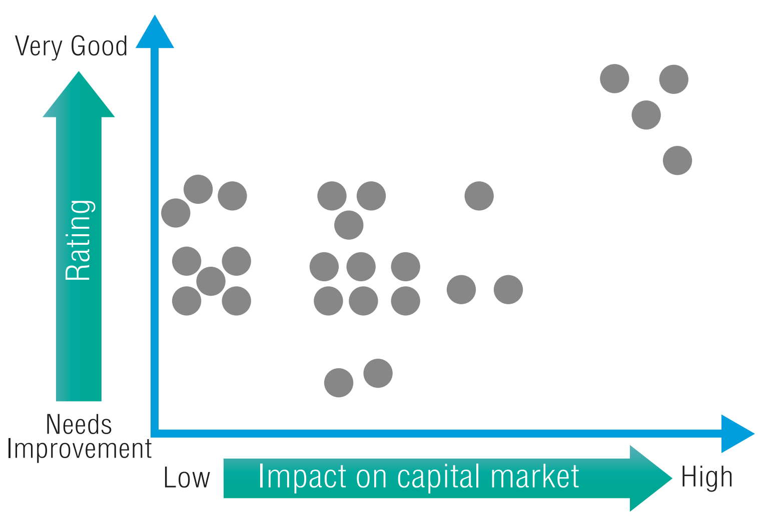
2. Ethical requirements



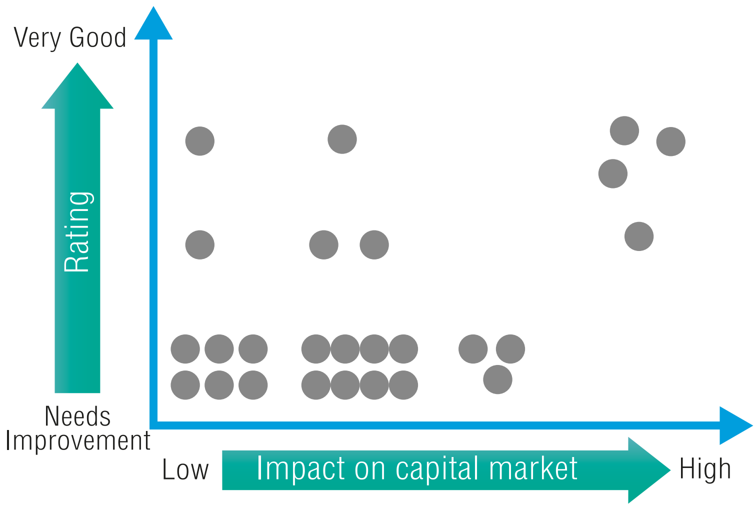
3. Client acceptance and continuance



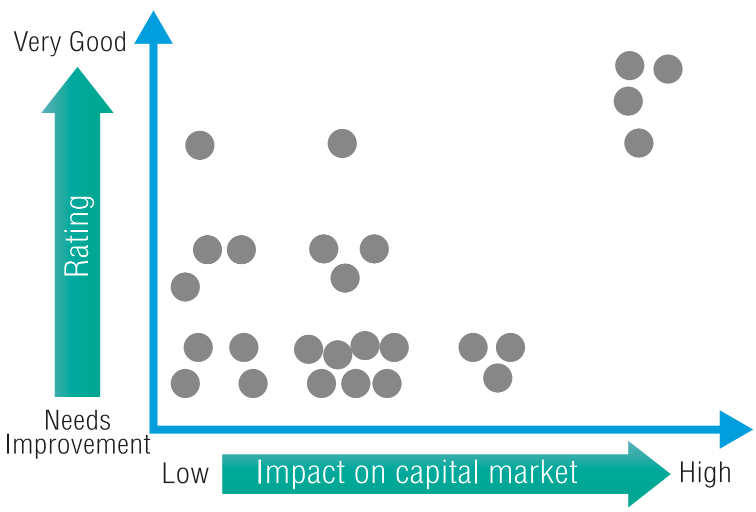
4. Human resources



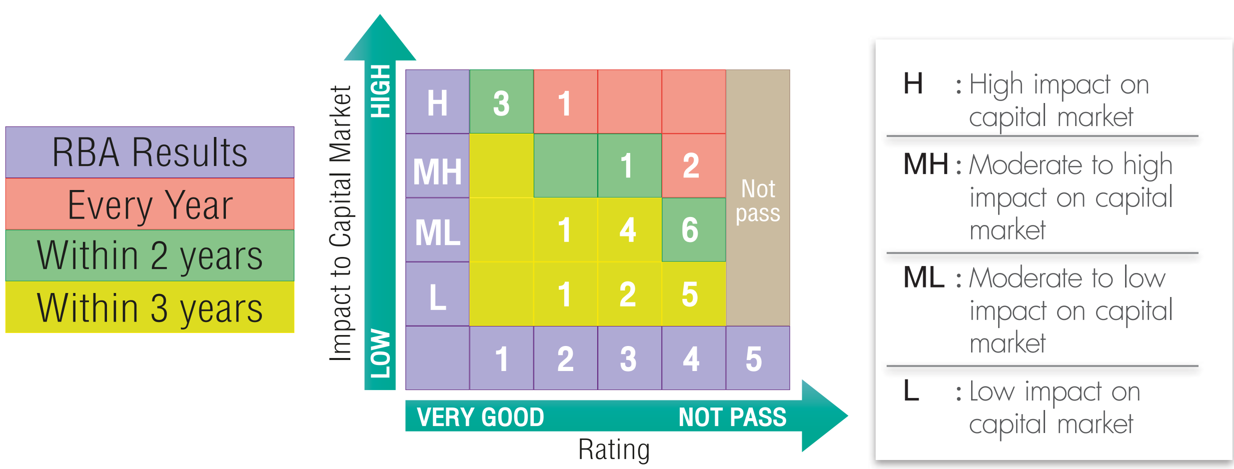
5. Engagement performance



6. Monitoring

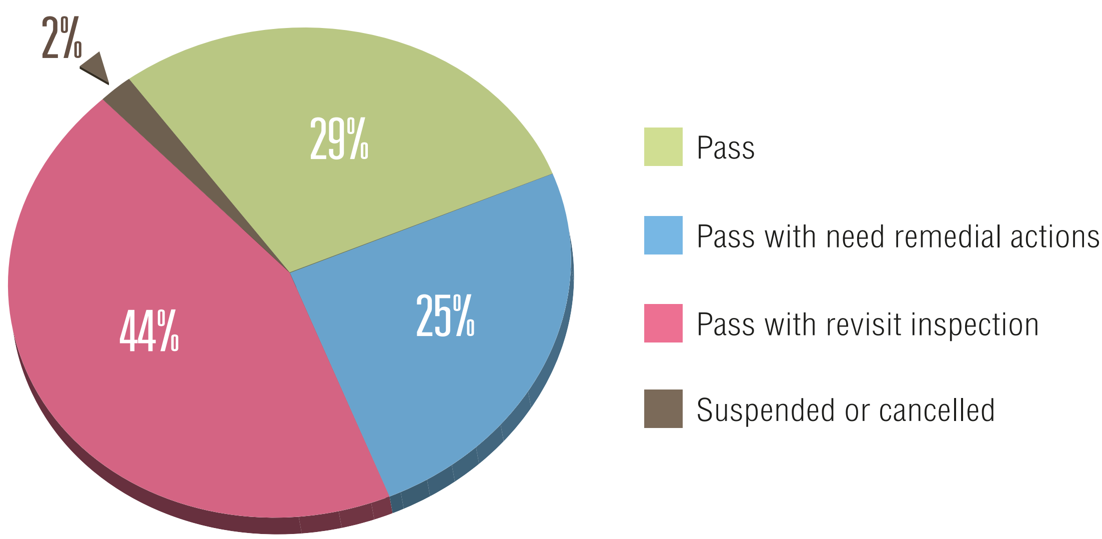


- **Inspection finding in firm level based on risk based approach**

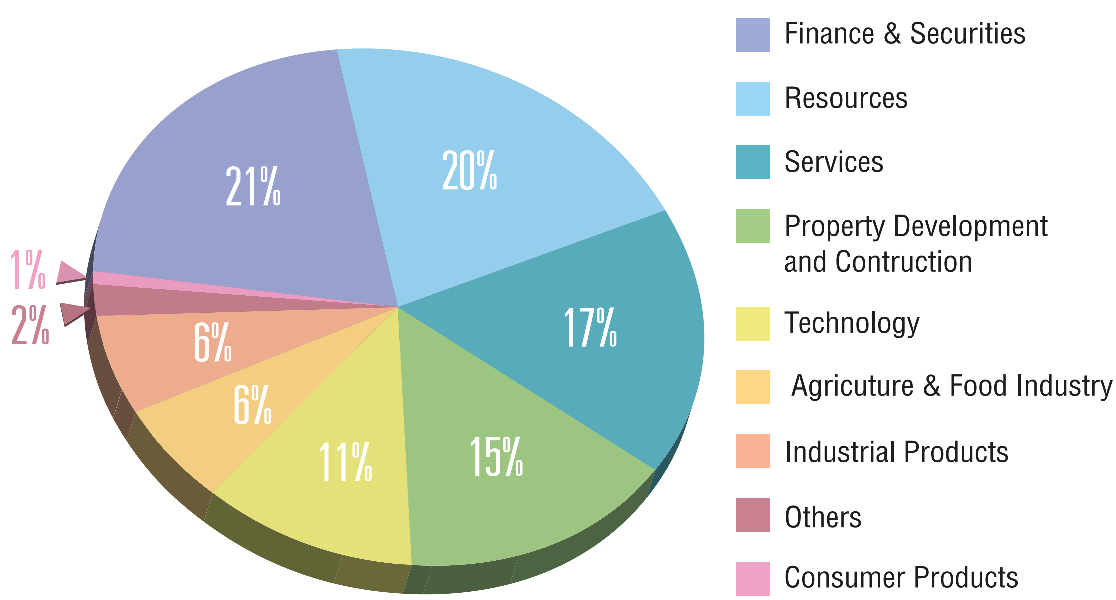


Engagement Level

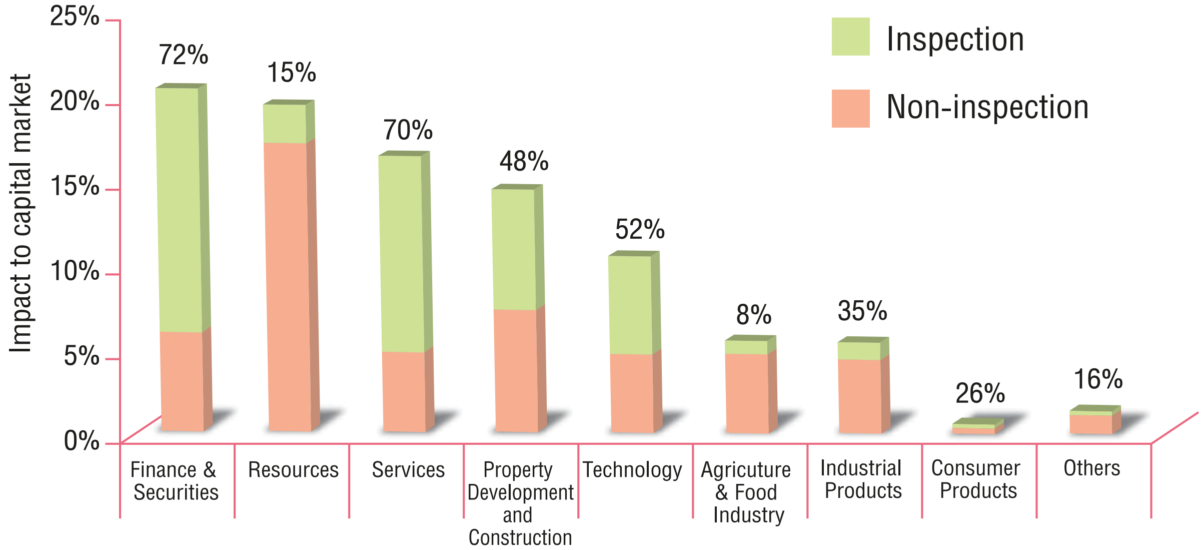
- **Engagement level inspection results**



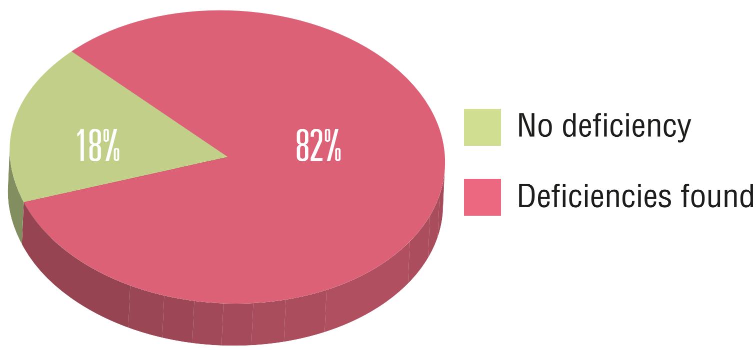
- **Proportion of Thai market capitalization based on industry segments**



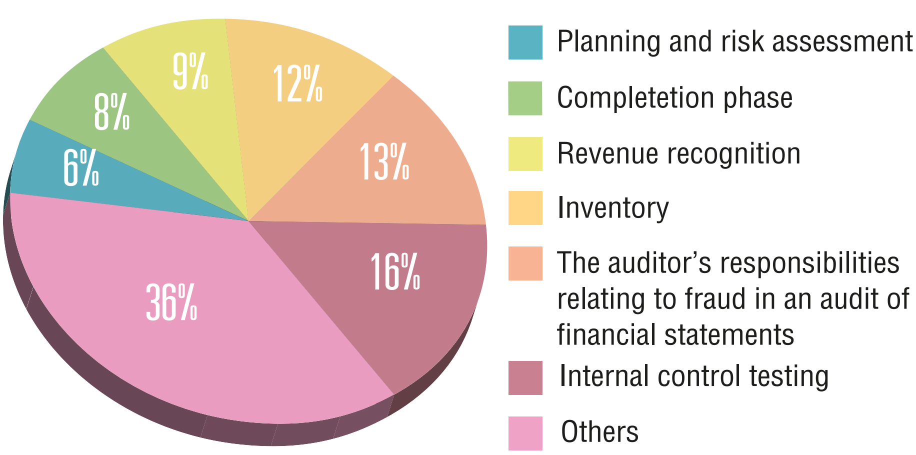
- **Percentage of selected engagement files based on industry sectors representing the percentage of capital market impact**



- **Results of first cycle inspections based on number of selected engagement files**



- **Percentage of deficiencies found from inspections based on type of deficiencies**



Remark : For more details about "others", please read from summary of other inspection findings table

Summary of other inspection findings

Inspection Issues	Findings
Disclosure	• When the account classification changes from the prior year, the corresponding figures were not reclassified to be in line with the prior year. • The financial statements disclose only current year information which misleads its users' understanding. • Incomplete disclosure in the notes to the financial statements on material aspects in accordance to the accounting standards, which resulted in inadequate information for users to make decisions. For example, no disclosure on the nature and effect of changes in accounting estimates, disclosure expenses by nature less than 50 percent of the total transaction balance, incomplete disclosure of accounting policies and disclosure in the financial statements that the company applied the equity method for its subsidiaries, which is not in compliance with the accounting standard on consolidated financial statements.
Documentation	• Inaccurate or ambiguous documentation in the audit workpapers where it cannot be determined whether the audit scope is adequate and appropriate, such as unclear documentation on auditing procedures and no documentation of audit sampling methods.
Fair value measurement	• An auditor did not examine the reasonableness of market price, assumption used in valuation and estimation method used such as valuation of warranty, costing and property plant and equipment.
Going concerns	• Apart from examining financial ratios and figures and management interviews, an auditor did not audit future cash flow, cash flow projections and likelihood of business plans or other procedures which can be used as sufficient audit evidence to determine the firm's ability to continue its operation. For instance, an auditor only analysed financial ratios and interviewed management, then concluded that the company did not encounter any going concern problems.

Inspection Issues	Findings
Going concerns	• Although there was an indicator of going concerns, such as the company having negative net working capital, negative operating cash flow, liabilities are greater than assets or net losses, an auditor concluded without sufficient and appropriate evidence that the company did not have a going concern problem.
Group audit	• An auditor did not calculate materiality level for consolidated and group audit financial statements, which are necessary for determining audit plan, scope of work, and material level for each subsidiary so that he can assure the subsidiaries' information presented in the consolidated financial statements is sufficient and appropriate. • Inadequate auditing of group audits such as an auditor did not review the workpapers of affiliated audits. • An auditor did not document the procedures used in auditing group audits. • An auditor did not compare differences in accounting policies used by each firm in the group audit, which should be disclosed in the accounting policy section of the consolidated financial statements. • An auditor did not assess risk and audit plans at the group audit level. • An auditor did not consider the effect of uncorrected misstatements from subsidiaries on the consolidated financial statements level. • An auditor did not perform an analytical review of changes to the financial statements line items at the group audit level. • An auditor did not examine intercompany transactions and consolidation of intercompany transactions when auditing the consolidated financial statements. • An auditor did not summarise material misstatements and uncorrected misstatements of its subsidiaries and affiliates.

<table>
<tr><th>Inspection Issues</th><th>Findings</th></tr>
<tr><td>IT testing</td><td>The SEC did not find the workpapers that evidence an auditor tested the reliability of IT general controls and application control, even though he had evaluated the control environment.
IT testing on the computer control environment aspect was insufficient because an auditor did not evaluate IT general controls, application controls, and did not prepare the report with comments relative to the appropriateness of the controls.
An auditor found deficiencies from testing on IT general controls, however he did not evaluate the effect of these deficiencies on the financial statements and did not apply additional procedure to reduce the risk of material misstatements being presented in the financial statements. An auditor failed to communicate the deficiencies found to either management or to the audit committee.</td></tr>
<tr><td>Professional skepticism</td><td>An auditor did not apply professional skepticism when auditing the reasonableness of assumptions, the source of the data, or ratios used such as:
– Intercompany transactions
– Employee benefit assessment
– Estimation of costing
– Borrowing from a third party
– Significant influence in affiliated companies as these companies were controlled by the same director
– Adequacy of audit work on provisions for doubtful debt</td></tr>
<tr><td>Related Party</td><td>An auditor did not test transfer pricing among the related parties. For example, there were no workpapers comparing the actual raw materials purchase price with the prevailing market price in order to examine whether there was a significant discrepancy.
An auditor did not sent confirmation letters to the related parties.
There was no disclosure of related party transactions in the notes to the financial statements, such as information about borrowing from the director of the related party.
An auditor did not audit the related party transactions as identified in the audit procedures.</td></tr>
</table>

Inspection Issues	Findings
Use of experts	• An auditor did not test the assumptions or the completeness and accuracy of the source of primary data which the actuarial used for estimation or valuation. For example, there were no workpapers evaluating the reasonableness of assumption, the methods used in valuation of employee benefit, useful life, and book value of noncurrent assets. • An auditor did not assess the capability, faithfulness and appropriateness of the experts and the experts' report.
Others	• The company had a risk of recording transactions in wrong period, account, or amount, but an auditor failed to perform additional procedures, did not establish substantive procedures to detect material misstatement, and did not sufficiently audit the transactions. For example, there was incomplete auditing of obligation as an auditor did not receive a reply confirmation letter from banks or receive the electronic copy, which has very low assurance and can easily be falsified. • An auditor did not audit the reasonableness of assumptions used for changes in accounting estimates, such as the useful life of buildings and equipment. • Inadequate auditing of brought forward balance. For example, an auditor did not review the workpapers of previous auditor, did not send a confirmation letter to bank to verify the brought forward balance, or did not examine the accuracy and completeness of brought forward balances of land, building, and equipment. • Insufficient substantive procedures, such as an auditor not extending the scope of audit work or performing a test of detail on transactions that have high value and significant influence on the financial statements. • Inadequate assessment of the appropriateness of changes in accounting policy. For example, the company changed their accounting policy but an auditor did not assess the appropriateness of these changes in accounting policy. • There was inadequate auditing of subsequent events after the financial statements date. For example, an auditor did not audit the important documents or read the minutes of meeting up to the audit report date.

20th

Anniversary

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Securities and Exchange Commission Thailand
1992-2012

Securities and Exchange Commission

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