INDEPENDENT AUDIT INSPECTION ACTIVITIES REPORT 2017

CAPITAL MARKET FOR ALL

SEC

INDEPENDENT AUDIT INSPECTION ACTIVITIES REPORT 2017

Contents

Executive Summary

The capital market is a fundamental component in driving Thailand's economy toward secure and sustainable growth. Supporting and developing the Thai capital market with transparency and efficiency is therefore crucial for achieving such goal. Amongst the diverse frameworks of the SEC for developing the Thai capital market is the strengthening of the competitive edge of the market itself by promoting it to be an attractive fundraising hub for both domestic and regional enterprises. To implement such framework, it is imperative that the financial reporting be reliable and comparable, which in turn will enable the users of financial reports to access accurate and sufficient information for making investment decisions

Over the years, the SEC has been giving precedence to the development of the financial reporting ecosystem; it is our belief that for the financial reporting to be reliable, the stakeholders in the ecosystem should be aware, and have a good understanding, of their roles and responsibilities and discharge them efficiently as required by the professional standards and relevant regulations. Accordingly, the SEC has laid out a plan to promote capabilities of the stakeholders within the ecosystem, from the beginning to the completion of financial reporting activities. The stakeholders include the preparers, the audit committees and auditors, among others. In so doing, the SEC communicates with and educates the stakeholders on a continuing basis, especially via training sessions to prepare them for the soon-to-be-effective financial reporting standards.

The stakeholders with a pivotal role in preparing accurate and quality financial reporting from the beginning are chairman of the board of directors, chief executive officer ("CEO"), chief financial officer ("CFO") and accountant as these professionals by default should have a good understanding of the company's business and transactions, not to mention that they are the closest parties to the accounting records. More specifically, CEO and the company's directors are the ones with the ability to direct the company's direction and its tone at the top; they are undoubtedly the essential drivers of the financial reporting process toward a higher quality.

In the preceding years, the SEC mobilized various initiatives to support the preparers in building self-discipline and the understanding of appropriate and reasonable regulations. Beside regular communication with the preparers regarding the importance of quality financial reporting, the SEC cooperates with the Stock Exchange of Thailand in promulgating the requirements of the CFO and chief accountant in working for the initial public offering ("IPOs") companies and listed companies, which include qualifications, experiences and constant technical development. This is to build investors' confidence in the use of financial reports to support decision-making.

In addition to implementing the framework for promoting the capabilities of the preparers, the SEC maintains its mission to oversee and develop the quality of auditors in the capital market. The quality control system of the audit firms is regularly inspected, and the audit engagement is randomly selected for review. We also roll out various projects to support the quality development from within the firms, e.g., workshops on in-depth analysis of the root causes of deficiencies and how to improve the audit quality, training sessions on how to remedy the recurring deficiencies identified in several audit firms. Such efforts to develop audit quality have evidently paid off with the improvement of the inspection results in the 3rd inspection cycle (2017-2018); the score in each element of the quality control system of most audit firms was higher than that during the 2nd cycle, notably the 'monitoring' element. One of the factors contributing to such improvement was the SEC's emphasis on the importance of monitoring which is an essential tool for improving audit quality.

However, in the 3rd inspection cycle, the 'engagement performance' element continued to be an area for improvement for the audit firms. In this regard, their audit manuals and audit programs are being revised in accordance with the professional standards and relevant regulations as well as being communicated to the personnel. Moreover, the inspection results of individual audit engagements in 2017 showed that the overall audit quality had improved over the previous year, with some findings in the substantive procedures of complex transactions or transactions that required intensive judgment. The firms can remedy deficiencies by increasing the involvement of the partner and EQCR in reviewing the workpaper or establishing a process for seeking consultation on difficult or contentious matters about the financial reporting standards. Opinions of experienced professionals may also be required. Other than the oversight of audit quality through constant review of the auditors' workpapers, the SEC reviews IPO companies' and listed companies' financial statements on a regular basis. This is to ascertain that the financial reporting is prepared in accordance with financial reporting standards and properly disclosed. In 2017, the SEC mandated two listed companies to restate their financial statements and ordered special audits on three listed companies.

In 2018, the SEC will steadily pursue its framework for developing the financial reporting system. This includes supporting the preparers and developing the quality of audit firms and auditors on a regular basis. Audit quality and financial statements will be reviewed, and training sessions will be organized on the upcoming or intricate financial reporting standards. Additionally, the SEC will continue to encourage listed companies to establish a more robust internal control system. In so doing, we will communicate with listed companies' management about the importance of having a robust internal control system in place and will cooperate with relevant agencies in educating the internal auditors and the firms that undertake internal audit functions. The internal control systems of IPO and listed companies are expected to be improved. This in turn will promote the financial reporting system of listed companies to be more reliable. In addition, the SEC will encourage each stakeholder to get more actively involved with the development of financial reporting quality. For example, the audit committees should participate in the oversight of the financial reporting preparation and disclose more useful and relevant information to investors; investors should be more equipped to analyze financial reporting and use the information in the auditor's report to support their investment decision-making.

Quality Assurance Review Panel

The responsibilities of the Quality Assurance Review Panel (QARP) include providing opinions and recommendations to the SEC on the audit inspection results both at the firm level and the engagement level. The QARP comprises six non-practitioner members and three practitioner members. To maintain the independence of the QARP and their opinions, the SEC requires that the number of the attending non-practitioner members in each session be greater than the number of the attending practitioner members and none of the members shall have any relationship to or any interest in the cases being adjudicated.

Mr. Nontaphon Nimsomboon

Positions:
- Expert Member of the University Council, Walailak University, Thaksin University, and Mahachulalongkornrajavidyalaya University
- Chairman of the Board, A.M.C. International Consulting Company Limited

Work experiences:
- Director, State Audit Office of the Kingdom of Thailand
- Expert Member, Securities and Exchange Commission
- Member of the Court of Directors, Bank of Thailand
- Chairman, Accountant and Auditors Association of Thailand

Education:
- Ph.D. in Accountancy (Honorary), Thammasat University
- MBA, University of Iowa, USA (Government Scholarship)
- Bachelor of Accountancy, Thammasat University
- Bachelor of Commerce (Honors), Thammasat University
- Certified Public Accountant

Mr. Natasek Devahastin

Positions:
- Subcommittee, the Accounting Standard Committee, the Federation of Accounting Professions of Thailand under the Royal Patronage of His Majesty the King
- Visiting lecturer, Faculty of Commerce and Accountancy, Chulalongkorn University

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

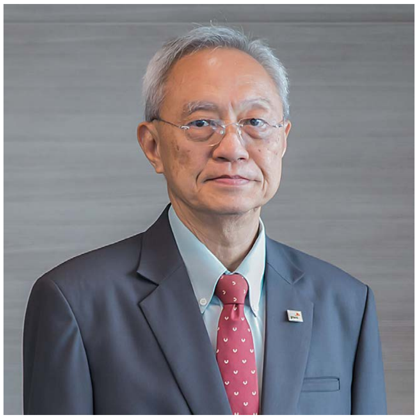
Education:
- Fellow of the Institute of Chartered Accountants in England and Wales

Ms. Chongchitt Leekbhai

Position:
- Consultant to the Board of the Federation of Accounting Professions of Thailand under the Royal Patronage of His Majesty the King

Work experiences:
- Partner, Deloitte Touche Tohmatsu
- Lecturer, Faculty of Commerce and Accountancy, Chulalongkorn University
- Expert Member, the Accounting Professions Oversight Committee

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



Mr. Pakorn Penparkkul

Positions:
- Academic Council Member of one state university
- Visiting lecturer at state and private universities
- Member of the Professional Accounting Committee on Accounting Education and Technology
- Ethics Subcommittee, the Federation of Accounting Professions of Thailand under the Royal Patronage of His Majesty the King
- Advisor, the Thai Accounting Firms Association
- Advisor, the Tax Auditor Association of Thailand

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

Education:
- Ph.D. in Accountancy (Honorary), Rajamangala University of Technology Isan
- Bachelor of Accountancy, Chulalongkorn University
- Certified Public Accountant

Mrs. Pranee Phasipol

Positions:
- Independent Director, Compensation Committee Member, Governance and Nomination Committee Member, Dusit Thani Public Company Limited
- Independent Director, Chairman of Audit Committee, Governance and Nomination Committee Member, SCI Electric Public Company Limited
- Independent Director, Audit Committee Member, Investment Committee Member, Thaivivat Insurance Company Limited
- Chairman of the Ethics Subcommittee, the Federation of Accounting Professions of Thailand under the Royal Patronage of His Majesty the King
- Expert Member, the Securities and Exchange Commission Board

Work experiences:
- Secretary, the Accounting Professions Oversight Committee
- 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
- Advisor and member of various subcommittees, the Federation of Accounting Professions of Thailand under the Royal Patronage of His Majesty the King
- Member of various committees, the Accountant and Auditors Association of Thailand

Education:
- Master of Science in Accounting, Thammasat University
- Bachelor of Business Administration, Major in Accounting (2nd class honors), Thammasat University
- Certified Public Accountant

Mr. Prasan Chuaphanich

Positions:

- Expert Member, Audit and Evaluation of Public Sector Committee Office of the Public Sector Development Commission
- Chairman of the Board of Directors, Thai Institute of Directors
- Committee Member, The Private Sector Collective Action Coalition Against Corruption, Thai Institute of Directors
- Commission Member (Accounting) of the Office of Insurance Commission
- Chairman of the Audit Committee of the Office of Insurance Commission
- Expert Member (Accounting) of the Committee on Dumping and Subsidy, Ministry of Commerce
- Independent Director and Chairman of the Audit Committee, Siam Commercial Bank Public Company Limited
- Independent Director, Member of Audit Committee, PTTGC Global Chemical Public Company Limited
- Independent Director, Member of Audit Committee, Chairman of Sustainable Development Committee, Advanced Info Service Public Company Limited
- Independent Director, Member of Audit Committee, Chairman of the Nomination and Remuneration Committee, Thai Solar Energy Public Company Limited
- Audit Committee Member, Mahidol University Council
- Member of the Finance and Property Committee, King Mongkut's University of Technology Thonburi

Work experiences:

- Executive Chairman, Pricewaterhouse-Coopers (Thailand)
- Chairman of the Audit Committee, the Thai Institute of Directors
- Corporate Governance and Policies Advisor, the Thai Institute of Directors
- Committee of IFRS Advisory Council, IFRS Foundation
- President of the Federation of Accounting Professions under the Royal Patronage of His Majesty the King
- Vice President and Chairman of the Accounting Profession Committee on Auditing, the Federation of Accounting Professions under the Royal Patronage of His Majesty the King

Education:

- Bachelor of Accounting (2nd Class Honor), Chulalongkorn University
- Diploma in Auditing, Chulalongkorn University
- Executive Management Program, Ivey School of Business, University of Western Ontario, Canada
- Harvard Business School, Boston, USA-Leading Professional Services Firms
- Certified Public Accountant

Activities for Enhancing Financial Reporting Quality

Apart from the oversight of auditors and audit firms, the SEC always focuses on improving the quality of financial reporting of the listed companies on the Stock Exchange of Thailand ("listed companies"). In 2017, we organized and participated in activities in various areas to promote stronger capacity of stakeholders in the financial reporting preparation process, e.g., Chief Financial Officer ("CFO"), chief accountant, the audit committee and the personnel of the SEC. Seminars and training sessions were held in cooperation with relevant agencies such as the Federation of Accounting Professions ("the FAP") to communicate with the stakeholders regarding Financial Reporting Standards and other related accounting profession standards. Furthermore, the SEC representatives attended conferences to share ideas and experiences with the stakeholders and participated in domestic and international symposiums.

Building capacity of stakeholders

To maintain financial reporting quality in accordance with the Financial Reporting Standards and to ensure useful disclosure of relevant information for the users, stakeholders in the financial reporting ecosystem, e.g., CFOs, chief accountants, the audit committees and auditors, should emphasize the importance of the financial reporting preparation process while enhancing their own professional knowledge and skills in support of effective performance of their respective roles and duties.

In recent years, we have continued our focus on supporting and organizing training sessions, seminars and updates on new developments of Financial Reporting Standards. In 2017, more seminars and training sessions helped to strengthen the capacity of the stakeholders throughout the financial reporting ecosystem and contributed to their ongoing performance of responsibilities.

Pursuant to the SEC rules concerning determination of qualifications of chief financial officers and accountants working for initial public offering (IPO) companies, persons holding the said positions are required to obtain certain qualifications and work experiences, complete the orientation course on accounting and finance, and maintain professional accounting development on a regular basis. This is to ensure that CFOs and chief accountants will be able to prepare financial statements accordingly. We have collaborated with the Thai Listed Companies Association, the Thailand Securities Institute, the FAP and the Stock Exchange of Thailand ("the SET") on a regular basis to arrange useful courses for discharging duties of CFOs and chief accountants.

We have also circulated significant accounting findings, especially those related to recurring practical issues, and complex or newly-issued financial reporting standards. This is to support the stakeholders' preparation before such standards become effective and subsequent proper compliance with new regulations and requirements.

In 2017, we organized seminars instructed by experts in each area, e.g., the Thai Financial Reporting Standards 9: Financial Instruments and the Thai Financial Reporting Standards 15: Revenue from Contracts with

Customers. Moreover, we shared insight on key audit matters ("KAMs") identified in the auditor's report. In doing so, we conducted focus groups with delegates from the listed companies and relevant agencies to present KAMs from the year ended 2016 as a topic of discussion and sharing of opinions, and identify problems or practical issues before circulating those KAMs to the stakeholders in a broader range.

In 2017, we published the Corporate Governance Code ("the CG Code") for the listed companies as a guideline for the boards of directors and the audit committees to exercise their roles and responsibilities. One of the principles in the CG Code requires that the board shall ensure disclosure and financial integrity. In the past year, we communicated the CG code and its principles with the concerned parties and ensured the implementation as per the 'apply or explain' basis. Such criterion was to encourage the boards to comprehensively apply the CG Code to their companies' business and explain non-application as deemed appropriate in any areas in the CG Code Compliance Review Report'

In January 2017, the FAP in collaboration with the SEC, the SET, and the Thai Institute of Directors organized a seminar for the audit committees to communicate on the practical issues regarding the application of the CG Code, and prepare them for exercising their duties as well as cooperating with the boards of directors in promoting the quality of financial reporting. In March, we collaborated with other regulatory bodies to organize the CG Code launching seminar to introduce the Code and encourage listed companies to apply it for both business interest and long-term sustainable value creation for the society.

Over the year, we also rendered continuous support to Thai audit firms that were not affiliated with the Big-4 firms ("local firms") and audited the financial statements of listed companies, to enhance their strength. In doing so, we organized audit quality workshops where root causes were identified and analyzed, and improvement plans created, for the benefit of local firms' better audit quality. One of the consensus points among the local firms was that the root causes of some deficiencies had originated from the issues to which the local firms may not have been able to appropriately apply the principle-based financial reporting standards and auditing standards for practical use. We consequently organized follow-up workshops to educate and give recommendations on the recurring deficiencies of several audit firms. The workshops received positive feedbacks for their informative and educating elements and practical adaptation in actual situations.

In 2017, key training sessions and seminars for stakeholders included the followings:

Activities relevant to the improvement of audit inspection	
Meeting between the delegates from Big-4 firms and SEC	May 2017
Workshop to explore how to improve the audit quality of local firms	June 2017
Workshop to educate and recommend methods for resolving common findings for local firms	August and September 2017

Activities relevant to the improvement of financial reporting	
Seminar on preparation of the audit committee for CG Code implementation	January 2017
Seminar on CG Code launch and publication	March 2017
Seminar on TFRS 9 for securities business	June 2017
Focus group on KAMs	June 2017
Seminar on "Learning to Develop KAMs for the Thai Capital Market"	September 2017
Seminar on promoting the roles and understanding of Those Charged with Governance regarding the new auditor's report	December 2017

Prosperous growth and international recognition

We emphasize the importance of attending conferences and seminars organized by regulatory agencies, both global and regional, to keep abreast of regulatory trends and developments in accounting profession which we will incorporate into our methodology to oversight the quality of financial reporting and auditors in capital market to be in line with the global standards. Thailand's regulatory and oversight system is on the path toward international recognition and the reliability of the financial reporting quality of listed companies shall therefore ensue.

We have been welcomed as a member of the International Forum of Independent Audit Regulators ("IFIAR"), an international multilateral organization comprising 53 independent audit regulatory agencies from around the world. Additionally, in the region we are a member of the AARG, an independently collaborative group of audit regulators in four countries (i.e., Singapore, Malaysia, Indonesia and Thailand). Both IFIAR and AARG grant their members opportunities to share knowledge and experiences regarding the oversight of auditors and audit firms, and to promote collaboration among the audit regulatory bodies for the benefit of better audit quality.

Also, we are a member of the International Organization of Securities Commissions ("IOSCO"), an international organization of the capital market regulatory agencies around the world. In 2018, we will participate in the Financial Sector Assessment Program, known as FSAP. This will ensure that the oversight system of the financial reporting in the capital market will be on par with global standards. Moreover, we have sent a representative to join the IOSCO Committee 1 ("IOSCO C1"), which is the working group responsible for monitoring and development in accounting, auditing and information disclosure. IOSCO C1 grants its member countries opportunities to exchange comments about the issuance of financial reporting standards, auditing standards and the professional ethical requirements in order to reflect the practical issues in applying those standards and requirements. Besides, IOSCO C1 is a channel for us to acknowledge the trends and developments of the standards and prepare the involving stakeholders accordingly. An SEC officer is also one of the delegates in the IFRS Advisory Council, which is responsible for providing consultancy on strategic planning and policy direction of the International Accounting Standards Board ("IASB"). This means the SEC is recognized internationally.

In recent years, we have rendered support to our neighboring countries, i.e., Cambodia, Laos, Myanmar and Vietnam ("CLMV"), to strengthen their potential to oversight and improve their financial reporting quality. In doing so, we have organized workshops to build the capacity of those countries' regulatory agencies every year, in the areas of financial statements surveillance and auditor oversight. These operations conform with the SEC strategic plan, which aims for Thailand to be the fundraising hub in the region (CLMV springboard). As for 2017, our representative made contribution as an instructor at the seminar on enhancing the quality of financial reporting of the CLMV countries, held in Cambodia.

In 2017, we attended the notable conferences and seminars as follows:

Activities relevant to the improvement of audit inspection	
AARG Inspection Workshop, Malaysia	February 2017
IFIAR Plenary Meeting, Japan	April 2017
IFIAR Enforcement Workshop, Japan	April 2017
AARG Meeting, Thailand	July 2017

Activities relevant to the improvement of financial reporting	
Financial Statements Surveillance Group Workshop, Malaysia	February 2017
IFRS Advisory Council Meeting, England	April and October 2017
IOSCO C1 Meeting, Germany and USA	June and September 2017
Strengthening and supporting the CLMV countries to improve the quality of financial reporting, Cambodia	August 2017
Singapore Accountancy and Audit Convention, Singapore	August and October 2017

Strengthening capacity of internal staff

Aside from the ongoing efforts to push the boundary of stakeholders' capabilities in the financial reporting ecosystem, we emphasize regular capacity building for the internal staff. As it is our belief that a regulatory agency should wield the appropriate insight and knowledge to be able to effectively and efficiently discharge its duty in oversight and regulating. In so doing, the policies and procedures must be in conformity with the developments of accounting professions, take practical issues into account, and earn recognition in the international community. We therefore continuously focus on developing the capacity and potential of our staff to be in line with the professional standards. In 2017, we sent delegates to participate in conferences and seminars, both domestic and international, as well as assigned representatives to discuss and express opinions in the global platform regarding the issues on the development of financial reporting quality. We aim to further monitor the direction of accounting professions, learn from the procedures and case studies of other regulatory bodies, and apply them to Thailand's oversight landscape on par with international practice.

In 2017, we regularly arranged staff training sessions on the Thai Financial Reporting Standards and the Thai Standards on Auditing. Some of the notable ones are:

- Thai Financial Reporting Standards 15: Revenue from Contracts with
- Core concept, practical guidance and case studies of PACK 5
- Summary of financial reporting standards related to Insurance Contracts
- Summary of financial reporting standards related to Revenue Recognition
- Financial Model: Fundamentals of Finance

Summary of Audit Inspection Results

A. Firm Level

The favorable quality control systems of audit firms ensure that the firms' personnel will perform engagements according to the professional standards and relevant legal requirements, as well as elevate the audit engagement quality of auditors affiliated with the firms. We therefore constantly highlight the importance of the inspection of the quality control systems of audit firms whose affiliated auditors perform engagements in the capital market. The frequency of inspection on audit firms' quality control systems varies among audit firms in compliance with the risk-based approach, taking into account the previous inspection results of the audit firm quality control systems and the exposure to the capital market, as shown in figure 1. We also focus on the follow-up of audit firms' remediation results as we mandate the firms to formulate the remediation plan for the TSQC element that falls into the 'Need Improvement' inspection result. The firms must submit the aforementioned plan to the SEC within 3 months after being notified. The SEC shall subsequently closely monitor the progress of the rectification.

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

Figure 1: The firm-level inspection results, categorized by risk-based approach

In 2017, which is the second year of the 3rd inspection cycle (i.e., January 1, 2016 to December 31, 2018), we inspected the quality control systems of 8 audit firms. The results of the quality control system inspections in 2016 and 2017 showed that each audit firm maintained its quality control system as required by the Thai Standard on Quality Control 1 ("TSQC 1"). Moreover, the overall inspection results at both firm level and individual engagements level achieved continuous improvement compared to the 2nd inspection cycle results (2013 to 2015) and 1st inspection cycle results (2010 to 2012), as shown in figure 2. In addition, when scrutinizing the number of audit firms categorized by inspection results in each element in TSQC 1, as shown in figure 3, one will find that most of the results in Acceptance and Continuance of Client Relationships element, and Human Resource element fall into the 'Very Satisfactory' and 'Satisfactory' results, respectively. And no audit firms fall into the 'Need Improvement' group in both elements.

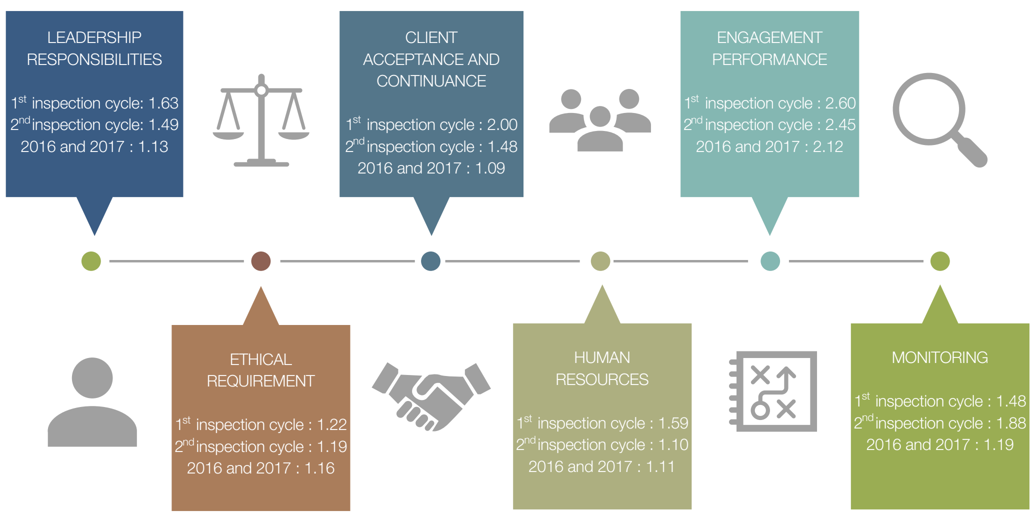


Figure 2: The weighted average score by total market capitalization in each element of TSQC 1 in 2016 and 2017, compared with the 1st inspection cycle results (2010 – 2012) and the 2nd inspection cycle results (2013 – 2015).

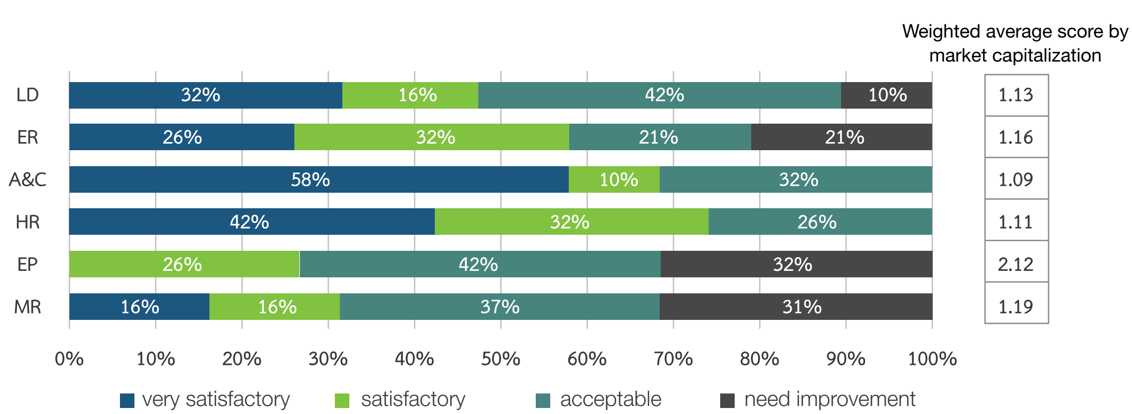


Figure 3: Percentage of the audit firms, categorized by scores in each element of TSQC 1 in 2016 and 2017.

The preceding facts reflect the accomplishment of the audit firms in elevating the quality of both audit firms and audit engagements. Nevertheless, we remark that the audit firms should further develop and improve their quality control systems, especially in Engagement Performance and Monitoring elements which are essential for ensuring that the audit firms possess sufficient appropriate procedures and tools to support their auditors and personnel which will facilitate more quality work and more reliable deliverables. In this regard, we propose recommendations for the improvement of each element in quality control system as follows:

1. Leadership Responsibilities for Quality within the Firm

The leaders of the audit firms are the potent figure towards the organizational culture. Should they prioritize the direction of policies and procedures that expresses the importance and necessity of quality development, the overall quality control system of the firm and audit engagement will be effective. The inspection results of audit firms' quality control system in 2016 and 2017 showed that the majority of the firms' leaders focused more on the root cause analysis of the deficiencies, which clearly manifested their perseverance and attention to improving and developing the quality control system at the firm and individual engagement levels as per the findings of the SEC. Thanks to such efforts, the deficiencies found during the 2nd inspection cycle were addressed efficiently. However, in 2017 we identified findings on the performance evaluation of partners in certain audit firms as follows:

Findings identified by the SEC	The recommendations for improvement
The performance evaluation of partners Particular audit firms do not consider the internal and external monitoring results of audit engagement as one of the criteria when evaluating the performance of the partners.	The performance evaluation systems that reflect the quality of partner's work in every aspect will render the performance evaluation an effective tool to drive the engagement quality within the firm. The audit firms thus should bear in mind the findings identified from both internal and external review when evaluating partner's performance. However, as the manners to evaluate performance may vary, the firm should implement the manner which is suitable for the environment and culture of each firm, Convincingly, the performance evaluation will be an effective tool and have no impact on the partner's morale and sentiment.

2. Relevant Ethical Requirements

The exhaustive policies and procedures regarding the ethical requirements increase the reasonable assurance to the firm that both firm and its personnel shall be able to abide by the relevant ethical requirements. One of the essential ethical requirements is the independence of auditors, both of mind and in appearance, which will ensure that the auditor is independent of the audit client. The inspection results of the audit firms' quality control systems in 2016 and 2017 showed that most of the firms had improved their policies and procedures regarding the relevant ethical requirements as per the findings in the 2nd inspection cycle. However, in 2017 we identified findings on the relevant ethical requirements in certain audit firms as follows:

Findings identified by the SEC	The recommendations for improvement
1. Auditor rotation in case of listed company clients - The policy regarding the key audit partner rotation in case of listed company clients may not cover the rotation of engagement partners, who are also considered a key audit partner; - The audit firms do not rotate auditors as required by the firm's policy.	The long relationship of key audit partners with audit engagement clients may pose issues and threats towards the independence regarding the familiarity and conflicts of interest. The firms, therefore, should: - Establish the policies on key audit partners rotation to be coherent with the Code of Ethics for Professional Accountants; - Establish the up-to-date and systematic database of auditor rotation, and set up the monitoring activities of the database, to ensure that the auditor rotation plan is coherent with the Code of Ethics for Professional Accountants and the firm's policy.
2. The policies and procedures regarding the declaration of financial interest and employment with other entities The audit firms set out policies whereby only the personnel are required to declare their financial interest and employment with other entities, without extending such requirement to the "immediate family member" (i.e., spouse (or	If the immediate family member or close family member of the personnel in the audit team holds financial interest in audit clients or serve as a director or officer of an audit client, or as an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements, it may pose a direct intimidation threat and a conflict of interest with

Findings identified by the SEC	The recommendations for improvement
equivalent) or dependent) and "close family member" (i.e., a parent, child or sibling who is not an immediate family member).	the audit client. The firms, therefore, should: - Establish policies and procedures regarding the declaration of financial interest and employment with other entities which cover the immediate family member and close family member and are coherent with the Code of Ethics for Professional Accountants. Moreover, the definition of both immediate family member and close family member should be clearly specified. The firm should also circulate the policies and procedures for the personnel at all levels to acknowledge and accept; - Establish a method to verify the accuracy and completeness of the personnel's declaration of own financial interest and employment with other entities, as well as that of the immediate family members and close family members. This is to ensure that the firms have sufficient information when evaluating the impact on the independence. Should a situation that may lead to an impairment of the independence arise, the firms shall assess the severity of the issues and obstacles, as well as set up defensive procedures to eliminate or diminish the issues or the obstacles to an acceptable level. For example, in the event that any member of the personnel declares the financial interest and employment with other entities of his and his immediate family member and close family member, as required by the firm's policies, notifying the firm that his father serves as an accounting manager of an audit client, obviously

Findings identified by the SEC	The recommendations for improvement
	a position with an ability to exert significant influence over the preparation of the client's accounting records or the financial statements, , the firm should consider to refrain the member of the personnel in question from getting involved in the audit engagement of that client.
3. Policies and procedures in case the portion of the audit fee of individual audit clients exceeds the ratio specified by the firm ("fee dependency") The firms do not establish the policies and procedures in case the portion of the audit fee of individual audit clients exceeds the ratio specified by the firm for two consecutive years.	If the firms have a major audit client and the total fees from that client represent more than 15% of their revenue, it may raise a concern on the firms' independence in performing engagement in compliance with professional standards. The firms therefore should establish exhaustive policies and procedures regarding fee dependency according to the Code of Ethics for Professional Accountants. If a circumstance arises that the total fees of the individual audit clients exceed the threshold specified by the audit firms for two consecutive years, the firms shall take that fact into account when performing client acceptance procedure. And if the firms deem the acceptance of the engagement appropriate, they shall disclose the circumstance to, and consult with, those charged with governance to seek preventive actions for reducing threats and issues to an acceptable level. Moreover, if the portion of the audit fees of individual audit clients significantly exceeds the threshold specified by the firms, the firms shall engage an external reviewer prior to issuing the auditor's report.

3. Acceptance and Continuance of Client Relationships

The process of accepting and continuing client relationships is essential for providing the firm with reasonable assurance that it has competency and capabilities, including sufficient resources, to perform the accepted and continued engagement and appropriately respond to the identified risks. The process is also to ensure that such acceptance or continuance comply with the relevant ethical requirements. From the inspection of the audit firms quality control systems in 2016 and 2017, we found that the majority of the audit firms had evidently improved the quality control systems regarding the acceptance and continuance of client relationships during the 1st and 2nd inspection cycles. However, in 2017 some of the findings still showed the following issue in some audit firms:

Findings identified by the SEC	The recommendations for improvement
Risk assessment criteria when accepting audit engagements The risk assessment form when accepting audit engagement in some firms equally weighs the impact of each factor even if some factors alone may increase the overall risk to high level, e.g., the client's lack of integrity, which may cause the result of risk assessment to fail to represent the actual risk.	Appropriate risk assessment criteria when accepting audit engagement will enable the firm to design the audit procedures and address the identified risks accordingly. The firms therefore should revise the risk assessment criteria by emphasizing some factors that may affect the accuracy of the financial statements.

4. Human Resources

For the quality audit engagements, it is crucial that the firms employ competent personnel with proper time to perform the engagements and the personnel should be engaged in continuous professional development. The inspection results of the audit firms' quality control systems in 2016 and 2017 showed that most of the audit firms had improved the human resources management process to be more efficient and effective. Nonetheless, we identified findings in human resources element in some audit firms as follows:

Findings identified by the SEC	The recommendations for improvement
1. The personnel's performance evaluation In some instances, the evaluator adjusts the scores that were self-evaluated by the personnel without documenting adequate explanation.	The effective performance evaluation process will assist the personnel in improving their capabilities and quality of work. The firm therefore should require that the evaluator clearly document the reason

Findings identified by the SEC	The recommendations for improvement
	behind the adjustment of personnel's self-evaluation, along with communicating such reason and result with the personnel clearly and concisely.
2. Policies and procedures for monitoring and processing the personnel with incomplete training - Some audit firms do not establish policies and procedures for monitoring and processing the personnel with incomplete training; - In some instances, personnel do not attend the compulsory course as required by the firms.	The complete training attendance of the personnel will provide the firms with reasonable assurance that their personnel in each level are competent and capable of performing quality engagements. The firms therefore should establish clear policies and procedures for monitoring and processing the personnel with incomplete training by requiring the personnel in every level to attend every session as the firms deem necessary, especially the compulsory course. In the event that some of the personnel are unable to attend the sessions, the firms should track their absence and require that they attend the substitute course or study the recorded version of the sessions. This is to ensure that the personnel will have necessary competence and capabilities in significant areas. Moreover, the firms should notify those policies and procedures to the staff across the organization.

5. Engagement Performance

The quality control system regarding the engagement performance is a critical component to provide the firms with reasonable assurance that the engagement partners and their personnel will be able to perform audit work in accordance with professional standards and applicable legal and regulatory requirements, and that the firms or partners will be able to issue reports that are appropriate in the circumstances. The inspection results of the audit firms' quality control systems in 2016 and 2017 showed that most of the firms had prioritized the development and improvement of the quality control systems in the engagement performance element in various aspects, e.g., audit manual, audit program, consultation process and engagement documentation. The results also showed that the firms had taken the findings from the SEC into account. However, in 2017 we still identified significant findings in the engagement performance element in several audit firms as follows:

Findings identified by the SEC	The recommendations for improvement
1. Audit manuals and audit programs Some of the audit firms may lack the complete and thorough audit manuals and audit programs in accordance with the standards on auditing, e.g., identifying and assessing the risks of material misstatement, audit sampling, audit of group financial statements including the work of other auditors.	An audit manual and audit program are essential tools to provide the firms with reasonable assurance that the engagement team will be able to perform work in accordance with the standards on auditing. The firm leaders therefore should entrust the individuals with appropriate competence, capabilities and resources to assume the responsibility of audit manual and audit program revision, ensuring that it will be complete and thorough in accordance with the standards on auditing.
2. The compliance with the audit manuals and audit programs In some instances, the engagement teams do not comply with the firms' audit manuals and audit programs.	The compliance with the audit manuals and audit programs as required by the firms shall provide the firms with reasonable assurance on quality of each engagement team. The firms therefore should emphasize circulating the newly revised audit manuals and audit programs to the personnel in every level in a timely manner. This is to ensure that the personnel will have an appropriate understanding in audit manuals and audit programs and can deliver consistent and quality work, e.g., circulating through seminars or workshops.
3. Engagement Quality Control Reviewer - Some of the firms do not require the engagement quality control reviewer ("EQCR") to review the quality control of the areas relevant to the use of significant judgment of the engagement team; - Some of the firms do not establish the minimum involvement hours of the EQCR for the listed company audit engagements.	The involvement of EQCR in reviewing the significant process of the audit in a timely manner, especially in the areas involving difficult or contentious matters, will enable the EQCR to provide counsel and consultation to the engagement team regarding the risk identification and detect the deficiencies in time. The engagement team will subsequently be able to perform additional audit procedures to obtain sufficient appropriate audit evidence, conclude the

Findings identified by the SEC	The recommendations for improvement
	audit result and issue reports that are appropriate in the circumstances. Thus, the firms should: - Set out scope for the engagement quality control review that covers the review of documentation on the use of significant judgments made by the engagement team and the conclusions reached, e.g., the risk identified during the audit and how to respond to such risk, the use of judgment, especially on materiality or significant risks; - Consider establishing minimum involvement hours of the EQCR in reviewing the engagement quality control of financial statements of listed companies by including the consideration of the amount and complexity of the engagement as well as establishing monitoring activities to regularly review the adequacy of EQCR involvement.
4. The assembly of final engagement files In some instances, the engagement teams do not complete the assembly of final engagement files as required by the firms' policies.	The thorough and complete assembly of final engagement files as well as workpapers by the engagement teams in an appropriate timeframe will ensure that the auditor possesses sufficient appropriate audit evidence when forming an auditor's opinion. Thus, it is advisable for the audit firms to establish policies to keep monitoring the timely and complete assembly of final engagement files within the timeframe as required by the quality control policies and manuals.

6. Monitoring

The prudent monitoring process provides the firms with reasonable assurance that the policies and procedures on the firms' quality control are exhaustive and can be executed effectively. It also benefits the timely rectification of significant deficiencies which in turn would promote the excellence of quality control, both at firm level and engagement level. From the inspection of the audit firms' quality control systems in 2016 and 2017, we found that the majority of the audit firms had improved the monitoring process to be coherent with the TSQC 1 and the SEC's observation. However, in 2017 we still identified the findings on the monitoring process in some audit firms as follows:

Findings identified by the SEC	The recommendations for improvement
1. The monitoring process at firm level and engagement level - The monitoring process at firm level in several audit firms does not cover some significant areas. For example, the partner portfolio allocation, the policies and guidelines on key audit partner rotation; - The monitoring process at engagement level in some audit firms does not cover some significant areas. For example, the audits of initial engagements – opening balances, the audits of group financial statements (including the work of component auditors).	The availability of sufficient and exhaustive monitoring process will ensure the firms that the individuals in charge of monitoring activities will be able to thoroughly gather the significant findings in each element in quality control system and each audit engagement. The audit firms should revise their monitoring process, both at firm level and engagement level, to fully cover significant areas.
2. The criteria for evaluating the severity of findings identified by monitoring activities. Some audit firms do not specify the criteria for evaluating the impact and severity of findings identified by monitoring activities in each element of quality control system and each audit engagement.	The availability of proper criteria for evaluating the severity of findings identified by monitoring activities will ensure that the firms will be able to prioritize the handling of deficiencies in an appropriate and timely manner. Thus, it is advisable for the firms to clearly and properly establish the criteria or guideline on how to evaluate the severity of findings identified by monitoring activities.

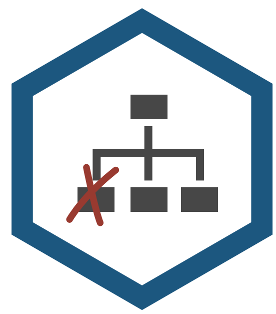
Audit Quality Indicators ("AQIs")

The SEC has been collecting the AQIs data from 19 inspected audit firms in 2016 and 2017 and subsequently analyzed the said data for the preliminary assessment of the firms' quality. In any case, each audit firm has different circumferential factors; thus, when assessing the quality of each firm, one should take into account other factors aside from the AQIs. The AQIs of interest are as follows:

(1) Senior and junior staff turnover rate

The AQIs on senior and junior staff turnover rate can be used to scrutinize the adequacy of staff within each audit firm. It can also be used in human resource planning, as in the recruitment, the task assignment and the calibration of strategy to maintain competent and capable staff with the firm. Should the firm have relatively low average turnover rate of senior and junior staff, it may exhibit that the firm is capable of retaining its staff in the long-term, which may eventually contribute to positive overall audit quality.

From the inspection of the 19 audit firms' quality control systems in 2016 and 2017, we found that the average turnover rate of senior and junior staff was 27 percent, while the average turnover rate of senior and junior staff associated with the local firms was 30 percent. The statistical data showed that most of the audit firms may have faced shortage of competent and experienced staff. The firms therefore should give precedence to establishing an organizational culture supportive to building staff loyalty. The workplace policies and workplace environment should also be revisited in response to the staff's demands.



27%
Turnover rate of assistant auditors

30%
Turnover rate of assistant auditors in local firms

(2) Average experiences of partner, manager, senior and junior staff

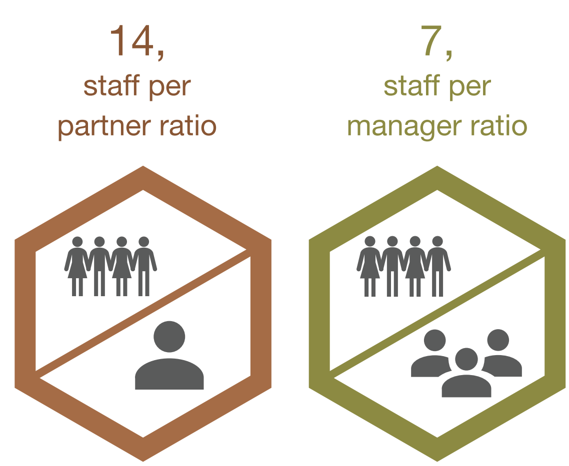
The AQIs on average experiences of partner, manager, senior and junior staff can be applied in the preliminary assessment of the engagement team's capabilities within the firm. A case in point; if the firm possesses a veteran engagement team which has undergone numerous and complex audit engagements, it is more likely that the team will be skillful and have the competence and professional skepticism necessary to proficiently perform engagements.

Out of the inspected 19 audit firms, the average experiences of partner, manager, and senior and junior staff were 25 years, 12 years, and 2 years, respectively. Senior and junior staff were evidently the ones with rather little experiences and relatively high average turnover rate. The firms therefore should emphasize the training of the senior and junior staff to ensure that they will have the necessary competency and capabilities to perform engagements. Moreover, for partners and managers to be able to thoroughly identify risks and significant issues, they should be adequately involved in every phase of the audit. The adequate involvement will also contribute to timely suggestion and consultation from partners and managers to senior and junior staff.

(3) Staff per partner ratio and staff per manager ratio

The AQIs on staff per partner ratio and staff per manager ratio in each audit firm may vary, depending on the characteristics of the firm. The appropriate staff per partner ratio and staff per manager ratio compared to the quantity and complexity of engagements will provide reasonable assurance that the personnel in each level are sufficient to proficiently perform engagements.

From the inspection of the 19 audit firms' quality control systems in 2016 and 2017, we found that the staff per partner ratio was between 4 to 41, with the average at 14, while the staff per manager ratio is between 3 to 17, with the average at 7. It is advisable that a firm with high staff per partner ratio and staff per manager ratio should establish procedures to ensure that staff in every level will be able to proficiently perform engagements. For example, increasing the involvement of partner, manager and EQCR, requiring consultation with experts, and continuously developing competence and capabilities of engagement teams.



(4) The involvement of auditor and EQCR

The AQIs on the involvement of auditor and EQCR is crucial information and generally has direct variation to the engagement quality. Experienced partner and EQCR with high professional skepticism and sufficient involvement in every step of the audit – from the planning phase, the identification of risks, the responses to the assessed risks, especially significant ones including the risks of material misstatement due to fraud, to the review of the audit work performed all the way through the issue of auditor's report – will provide the firms with reasonable assurance that their engagement teams are capable of identifying and handling risks thoroughly and appropriately. This will ultimately promote the overall quality of the audit firms.

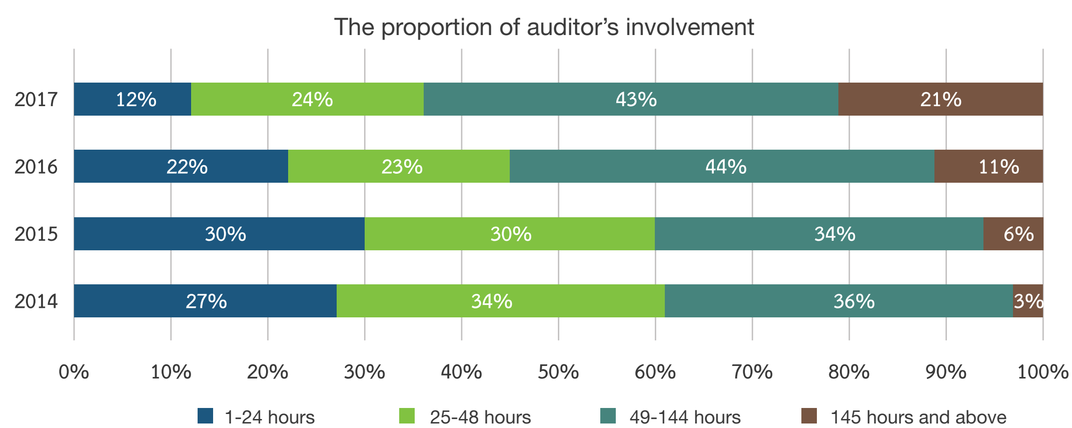


Figure 4: The proportion of auditor's involvement

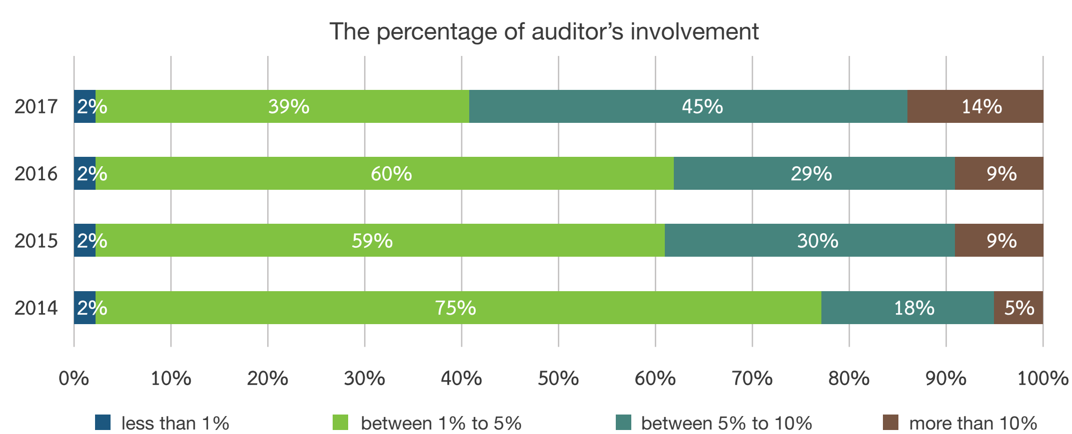


Figure 5: The percentage of auditor's involvement to the total hours

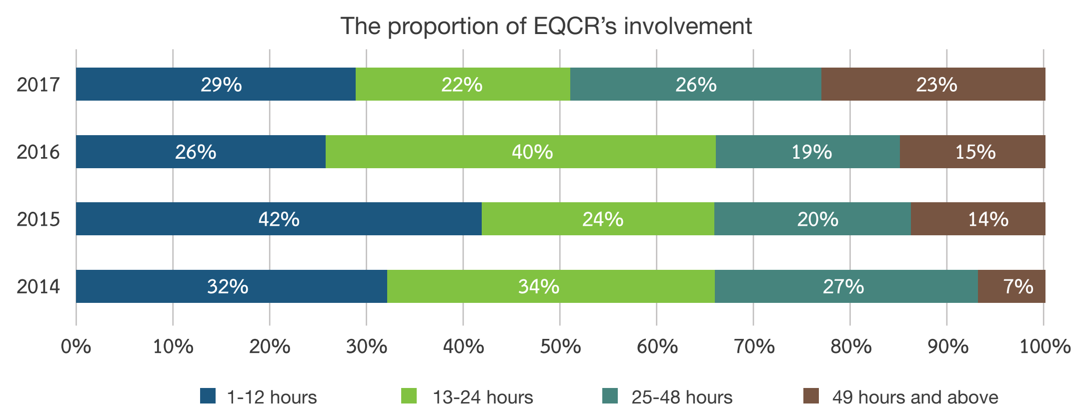


Figure 6: The proportion of EQCR's involvement

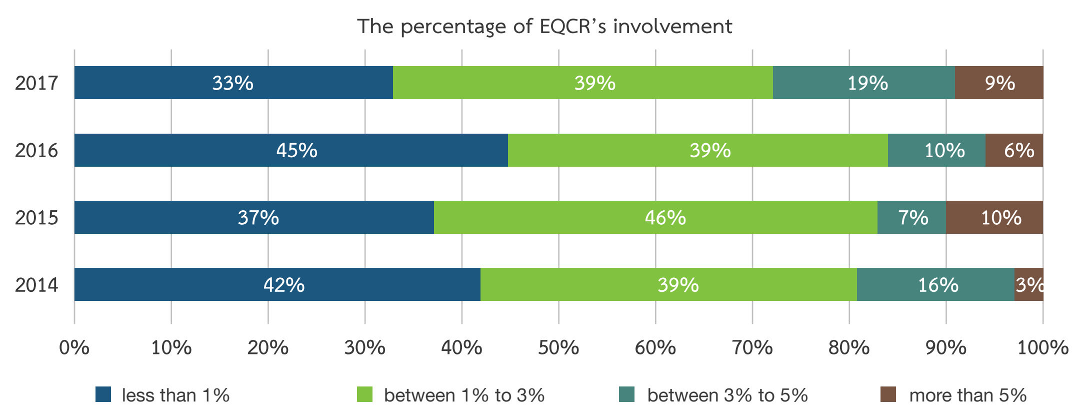


Figure 7: The percentage of auditor's involvement to the total hours

From the inspection of quality control systems in 2016 and 2017, we found that the auditor's involvement in 2016 and 2017 continuously increased from 2014 and 2015, as the number of engagements with more than 5% of auditor involvement increased from 38% in 2016 to 59% in 2017, as shown in figure 5. Likewise, the number of engagements with more than 49 hours of auditor involvement increased from 40% in 2015 to 55% in 2016 and lastly 64% in 2017, as shown in figure 4. The upward trend of EQCR involvement in 2016 and 2017 also increased from 2014 and 2015, with the number of engagements with more than 3% of EQCR involvement rising from 17% in 2015 and 16% in 2016 to 28% in 2017, as shown in figure 7. The number of engagements with more than 25 hours of EQCR involvement increased from 34% in 2016 to 49% in 2017 as well, as shown in figure 6. The more involvement of auditor and EQCR in engagements harmonized with the inspection results of individual audit engagements – a promising improvement, as shown in figure 10.

B. Engagement level

As at 31 December 2017, there were 216 active auditors in the capital market from 27 audit firms (as shown in figure 8), an increase by 19 auditors or a 10 percent rise from 2016. In 2017, the SEC inspected 80 audit engagements of 62 approved auditors in the capital market, which comprised 36 auditors with renewed approval and 26 newly approved auditors (as shown in figure 9).

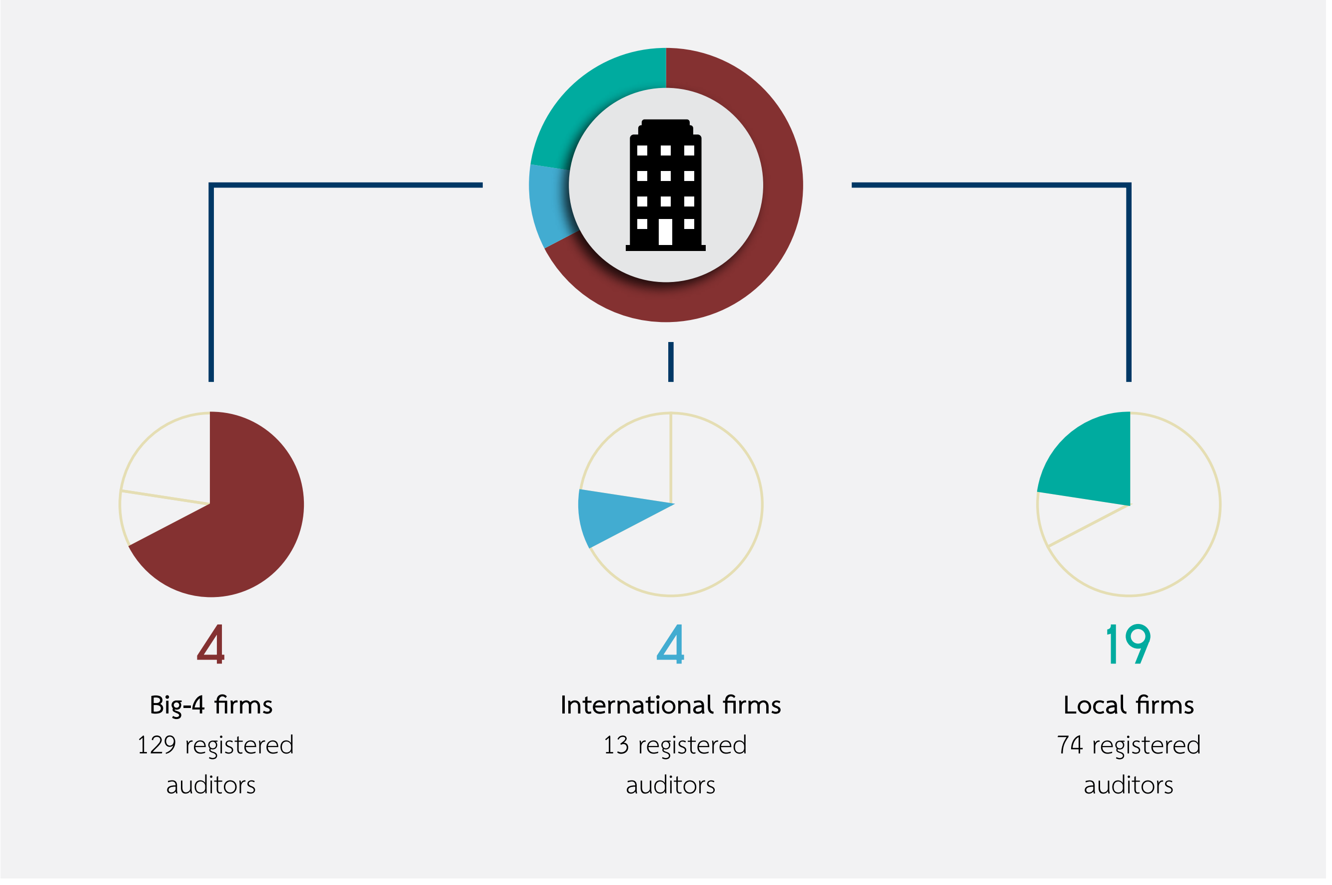


Figure 8: Number of the auditors in the capital market, categorized by type of audit firms as at 31 December 2017.

Remark: 'International firms' refers to audit firms which are members of international audit firms, bare the same names and consistently comply with the policies and procedures of the international audit firms, excluding the Big-4 firms.

Figure 9: Number of the approved auditors in 2017

It is our observation that the audit quality has been continuously improved over the years. The inspection results in 2017 (as shown in figure 10) exhibited that the portion of the SEC-approved auditors who were subject to alleviation of deficiencies and next cycle mandatory follow-up inspection accounted for 34 percent, decreasing from 43 percent in 2016. It should be noted that in 2017 no auditors were required to conduct immediate rectification. The proportion of the approved auditors without any findings accounted for 31 percent of the total approved auditors, a significant rise from 15 percent in 2016. This promising improvement stemmed from the constant perseverance and cooperation of auditors and audit firms in elevating the audit quality. Moreover, the SEC rolled out numbers of projects to support the audit firms in improving audit quality continuously, e.g., organizing seminars on exchange of ideas among local firms to support performance of root cause analysis of the deficiencies and the drafting of remediation plans suitable for each firm, and workshops on recurring deficiencies for the auditors and firms to apply in revision of audit manuals and audit programs.

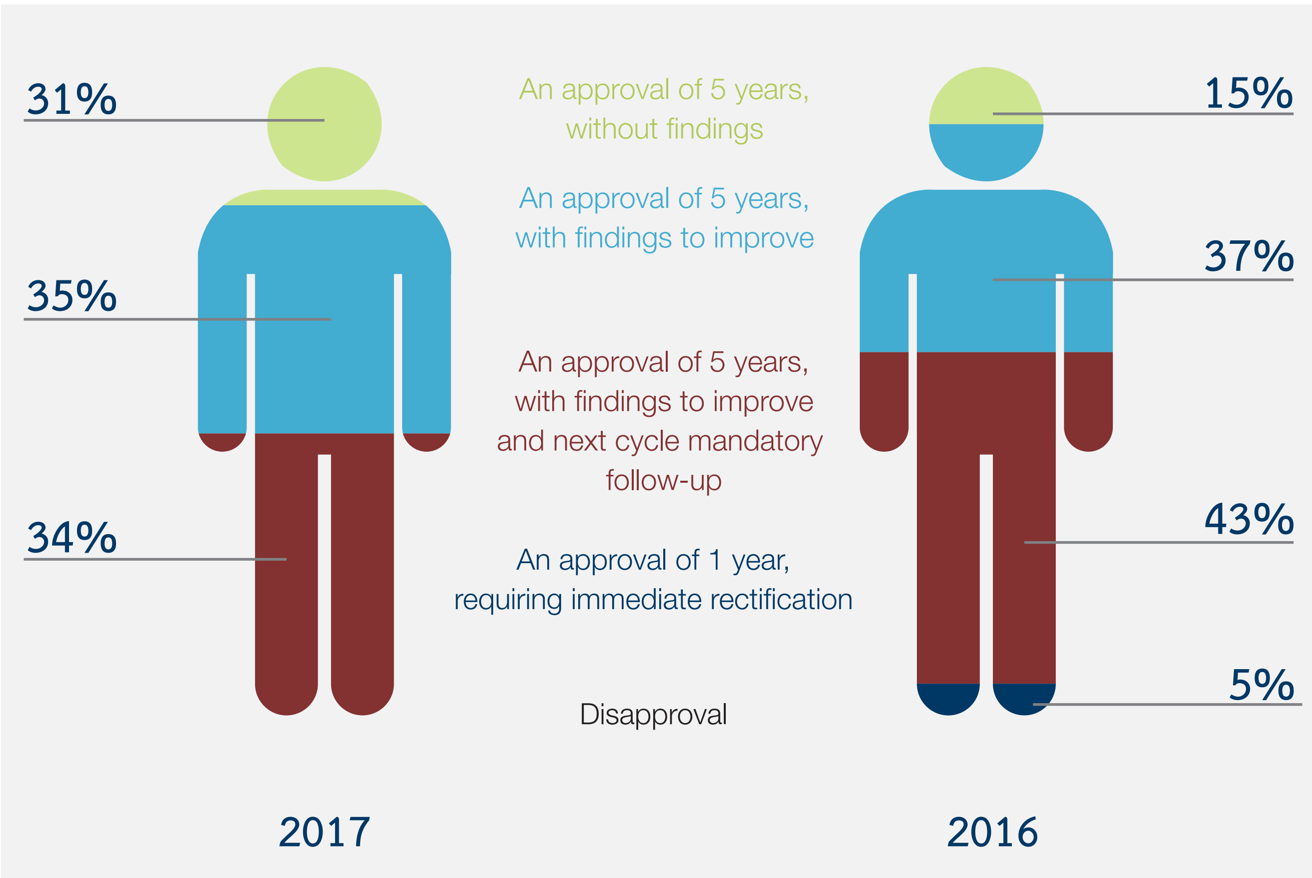


Figure 10: The inspection results of individual audit engagements, categorized by type of approval in 2017.

The scrutiny of deficiencies encountered from the inspection of workpapers in 2017 by phases of the audit showed that most of the findings had originated from substantive procedures, accounting for 96 percent of the overall audit engagements with deficiencies. One of the reasons was failure to obtain sufficient appropriate audit evidence in performing substantive procedures of intricate or high judgment transactions, which required professional skepticism and the ability to analyze the true substance of such transactions. This was because some of the current financial reporting standards were complex and required relatively concentrated interpretation, e.g., business combination and impairment of assets. As for the repeated findings from the preceding years regarding substantive procedures,e.g., journal entries, use of expert's work and audit sampling, the majority of the involved audit firms continued revising the audit manuals and audit programs, and the number of such repeated findings during the year decreased.

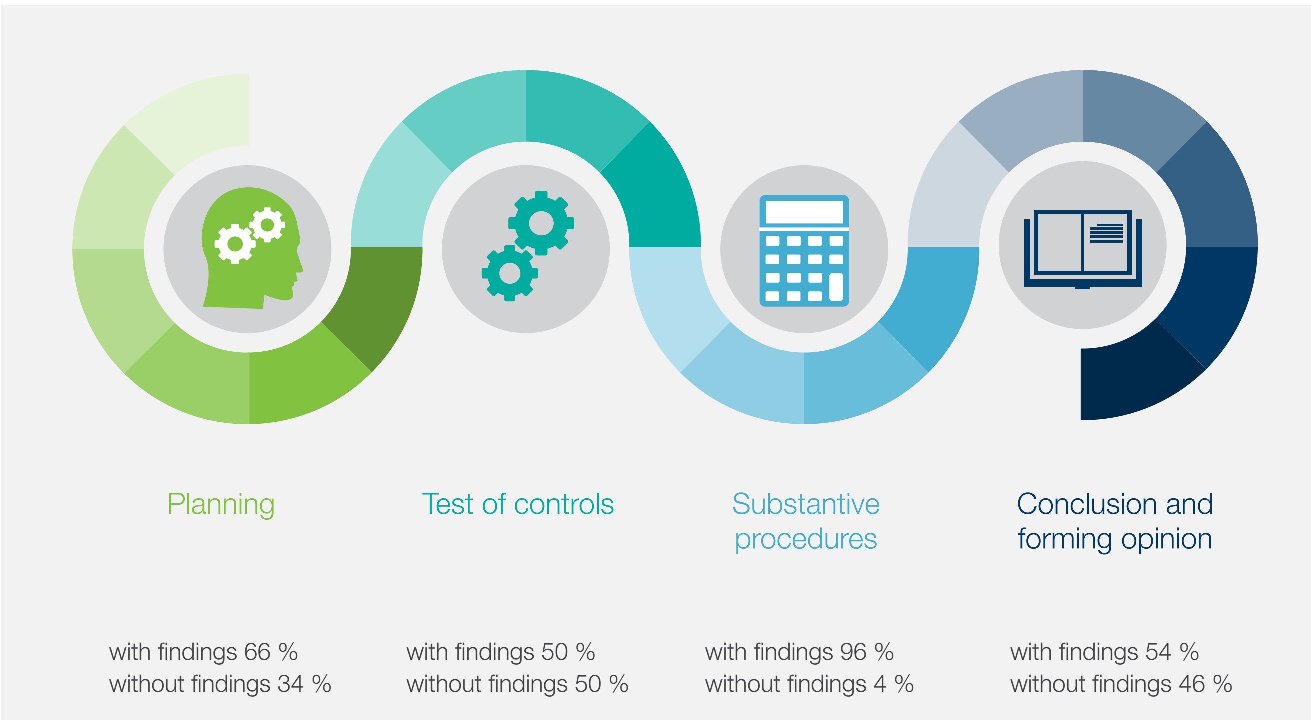


Figure 11: Proportions of audit engagement with inspection findings in 2017, categorized by the phases of an audit

The analysis on the types of inspection findings, as shown in figure 12, revealed that the recurring findings in multiple audit engagements involved the assessing of the risk of material misstatement relating to fraud, and the audit sampling. Assessing the risk of material misstatement relating to fraud in the planning phase required professional experiences and understanding in the entity in order to identify what can go wrong relating to fraud, and to appropriately design audit procedures in response to the identified risk. Moreover, the audit sampling findings were in both the test of control phase and the substantive procedures phase even though most of the firms had improved and revised their audit manuals and audit programs. This was because, in some instances, the audit manuals did not adequately determine clear-cut sample sizes and audit sampling procedures, or the firms may not have sufficiently educated their personnel on how to apply them to the audit, rendering the audit team unable to appropriately perform audit sampling.

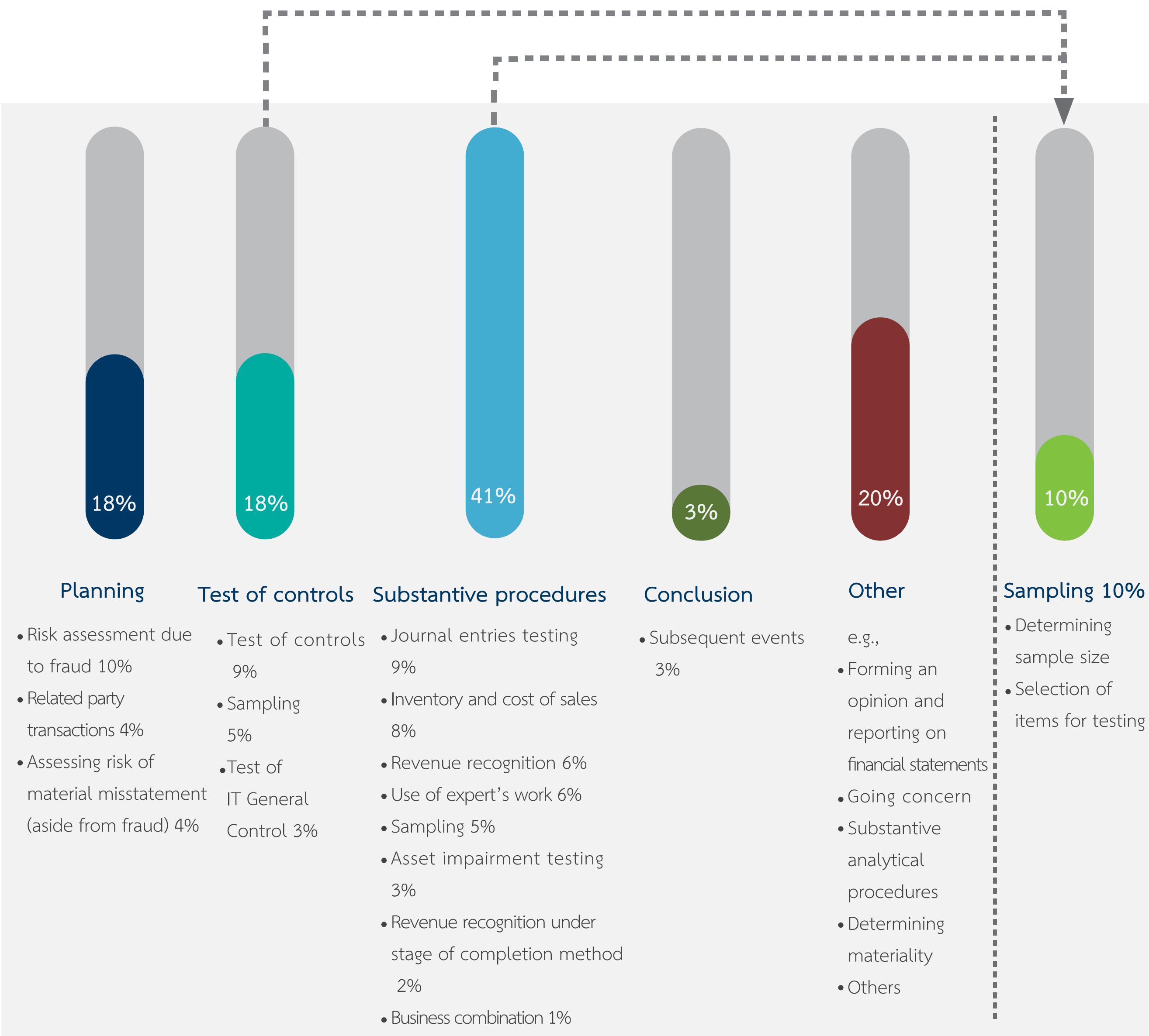


Figure 12: Types of inspection findings in 2017.

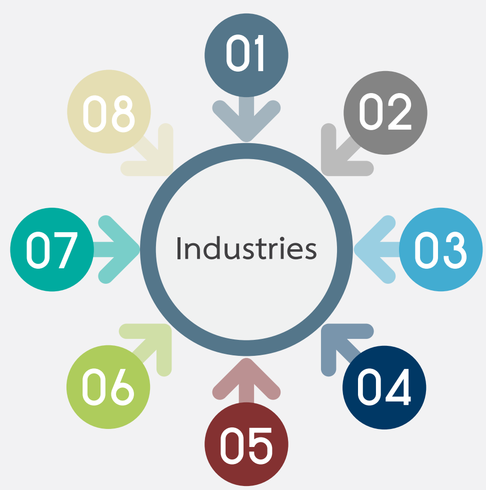
The inspection findings categorized by industries of the audit clients, as shown in figure 13, revealed that some findings were prone to be identified in certain industries, e.g., deficiencies in the audit of assets impairment were found in the entities investing in an asset with high risk of valuation decrease due to various factors, both external and internal indications. Such entities included those relating to fast changing technology and innovation, and resourcing entities heavily investing in property, plants and equipment. Furthermore, the findings in the audit of revenue under the percentage of completion method were usually found in the construction business that measured the percentage of completed work by comparing actual cost to the overall estimated cost (cost-to-cost method). The overall estimated cost required specific knowledge in assessing the reasonableness of the estimation. Findings in inventory were usually found in the agricultural and food industry because the physical characteristics of the inventory varied, e.g., rubber tree, paddy, sugar and meat. These products were more complex than industrial products or general consumer goods due to the specific valuation method of agricultural products. Moreover, the findings in the observation of the stocktaking in these industries were also identified. This represents the fact that when accepting a new audit engagement in each industry, the auditors should consider the necessity of having knowledgeable and industry-specific experienced audit teams at their disposal to obtain sufficient appropriate audit evidence.

01 Agro & Food Industry
- Inventory and cost of sales

02 Consumer Products
- Test of controls
- Sampling

03 Financials
- Revenue recognition
- Journal entries testing

04 Industrials
- Inventory and cost of sales
- Risk assessment due to fraud
- Sampling



05 Property & Construction
- Test of controls
- Sampling
- Revenue recognition under stage of completion method

06 Resources
- Risk assessment due to fraud
- Sampling
- Business combination
- Asset impairment testing

07 Services
- Risk assessment due to fraud
- Sampling
- Test of controls
- Journal entries testing

08 Technology
- Risk assessment due to fraud
- Asset impairment testing

Figure 13: Inspection findings in 2017, categorized by the audit clients' industries.

In 2017, the SEC followed up on the recurring findings in multiple audit engagements from the previous year and observed that many audit firms had revised their audit manuals. However, in some cases such attempts were inconsistent as the applications of the audit manuals were not standardized across the board. The comprehensive communication and training were therefore crucial and in the past year the SEC continuously organized workshops to tackle these issues. Moreover, in 2017 the SEC set its inspection theme for each audit engagement by focusing on the review of issues relating to complex financial reporting standards and comprehensive interpretation, e.g., business combination, impairment of assets and the revenue recognized under the percentage of completion method. In these areas the auditors were obligated to consider the requirement of financial reporting standards, obtain the audit evidence and relevant facts pertaining to the consideration of the transaction's substance which include the reasonableness of management's judgment, to ensure that the accounting treatment of the entity is accurate and proper. As such task required competency and experiences of the audit team the SEC still identified issues in several audit engagements. From the inspection of the auditors' workpapers, we identified the significant findings as follows:

Findings	Recommendation
1. Business Combination 1.1 The audit of control of the acquiree. The auditor does not obtain sufficient appropriate audit evidence to conclude whether the acquirer obtains control of the acquiree and whether the consolidated financial statements should be prepared. 1.2 The audit of appropriate recognition and measurement of business combination/ assets acquisition. • The auditor does not obtain sufficient audit evidence when determining the investment in other entities whether it should be treated as business combination or asset acquisition. The determination of the acquirer as a 'business combination,' which should comprise the input, the process, and the output, is not identified, along with the	Nowadays, listed companies tend to extend its business via investment or business combination. To ensure that the recognition of transactions and the preparation of financial reporting are in accordance with financial reporting standards, it is advisable for the auditor to obtain audit evidence and study the relevant facts, the true substance of the transaction , and the relevant financial reporting standards. In aggregating information on the obtaining of control of the acquiree, aside from evaluating the portion of shareholding and the rights to variable returns of the investee, the auditor should consider the ability to control the investee in other ways. For example, the ability to solely direct the relevant activities, the ability to appoint an investee's key management, the ability to direct the investee to enter into, or veto any changes to, significant transactions for the benefit of the investor.

Findings	Recommendation
consideration of accounting treatment of the transactions. Interestingly, the recognition and measurement between business combination and assets acquisition are distinct. • The auditor does not evaluate the impact of an incorrect recognition and measurement of entity, whereas the substance of the transaction and the documentation in auditor's workpapers lead to the conclusion that the transaction is in fact assets acquisition, but the entity discloses such transaction as a business combination and consequently goodwill is recognized. 1.3 The determination of fair values at the acquisition date. • The auditor does not obtain sufficient appropriate audit evidence regarding the fair values, the valuation of the identifiable assets acquired, the liabilities assumed at the acquisition date — the date on which the acquirer obtains control of acquiree. • The auditor does not test the reasonableness of the assumption and the valuation techniques in determining the fair values of the identifiable assets acquired, and the liabilities assumed. • The auditor does not consider the possible tax effect resulting from the temporary differences of the acquiree at the acquisition date. 1.4 The audit of reverse business acquisitions. The auditor does not completely consider significant factors in identifying the acquirer and does not obtain sufficient appropriate audit	When considering whether an investment in another entity should be treated as business combination or assets acquisition, it is advisable for the auditor to contemplate the definition of business combination as stated in the Thai Financial Reporting Standards 3 Business Combination, and take into account the three essential elements that constitute "business," namely the input, the process and the output when obtaining audit evidence. However, if the transaction or other event is not a business, the reporting entity shall account for such transaction as the asset or a group of assets acquisition. It is noteworthy that the business combination and the assets acquisition are treated with different accounting methods. TFRS 3 requires that in case of business combination, the acquirer shall determine the difference between (1) the fair values of the identified assets acquired, and the liabilities assumed, and, (2) the sum of consideration transferred, non-controlling interest in the acquiree and the fair values of the previously held equity interest in the acquiree at its acquisition date. Generally, the difference is recognized as goodwill or a gain from a bargain purchase, by attributing the purchasing price of the identified assets acquired and the liabilities assumed in each transaction based on the fair values at its acquisition date, essentially all of which will not engender the goodwill to be recognized. When determining the fair values at the acquisition date, the auditor should obtain audit evidence on the fair values and measurement of the identified

Findings	Recommendation
evidence in this matter, e.g., the comparison of the size of the acquirer and acquiree; or in case of a business combination effected primarily by exchanging equity interest, there is no documentation on the consideration of the relative voting rights or the composition of the governing body of the combined entity.	assets acquired and liabilities assumed at the date the acquirer obtains control of the acquiree. However, it is not beyond the realm of possibility that the acquirer might obtain control of the acquiree on a date that is either earlier or later than the closing date. The auditor thus should consider relevant facts and circumstances, e.g., the terms and conditions in the contract. Additionally, the auditor should verify the reasonableness of assumption or methodology applied by the expert or management to measure fair values. In the event that the auditor deems the assumption or methodology applied by the management or expert inappropriate, the auditor shall notify the management to consider the necessity of amending its assumption or methodology applied in fair values measurement. Furthermore, the tax effect arising from temporary difference of the acquiree at the acquisition date may be recognized due to business combination. The entity shall recognize and measure tax assets and tax liabilities, which is the difference, either higher or lower, between the fair values of the identified assets acquired and the liabilities assumed, and book values at the date the entity has control and power. When an entity invests in other entity, the auditor should consider whether the transaction is reverse acquisition or not. Because the substance of transaction in some cases might be the circumstances where the legal acquirer is, in fact, the accounting acquiree (i.e., the acquiree for accounting purpose). As such, the auditor shall obtain supporting audit evidence in identifying the accounting acquirer

Findings	Recommendation
2. Impairment of assets	by comparing the relative size (measured in, for example, assets, revenues or profit). In the case of exchanging equity interest, the accounting acquirer is usually the entity with the relative voting right in the combined entity or the entity with power and control in the combined entity. Additionally, the accounting acquirer is generally the entity with the ability to elect or appoint or remove a majority of the members of the governing body of the combined entity.
2.1 The auditor does not assess whether there is any indication that an asset might be impaired. Auditor thus does not design and execute the audit of impairment of assets in accordance with the Thai Accounting Standards 36 Impairment of Assets; 2.2 The auditor does not consider the appropriateness of cash generating unit ("CGU") identified by the entity to test the impairment whether it can be qualified as CGU according to the definition in TAS 36 as the aggregation of asset that is not directly related to generating cash or the aggregation of some liabilities, e.g., employee benefit or other current liabilities, to be a part of CGU may be inappropriate;	For the financial statements to present its denomination accordingly, the entity shall measure each asset as required by financial reporting standards. An entity shall regularly assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The auditor should consider circumferential fact and circumstances which could lead to doubt of impairment, by obtaining audit evidence both from external and internal sources of information. And if such indication is identified, the auditor shall consider whether the entity performs impairment test in accordance with TAS 36.
2.3 The auditor tests the impairment of assets at the level of subsidiaries' financial statements but does not test the impairment of investment in subsidiaries recognized under the cost method in the parent entity's financial statements. The auditor concludes that "the investment in subsidiaries did not impair because the recoverable amount	Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or a group of assets. If this is the case, recoverable amount is determined for cash-generating unit to which the asset belongs (where the CGU is the smallest identifiable group

Findings	Recommendation
of the investment in subsidiaries exceeded the book value of the subsidiaries under the equity method and the recoverable amount of the CGU in the subsidiaries' financial statements exceeded the book value." 2.4 When considering the appropriateness of recoverable amount which the entity used for recognizing impairment loss, the auditor considers only the value in use ("VIU"), neglecting the comparison with the fair values of asset or CGU less costs of disposal ("FVLCD") so that the higher amount could be the recoverable amount. Auditor clarifies that the management of the entity has no intention to dispose of the assets and the FVLCD cannot be reasonably measured; 2.5 The entity reverses an impairment loss but there was no documentation about the appropriateness of the impairment loss reversal which should reflect that the indications of impairment in the previous period may no longer exist in the current period or may have decreased. Moreover, the auditor does not document the consideration of recoverable amount to be compared with the book values of assets when considering whether the reversal is appropriately in accordance with TAS 36. 2.6 The auditor does not assess the integrity of information provided by the management, for example:	of assets that generates cash inflows that are largely independent of the cash inflows from other assets or a group of assets). Hence, in identifying asset with a probability of impairment, it is advisable for the auditor to assess whether the CGU identified by the management is appropriate. Because an inappropriate aggregation of some assets or liabilities which are not related to the measurement of carrying amount could result in the assessment of impairment that does not conform with TAS 36 requirements. In case of investment in subsidiaries, associates and joint ventures, even if the asset impairment is not identified at subsidiaries, associates or joint ventures' financial statements level, the auditor should assess whether those investments have any impairment indication at the parent entity's financial statements level. If yes, the parent entity shall consider whether the carrying amount of investment measured by the cost method in separate financial statements is higher than the recoverable amount of the respective investment. TAS 36 requires the entity to determine the recoverable, which is the higher of an asset's value in use and FVLCD, followed by the comparison between the recoverable amount and its carrying amount. It is not always necessary to determine both an asset's FVLCD and VIU. If either of these amounts exceeds the asset's carrying amount, it exhibits that the asset is not impaired. However, when the entity compares the asset's carrying amount with VIU and the carrying amount is the higher,

Findings	Recommendation
- The entity calculates the VIU based on the estimated cash inflow, discounted to present value, and added by the book values of other assets which are not a part of a CGU, e.g., the land not currently in use; - The entity determines VIU by discounted cashflow model, with the aggregation of expected cash inflow from the downsizing of business restructuring plan. However, there is no obtaining of audit evidence to conclude whether the restructuring plan is a commitment to restructure business as per the TAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* - The entity determines the VIU of investment in subsidiaries to be equal to the enterprise value and does not subtract loan liabilities which would have reflected the remaining amount truly entitled to the shareholders. In some cases, it is also found that the entity subtracts average loan from the enterprise value rather than the outstanding balance of loan at the end of period; - The entity determines FVLCD using the value in the report of fair values assessment by an independent appraiser. However, the auditor does not evaluate the competence, capabilities and objectivity of the appraiser who is the management's expert, nor does the auditor evaluate the appropriateness of the expert's work in terms of assumption and methodology used for appraisal.	the entity shall not conclude that the asset is impaired and subsequently recognize an impairment loss. The entity should, in contrary, consider FVLCD in order to use the higher amount to compare with the carrying amount. It should be noted that the fair values are determined by market participants aspect, and not the entity aspect. Therefore, the intention of the entity regarding the asset, e.g., lack of intention to dispose of an asset, does not Impact the determination of asset's fair values. The fact that the management does not intend to dispose of assets is irrelevant to the FVLCD determination. In the case where the entity reverses an impairment loss, the auditor should verify that the indication of an asset impairment in the previous period no longer exists in the current period, as well as verify the appropriateness of the recoverable amount used by the entity as required by TAS 36. In auditing the impairment of assets, the auditor should focus on various values used by the entity to perform test of impairment, i.e., the carrying amount, VIU and FVLCD. For example, if an asset being tested for impairment is the investment in subsidiaries presented in separate financial statements, the carrying amount to be compared with the recoverable amount is the cost of investment, not the carrying amount of subsidiaries under the equity method.

Findings	Recommendation
	In estimating the future cash inflows from investment in subsidiaries to determine the VIU of that investment, the entity should assess whether the subsidiaries will be profitable from the future operation and how much is the cashflow expected to be declared as the dividend for the entity throughout the holding period of that investment, then discount it to the present value. If the subsidiaries hold the asset that is not in use, the entity should consider whether it possesses the ability to direct the subsidiaries to sell the asset, and when. The fair values then shall be discounted to present value and subsequently aggregated into investment in subsidiaries' VIU. Additionally, in estimating the future cash inflows to determine the VIU, the entity should estimate cashflow based on the current state of the asset. The estimation of the expected cash inflow or cash outflow arising from a future restructuring which is not yet committed, or from the improvement or enhancement of the asset's performance shall be excluded when determining VIU. Likewise, the amount of cost reduction or the expected benefit from the restructuring in the future (e.g., the decreasing employee cost) shall be excluded. The auditor thus shall obtain audit evidence to consider whether the estimation of cashflow prepared by the entity also contains the component that is not specified in TAS 36.

Findings	Recommendation
	In the event that the entity includes the incremental cash inflow from the restructuring which an entity is already committed, the auditor should obtain audit evidence on the probability of such restructuring commitment. The auditor should also consider whether the entity has already subtracted the cash outflow estimation related to the restructuring. Furthermore, the auditor should evaluate the reasonableness of the assumption used by the management in preparing the DCF model, e.g., discount rate, sales growth rate, sales price, capital expenditure If the entity evaluates enterprise value, the value to which the equity holder and debt holder will be entitled, the entity shall take into account the deduction of loan liabilities from the enterprise value to reflect the residual value to which the entity, as the equity holder, will be entitled. It is noteworthy that the balance of loan at the end of the reporting period is more suitable to be deducted from the enterprise value, rather than the average loan throughout the year. In the event that the entity uses the fair values evaluated by an independent appraisal to verify the reliability of the appraisal's work, the auditor should evaluate the competence, capabilities and objectivity of such appraisal. The appropriateness of the appraisal's work as audit evidence should also be evaluated, e.g., the assumption or the methodology used in evaluating the fair values.

Findings	Recommendation
3. Revenue from construction under the percentage of completion method 3.1 Assessing the risks of material misstatement due to fraud in revenue recognition: - The auditor does not assess whether the entity might prepare falsified financial reporting in revenue recognition by recording inappropriate budget cost or actual cost, and how; - When the auditor assesses risk of fraud in revenue recognition whereby the entity may underestimate budget cost, the auditor does not specify the detail on what items are prone to be underestimated, and how; - Responses to the risk of fraud in revenue recognition are the overall response and not the specific procedures planned for audit of unusual items; - Assessing the risk of fraud in revenue recognition does not reflect the circumstances of the entity. For example, the entity determines the percentage of completion by physical observation (relying on the evaluation of the project's engineer in charge) but the auditor assesses the risk of fraud in revenue recognition as "the entity may prematurely recognize revenue by over recording actual cost and under recording budget cost."	Construction business recognizes its revenue in accordance with the Thai Financial Standards 11 Construction Contracts, based on the percentage of completion compared to the contract. The stage of completion will directly impact the accuracy of an entity's revenue recognition and its net income. Thus, it is advisable for the auditor to focus on the audit of the stage of completion. The stage of completion may be determined in a variety of ways;. such method may include: (1) the proportion that the contract costs incurred for work performed to date bear to the estimated total contract costs; (2) surveys of work performed; (3) completion of physical proportion of the contract work. The stage of completion is primary information in revenue recognition of construction business. It also extremely affects the accuracy of revenue and costs associated with construction contracts in financial statements. The consideration of the percentage of completion's reasonableness is therefore crucial. The percentage of completion is also related to the budget cost, one of the management's estimation which is exposed to the risk of material misstatement due to frauds or errors. The auditor should exercise his or her professional skepticism in determining the reasonableness of the estimation.

Findings	Recommendation
3.2 The audit of budget cost: - The auditor does not obtain an understanding of the entity's budget cost preparing and revising process, as well as relevant internal controls on preparing and revising budget cost; - The auditor does not obtain sufficient audit evidence on the audit of the budget cost even though there are indicators that the budget cost in certain projects is inappropriate. For example, the insufficient audit sampling in the budget cost audit, the audit of budget cost only in the aspect of material price but neglecting the reasonableness of the consumption or types of material; - The auditor does not obtain audit evidence when considering the estimated cost to completion to assess the reasonableness of the entity's revised budget cost. 3.3 The audit of the percentage of completion evaluated by the project's engineer in charge: - The auditor does not obtain an appropriate understanding of internal control systems related to the determination of percentage of completion, along with the methodology the project's engineer in charge uses to determine the percentage of completion; - When considering the reliability of the percentage of completion estimated by the project's engineer in charge, the auditor does not evaluate the competence and capabilities of the project's	In the audit planning phase, the auditor should give precedence to the risk assessment of revenue from construction contracts, due to both fraud and errors, as it may contribute to material misstatements. This will enable the auditor to effectively design the audit procedures and appropriately respond to the risks. The understanding obtained on the entity's internal controls and the process to prepare and revise the budget cost should also be carried out. Furthermore, if, at any point of the audit, the auditor identifies the aberrations in the data used for the percentage of completion calculation (e.g., the discrepancies between the percentage of completion estimated by the project's engineer in charge and the proportion of actual cost and budget cost, or the significant delay in construction in each phase), he or she should look for additional information. The alternative audit procedures should also be applied to respond to the risk and obtain sufficient appropriate audit evidence. In a case where the entity determines the stage of completion based on the proportion of actual cost and budget cost in revenue recognition, the auditor should emphasize the audit of the actual cost, the budget cost, and the revised budget cost reasonableness, as well as the accuracy and completeness of an expected loss on each construction contract recognition. If the construction contract is assessed by the auditor as a significant risk, (e.g., construction with a complex nature or risk of fraud on the budget cost), he or she should

Findings	Recommendation
engineer in charge, nor does the auditor consider the possibility that the project's engineer in charge may not be objective because the engineer is an employee of the entity; - The auditor does not verify the appropriateness and reasonableness of the percentage of completion performed by the project's engineer in charge; - The auditor identifies variances between the percentage of completion estimated by the project's engineer in charge and the percentage of completion calculated from actual cost and budget cost but does not investigate the cause of such variances to assess the reasonableness of the percentage of completion used by the entity in revenue recognition. 3.4 The observation of construction site: - The auditor does not observe the construction site to evaluate whether the S-curve report received from the project's engineer in charge is reliable and appropriate in order to ascertain that the percentage of completion used in revenue recognition is accurate and proper; - In case the auditor finds a circumstance that the construction may be delayed beyond the period specified in the construction contract, the auditor does not further inquire the cause from the project's engineer in charge when performing risk assessment and designing the nature, timing, and extent of the audit of budget cost, and the audit of the percentage of completion in substantive procedures.	consider the need of an auditor's expert. The evidence of customer's acceptance in the construction may also be used in evaluating the reasonableness of the budget cost and the percentage of completion used by the entity for revenue recognition. The auditor should plan substantive procedures of the data that constitute a budget cost by comparing with other information whether the budget cost prepared by the entity is appropriate, both in quantity and price aspect. As for the audit of the revised budget cost, the auditor should not only obtain an understanding of the revised budget cost preparation but also verify the reasonableness of the revised budget cost of the unfinished projects at the end of the reporting period. This can be done by considering the total actual cost and the estimated cost to completion mutually with the observation of construction site and inquiry with the project's engineer in charge. It is noteworthy that an essential method to aid the auditor in considering the reasonableness of the percentage of completion estimated by the project's engineer in charge is obtaining an understanding of how the engineer estimates the percentage of completion. Risk assessment and response will therefore be more appropriate. Additionally, the evaluation of competence, capabilities and experiences of the project's engineer in charge along with the observation of the construction site are considered pivotal audit procedures in determining the appropriateness of percentage of completion.

Root cause analysis

The root cause analysis plays an important role in facilitating the arrangement of a proper, precise and timely remediation plan of deficiencies of audit firms. Over the years, the SEC has observed that several audit firms accomplished the tackling of deficiencies thanks to the firm leaders' placing an importance on root cause analysis by entrusting a knowledgeable, competent and experienced person to be in charge of a team conducting root cause analysis. The team then laid out a remediation plan suitable for the environment and the corporate culture, prioritized the remedy by necessity and urgency, and required that the progress of the remediation plan be carried out appropriately.

However, similar recurring findings were identified from the inspection of some audit firms' quality control systems and individual audit engagements in 2016 and 2017. After conducting a preliminary root cause analysis, the SEC viewed that the inability to efficiently rectify the deficiencies may have originated from the following factors:

1. Involvement of auditors and EQCRs

The involvement of auditors and EQCRs in the audit engagements with intricate or high judgment transactions was relatively low. In such case the auditors and EQCRs may have found it challenging to identify significant findings and communicate to the engagement teams to perform additional work and obtain sufficient appropriate audit evidence as well as to timely provide recommendation.

Thus, it is advisable for the audit firms to stress the importance of their involvement to the auditors and EQCRs, especially for the audit engagements with intricate or high judgment transactions. Furthermore, the audit firms should consider taking suitable measures to ensure that both auditors and EQCRs will have sufficient involvement in audit engagement. Such measures include allocating job to each partner properly, accepting an audit engagement where the firm possesses required resources – as in manpower, competency, and experiences – and establishing a process to regularly monitor the involvement of auditors and EQCRs.

2. Consultation of significant matters with the technical team/department

Some of the audit firms did not set up a technical team or a technical department responsible for providing the engagement team with consultation on difficult or contentious matters which have not yet reached a consensus, or doubtful matters on financial reporting standards.

The audit firms therefore should establish a technical team or department which comprises knowledgeable and competent individuals in professional standards as well as specify the clear-cut scope and details of matters for which the engagement team should seek consultation. This is to ensure that the engagement team will be able to appropriately address problematic matters and reach a proper audit conclusion to issue the auditor's report that is appropriate in the circumstances.

3. Audit manuals and audit programs

Audit manuals and audit programs in some of the audit firms may not cover the audit of intricate transactions, e.g., audit of business combination, audit of the impairment of assets, and audit of revenue from construction contracts under the percentage of completion method.

Thus, it is advisable for the audit firms to entrust knowledgeable, competent and experienced individuals in financial reporting standards and auditing standards to be responsible for revising the audit manuals and audit programs to be comprehensive and in compliance with the currently enforced professional standards. The firms should also establish the manners to communicate the revised audit manuals and audit programs to the personnel at all levels, and establish the monitoring process to ensure that the engagement team has clear understanding and can apply such audit manuals and audit programs efficiently and consistently across the firm.

4. Retention of knowledgeable and competent personnel

In recent years, the declining interest of graduates in accounting in entering audit professions, combined with the overall increasing turnover rates, resulted in constant shortage of manpower in the audit firms.

Over the years, the survey results have showed that the crucial factors affecting the duration of personnel's employment with the firm include career path improvement, opportunities for learning and self-development, potential increased remuneration and working environment (e.g., decent superiors and coworkers). Those factors should be taken into consideration in formulating a strategy to attract more recruits and retain competent personnel.

Framework and focuses in 2018

The overall results of the 3rd inspection cycle regarding audit engagement and audit quality control system have demonstrated the audit firms' commitment to continuous improvement of audit engagement quality control system. We believe the active implementation of the audit quality improvement framework over the years, throughout the previous cycles, has contributed to fruitful progress of the audit firms in this matter. Furthermore, the SEC annual framework plays a role in supporting the goal of building a well-balanced financial reporting ecosystem. In so doing, we encourage related stakeholders, e.g., the boards of directors, the audit committees, and the preparers and auditors of financial statements, to get actively involved in the development of financial reporting quality; we believe stakeholders' appropriate discharge of duties is key to the sustainable development of financial reporting quality of companies in the capital market.

In 2018, the SEC will set forth a strategic framework to continuously strengthen the capabilities of the stakeholders and expand the framework to also improve the competency of internal auditors of listed companies as well because the internal control system and internal auditors are the key drivers of better quality financial reporting. The framework for improving the capacities of stakeholders in 2018 is summarized as follows:

Framework for strengthening the preparers

1. The SEC will collaborate with relevant agencies., e.g., the FAP and the Thailand Securities Institute, in organizing training sessions on the Financial Reporting Standards and preparing bookkeepers for the soon-to-be-effective Financial Reporting Standards, e.g., the Financial Reporting Standards on Financial Instrument. We also organize seminars on accounting issues arising from the review of IPO companies' financial statements for the benefit of future IPO companies;

2. The SEC will continue to disseminate insight on the Key Audit Matters ("KAMs") to provide investors with a better understanding, and subsequently optimum use of the new auditor's report. To exemplify, the use of KAMs in analyzing financial reporting and as a base for posting inquiries to the management or the auditors at the shareholders' annual general meeting. The SEC is also planning to apply KAMs to the quantitative and qualitative analysis and disseminate the results to relevant parties. The aforementioned initiatives will support the preparers in becoming more effective in discharging their duties of preparing financial reporting and assembling the supporting documents for the auditors who in turn will become more effective when performing the audit work;

3. The SEC will peruse the audit adjustment for the financial reporting in 2018 and implement the results in laying out an action plan for developing the quality of financial reporting of listed companies. For example, the FAP's opinions on accounting issues may help to address inappropriate accounting treatment affecting listed companies, or other issues that may require an interpretation of financial reporting standards. Seminars and training sessions will also be organized for the preparers;

4. The SEC will continue to host seminars on the ever fast evolving technological trends, computer software and information technology systems, e.g., accounting software and ERP software, which listed

companies with limited investment resources or in-house developers may consider to procure to improve operating efficiency. We also plan to conduct a survey on the use of information system by listed companies, the results of which will be applied to the laying out of an action plan to support the companies in this regard.

Framework for promoting company directors and the audit committees to become the key components in the quality financial reporting of listed companies

Company directors and the audit committees play an important role in directing the companies' modus operandi and promoting the management to become a pivotal mechanism in preparing quality financial reporting. This in turn will lead to the sustainable growth of the listed companies. In 2017, the SEC communicated with company directors and the audit committees to increase their awareness of their roles. We also released the CG Code as a guideline for the boards of directors to ensure that the listed companies under their oversight would operate with social and environmental responsibility. One of the CG Code principles specifies the role of the boards of directors in ensuring disclosure and financial integrity. In 2018, we will carry on this initiative by stressing the communication and organizing seminars on the essence of the CG Code principles to promote listed companies' effective adoption of the Code. In so doing, we will arrange workshops for groups of representatives from all listed companies, giving the opportunity to exchange information about the implementation of the CG Code and practical issues. Additionally, the SEC will host meet-up sessions between the SEC officials and delegates from major listed companies to further emphasize the importance of implementing and communicating the CG Code with listed companies by setting the tone at the top.

Framework for developing audit quality

The sequential inspection results of quality control systems have exhibited the continuous improvement of the overall quality control system, both at the firm level and engagement level. The majority of the audit firms have improved their quality as per the recommendations from the SEC. The remaining findings are difficult and complex matters or require time to rectify. The SEC then has modified its framework for the audit quality oversight in 2018 by focusing on the aspect of quality development and providing support to improve the quality of work. The inspection approach, both at the firm level and the engagement level, will be revised to further facilitate improvement of efficiency by specifically focusing on high-risk areas that may affect the audit quality, and establishing theme inspection for in-depth focus areas in each inspection cycle. The SEC will also communicate findings and recommendations with auditors and audit firms on a regular basis. Consequently, the remediation plan of each audit firm will be given precedence so that the firms will be able to rectify the deficiencies in time and efficiently. The framework for developing and supporting the quality of audit firms in 2018 is as follows:

1. The SEC will organize training sessions for auditors on a regular basis. Topics include practical issues arising from implementing accounting standards with a special focus on complex and intricate issues as well as the soon-to-be-effective accounting and auditing standards. In addition, the SEC plans to support

small-and-medium-sized audit firms in various areas to facilitate individual auditors of those firms to perform audit work more efficiently and effectively. In 2018, the SEC will continue to organize workshops for the local firms to educate and recommend them on how to remedy the recurring deficiencies arising in various audit firms. This initiative debut in 2017 has garnered positive feedbacks, as exemplified in the following statement: "The format and method of the workshop is useful and practical. It gives the local firms an opportunity to share insight and comments with the SEC, analyze the root causes of the findings from quality review, and try drafting a remediation plan together";

2. The SEC will establish a channel for the local firms to seek consultation on issues in auditing and audit engagement quality control to support their efforts in improving audit quality. The SEC will then delve into the consulted cases to further analyze and lay out a plan to support the local firms accordingly;

3. The SEC will support the FAP in procuring the audit tools and audit programs that the local firms can adopt and apply. Projects to develop individuals to become an EQCR or discharge the monitoring role for the local firms will also be deployed in the form of training session, for example, for experienced and qualified auditors;

4. The SEC will cooperate with the AARG to proceed with the objective to reduce at least 25 percent of deficiencies found in the inspection of listed companies, enhance the audit quality of the capital markets in the ASEAN region. In so doing, we will conduct a root cause analysis on the recurring deficiencies with large audit firms in the region as well as monitor the progress in alleviating such deficiencies on a continuing basis;

5. The SEC plans to update the auditors in the local firms on the impending impact of the technological trends, how to use data analytics tools in auditing, and how to effectively perform an audit on electronic transactions and accounting records processed by highly complex software.

Framework for strengthening the internal control systems of listed companies

The SEC foresees the benefit of a fair internal control system, which is a significant component of the financial reporting ecosystem. Prudent internal control can prevent deficiencies, resulting from both errors and fraud, and thus contribute to better financial reporting quality and sustainable growth of listed companies. In 2018, we will emphasize a framework for encouraging listed companies to implement fair internal control systems; we will communicate with the management the importance of giving precedence to the availability of fair internal control systems. Additionally, we will collaborate with the relevant agencies in developing and educating the internal auditors and the firms undertaking internal audit functions to further strengthen the internal control of IPOs issuers and listed companies.

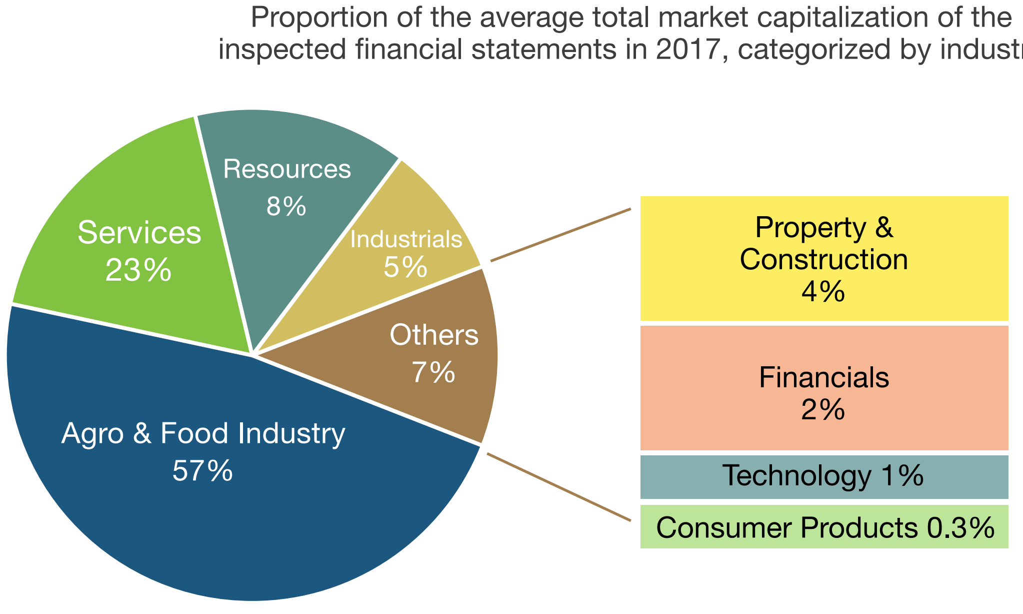
Essential Statistics

Approval of auditors in the capital market

Year	Number of applicants	Number of approved auditors		Number of rejections
		New	Renewal	
2014	46	15	29	2
2015	34	21	11	2
2016	65	26	39	-
2017	62	26	36	-

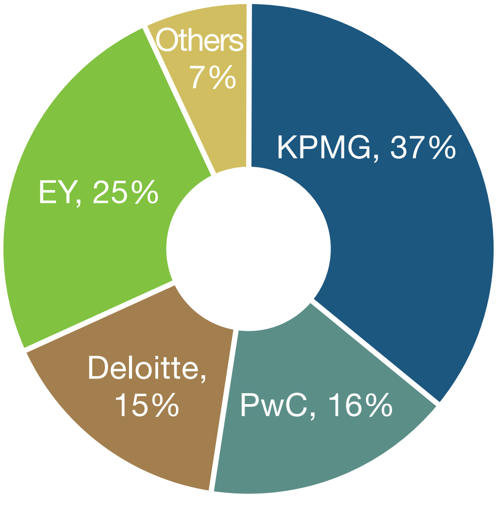
As at 31 December 2017, the ratio of listed companies to auditors in the capital market was 3.2

Proportion of the average total market capitalization of the inspected financial statements in 2017, categorized by industry



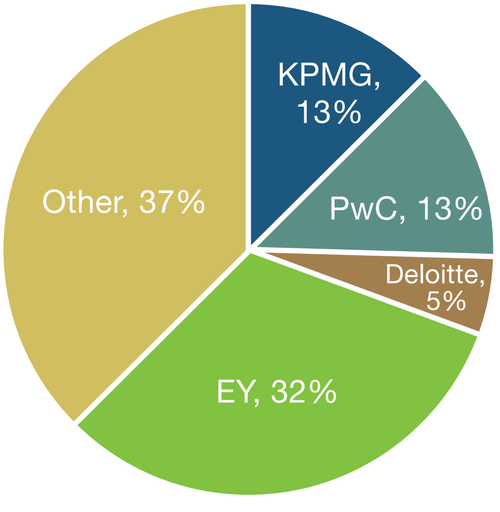
Remark: The total market capitalization of the listed companies on the Stock Exchange of Thailand as at 29 December 2017.

Proportion of the listed companies on the Stock Exchange of Thailand as audit clients of each audit firm, categorized by market capitalization



Remark: Market capitalization of the total listed companies on the Stock Exchange of Thailand as at 29 December 2017.

Proprotion of the number of the listed companies on the Stock Exchange of Thailand as audit clients of each audit firm



Remark: Number of the listed companies on the Stock Exchange of Thailand as at 29 December 2017.

Mandates to rectify listed companies' financial statements, categorized by type of issues

Unit: company

Issues	2015	2016	2017
Qualified opinion in the auditor's report due to management-imposed limitation or the financial statements and disclosures not in accordance with the Thai Financial Reporting Standards.	2	1	-
Disclaimer of opinion in the auditor's report due to management-imposed limitation.	2	2	-
Property, plant and equipment (The transfer of revaluation surplus not in compliance with accounting standards).	1	-	-
Liabilities from the issuance of bill of exchange.	-	-	1
Loan and interest income from operations.	-	-	1

Action imposed on the listed companies' financial statements

Unit: company

Mandate	2015	2016	2017
Special audit	-	-	3

Misconduct in 2017

Category	Demeanor	Measures
Auditors	Failure to comply with the requirement of professional standards.	Issuing two warning letters to the auditor and the head of the audit firm.

CONTACT INFORMATION

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