



金融監督管理委員會
Financial Supervisory Commission

2015 CPA Firm Inspection

General Inspection Report

Financial Supervisory Commission, Taiwan

April 2016

This is an English translation version of the original Traditional Chinese text. In the event of any inconsistency between this translation and the original text, the latter version shall prevail for all purposes.

I. Introduction

Article 19 of the Certified Public Accountant (CPA) Act provides as follows: "In order to safeguard the interests of the general public and promote the good of society, the competent authority may dispatch personnel to inspect the operations and operation-related financial status of a CPA firm that has been approved to provide attestation services to public companies. A CPA firm may not avoid, impede, or refuse to cooperate with such an inspection." The purpose of inspection is to ensure high quality audits, to enhance the internal quality control of CPA firms, and reduce the potential risk of audit failure. By evaluating the work performed by auditors and promoting high quality auditing, the FSC aims to raise public confidence in the audit opinions of accountants and financial reporting, and it has no punitive intent.

II. Domestic CPAs and CPA Firms:

(I) As of the end of March 2016, the number of CPAs and the distribution of types of CPA firms and practicing CPAs:

Status of CPAs	Num.	%
Approved to conduct auditing and attesting business for public company financial reports	745	10.7
Registered as practicing CPA with the competent authority	3,704	53.2
Holds CPA certificate but does not practice as a CPA	3,256	46.8
Hold CPA certificate	6,960	100

Single-person CPA firm		Joint CPA firm		Co-location CPA firm		Total
Num.	%	Num.	%	Num.	%	
1,524	77%	405	20%	51	3%	1,980

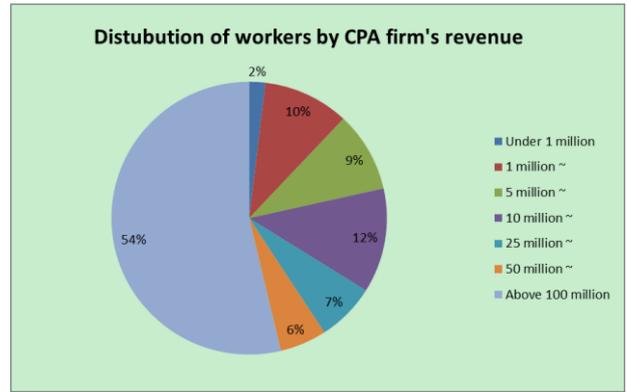
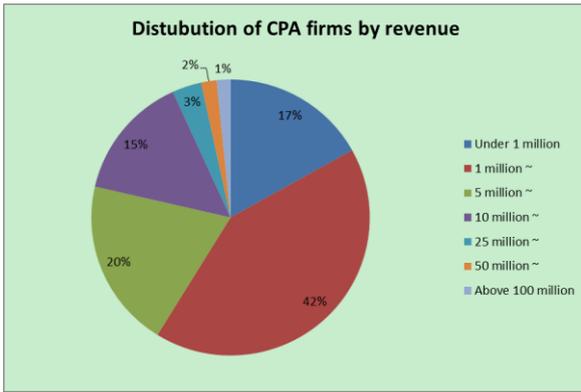
Registered as a practicing CPA with competent authority	Big four* audit firms	Mid-tier audit firms
Approved to conduct auditing and attesting business for the financial reports of public companies	323	422
Not approved to conduct auditing and attesting business for the financial reports of public companies	21	2,938

* The Big Four audit firms in Taiwan are Deloitte, PWC, KPMG and Ernst & Young.

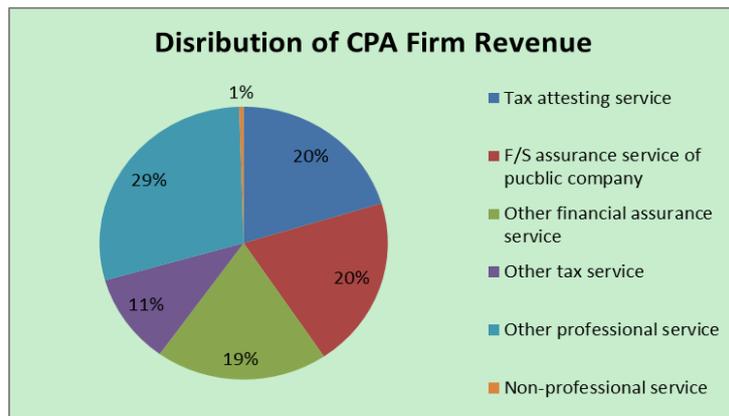
(II) According to the latest Annual Survey of the Accounting Profession of Taiwan, the revenue scale, distribution of revenue and employee related information of the 1,048 CPA firms surveyed at the end of 2014:

1. The scale of CPA firm revenue:

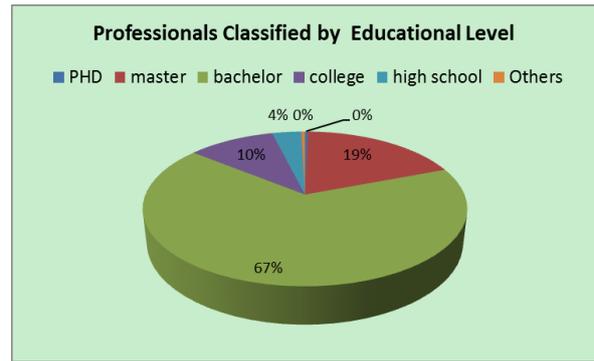
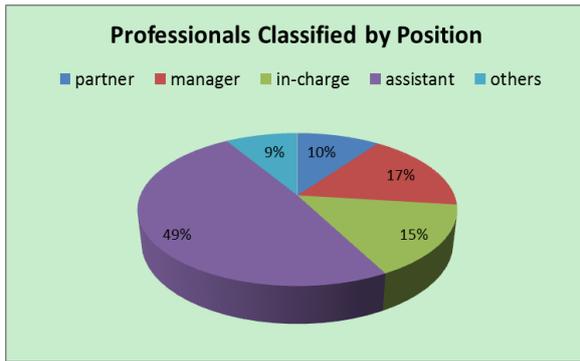
Revenue range	Num. of CPA firms		Num. of Employees		2014 Revenue	
	Firm Num.	%	Employee Num.	%	Revenue (thousand)	%
Total	1,048	100	20,334	100	28,372,446	100
Under 1 million	180	17.2	440	2.2	70,621	0.3
1 million ~	435	41.5	2,030	10.0	1,207,543	4.2
5 million ~	200	19.1	1,786	8.8	1,408,924	5.0
10 million ~	160	15.3	2,572	12.6	2,359,409	8.3
25 million ~	36	3.4	1,433	7.0	1,294,616	4.6
50 million ~	20	1.9	1,243	6.1	1,372,835	4.8
Above 100 million	17	1.6	10,830	53.3	20,658,500	72.8



- The type of CPA firm revenue: According to the Annual Survey of the Accounting Profession, the major part of firm revenue is professional service revenue in 2014 (99.2%); and non-professional service accounts for only 0.8%. In professional service revenue, the financial report assurance service of a public company, the tax attesting service, other financial assurance service, other tax service and other professional service account for 23.8%, 20.0%, 15.1%, 11.0%, and 29.3% , respectively.



- The composition of accounting professionals: There are 20,334 professionals in the 1,048 CPA firms surveyed. The professionals classified by position are assistant, manager, in-charge, partner, and others (49%, 17%, 15%, 10% and 9%, respectively). In addition, the professionals classified by educational level are bachelor's, master's/PhD, and college (67%, 19%, and 10%, respectively).



III. Inspection Findings:

(I) Inspection Principle, Focal Points, and Methodology

1. Inspection Principle: The FSC carries out audit firm inspection with a risk-based approach in terms of inspected firm and audit engagement selection. Through reviewing the work performed by auditors, the FSC requires that audit firms take necessary remedial measures to address any deficiencies found during the inspection. The FSC also provides recommendations for audit firms to improve their internal quality control system to better comply with regulations and generally accepted auditing standards (GAAS) with the aim of enhancing audit quality.
2. Focal Points of Inspections:
 - (1) Review of Quality Control System: Inspectors review firm policies, procedures, and audit engagements to assess whether the audit firm's quality control system is carried out in accordance with the requirements of the Taiwan Statement of Auditing Standards No. 46 "Quality Control for Firms" ("SAS No. 46" hereafter). The specific areas of the quality control system that inspection procedures address include the following:
 - A. Leadership responsibility for quality control within the firm (Tone at the top)
 - B. Independence
 - C. Client acceptance and continuance (risk management mechanism)

- D. Human resources (partner evaluation, compensation, admission, assignment of engagement team, and continuing professional training)
 - E. Engagement performance (engagement quality control review, consultation, and disagreement)
 - F. Monitoring (the firm's internal inspection program, communications, corrective actions, and follow-up of on identified deficiencies)
- (2) Review of individual audit engagements:
- A. Inspection focus and selection of audit engagements are planned annually with a risk-based approach.
 - B. Audit engagements are selected considering public interest, materiality, and other risk factors by the FSC without influence from or limitation by the inspected firm.

3. Inspection Methodology

(1) Review of Quality Control System

- A. Understand the CPA firm's quality control policies and procedures through interviews and related documents.
- B. Evaluate the design of the inspected CPA firm's internal quality control system.
- C. Conduct appropriate compliance tests to assess the effectiveness of the quality control system.

(2) Review of individual audit engagements

- A. Interview the engagement partner and the engagement team manager to understand risk assessment, audit focus, and audit method.
- B. Review the working papers to examine whether the audit is in conformity with the "Regulations Governing Auditing and Attestation of Financial Statements by CPAs" and the Taiwan SAS.

- C. Assess the effectiveness of the firm's quality control system through the findings of the individual audit engagement review.

(II) Limitations of the Inspection Results:

1. Due to various factors (e.g. firm size, business model, nature of its clientele, and risk management strategies), different firms adopt different policies and procedures to comply with relevant laws and regulations and fulfill professional responsibilities.
2. This FSC general inspection report should not be regarded as an endorsement of a CPA's audit, nor should it be regarded as assurance that audited financial statements are free of any deficiencies, even if there was no deficiency noted in the inspection report.

(III) Inspection Findings in 2015:

In 2015, the Financial Supervisory Commission (FSC) conducted inspections of four CPA firms. The findings are:

1. Review of Individual Audit Engagements:

(1) The working papers did not contain the following audit procedures as required under Article 22 of the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" (referred to as "the Regulations" hereinafter):

- A. The procedure of confirmation.
- B. The factors taken into account to determine materiality of the financial statements as a whole.
- C. The procedure of checking for large cash inflows and outflows.
- D. Asset impairment.
- E. The records of communication with other auditors in cases where the auditor used the audit work of others.

(2) Failed to execute the audit plan appropriately

- A. The auditor failed to use the result of understanding the entity and assessing risks of material misstatement as the foundation of designing and carrying out the audit procedures, in violation of Taiwan SAS No.48 "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment" (referred to as "SAS No.48" hereinafter).
 - B. The engagement partner did not sign the date on the working paper of the audit plan, so it cannot be determined that the audit plan was reviewed before it be executed. The firm violated Article 10、26 and 29 of Taiwan SAS No.47 "Planning an Audit of Financial Statements" (referred to as "SAS No.47" hereinafter).
 - C. In evaluating the risk of the internal control system, the auditor only ticked the degree of risk but did not document the procedure of risk assessment, as required under Article 24 and 25 of SAS No.48.
 - D. The working papers did not contain the overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed, and the linkage of those procedures with the assessed risks at the assertion, as required under Article 27 of Taiwan SAS No.49 "The Auditor's Responses to Assessed Risks" (referred to as "SAS No.49" hereinafter).
 - E. The auditor failed to include the factors considered in determining the materiality of the financial statements as a whole, as required under Article 13 of Taiwan SAS No.51 "Materiality in Planning and Performing an Audit" (referred to as "SAS No.51" hereinafter).
- (3) According to Article 32 of Taiwan SAS No.43 "Consideration of Fraud in a Financial Statement Audit" (referred to as "SAS No.43" hereinafter), the auditor should make inquiries of management and others within the entity to obtain their views about the risks of fraud and how they are addressed. It was found that the firm

only asked the accounting officer and the internal auditor.

- (4) The confirmation of account receivables was not sent by the auditor, and the working papers also did not contain the procedures to address the risks that the response may not be from the proper source, as required under Article 29 of Taiwan SAS No.38 "External Confirmations" (referred to as "SAS No.38" hereinafter).
- (5) After performing tests of controls during an interim period, the auditor did not perform the extended tests of controls over the remaining period to determine what additional audit evidence could be obtained, as required under Article 60 and 61 of Taiwan SAS No.49 "The Auditor's Responses to Assessed Risks" (referred to as "SAS No.49" hereinafter).
- (6) When performing confirmation procedures, the auditor failed to adequately document the audit trail showing the confirmation control sheet, the sending process and the sending records, as required under Article 29 of Taiwan SAS No.38.
- (7) The auditor performed analytical procedures that assist in forming an overall conclusion only at the financial statement audit planning stage, thus violating Article 23 of Taiwan SAS No.50 "Analytical Procedures".
- (8) The auditor did not check the results of inventory testing against the inventory list to find if the book quantity of an inventory was materially at variance with the actual quantity counted during the on-site inventory, as required under Article 20, subparagraph 1.5.E. of the Regulations.
- (9) When performing checks of internal controls on operating revenues, the auditor failed to include new top ten sales customers in the audit sample.
- (10) When conducting an inventory of notes delivered to a bank for collection, the auditor failed to check the supporting documents for such bank collection, as required under Article 20, subparagraph 1.3.H. of the Regulations.

(11) The auditor failed to perform alternative audit procedures when confirmations were not replied to, as required under Article 30 of Taiwan SAS No.38.

(12) The auditor did not document the audit procedures of ascertaining whether the audited entity had complied with statutory provisions related to loaning funds to others, and the auditor also failed to ascertain the status of lending funds to others of the subsidiaries. Thus, the auditor did not comply with Article 20, subparagraph 1.4.C. of the Regulations.

(13) When auditing an endorsement or guarantee, the auditor did not perform the audit procedures to verify that the audited entity had already taken the measures required by applicable regulations, as required under Article 20, subparagraph 1.20.A. of the Regulations.

2. **Review of the Quality Control System:** In review of firm audit quality system and processes, inspectors observed that the following deficiencies needed to be addressed:

(1) **Leadership responsibility for quality control within the firm:** The firm failed to establish the performance evaluation criteria that give consideration to the responsibility of personnel for the firm's quality control system, as required under Article 11 of SAS No.46.

(2) **Ethical Requirements**

A. The CPA firm only required partners sign the "declaration of impartiality and independence" but not require all auditors of the firm to do so. The "declaration of impartiality and independence" only covers the engagements of the partner, but does not include all engagements of the firm. These deficiencies constituted violations of Article 19 of SAS No.46.

B. The firm did not establish policies and procedures with specific mechanisms for the scrutiny of staff independence. Nor did the firm implement any audit procedure to ascertain auditors' independence. Hence, the firm violated Article 16 of SAS No.46.

- C. The firm failed to set out criteria to reduce the familiarity threat, and did not rotate senior personnel, as required under Article 66 of SAS No.46.
- D. The firm failed to establish appropriate procedures when breaches of independence requirements were identified, as required under Article 18 of SAS No.46.

(3) Client acceptance and continuance

- A. The firm did not finish the evaluating form nor sign the engagement letter before deciding whether to continue an existing engagement, so it cannot be determined that the firm obtained such information as it considers necessary in the circumstances, as required under Article 22 of SAS No.46.
- B. The firm failed to include the subject of client's integrity and litigation in the working paper related to accepting an engagement with a new client, as required under Article 21, subparagraph 1 and 25 of SAS No.46.

(4) Human resources: Human resources: The firm did not have policies and procedures include systems to monitor the workload, as required under Article 80 of SAS No.46.

(5) Engagement Performance

- A. The firm failed to conduct the engagement quality control review in a timely manner, as required under Article 93 of SAS No.46; and the reviewer signed the engagement quality control review report without dating them, so it cannot be determined that engagement quality control review for engagements meeting the criteria before the date of the auditor's report, as required under Article 32 of SAS No.46.
- B. The audit engagement did not complete the assembly of final files within 60 days after the date of the auditor's report, as required under Article 102 of SAS No.46.
- C. The firm did not have policies and procedures to regulate

the retrieval duration. The firm failed to fill in the return date on the retrieval form, nor did the firm return the document within retrieval duration. Hence, the firm failed to keep the control over the engagement documentation's safe custody and retrievability.

- D. The firm did not implement controls to avoid unauthorized alteration or loss of engagement documentation, as required under Article 105 of SAS No.46.

(6) Monitoring

- A. The items on the CPA firm's monitoring checklist were not entirely consistent with each element of its established quality control policies, as required under Article 112 and 113 of SAS No.46.
- B. The firm selected individual engagements for monitoring by sampling, without taking into account the results of previous monitoring procedures and the risks associated with the firm's clients and specific engagements, as required under Article 114 of SAS No.46.
- C. The firm did not have policies and procedures regarding determining what kinds the deficiencies were and what further action to take to comply, as required under Article 46 to 51 of SAS No.46.
- D. The firm failed to take follow-up procedures to address engagement deficiencies discovered by network firms and failed to incorporate it into performance evaluations, as required under Article 113 of SAS No.46.

(7) Documentation of the Quality Control System:

- A. The firm did not document the results of the monitoring of its quality control system and peer reviews, as required under Article 121 of SAS No.46.
- B. The firm did not have policies and procedures regarding the retention period for conducting internal quality control

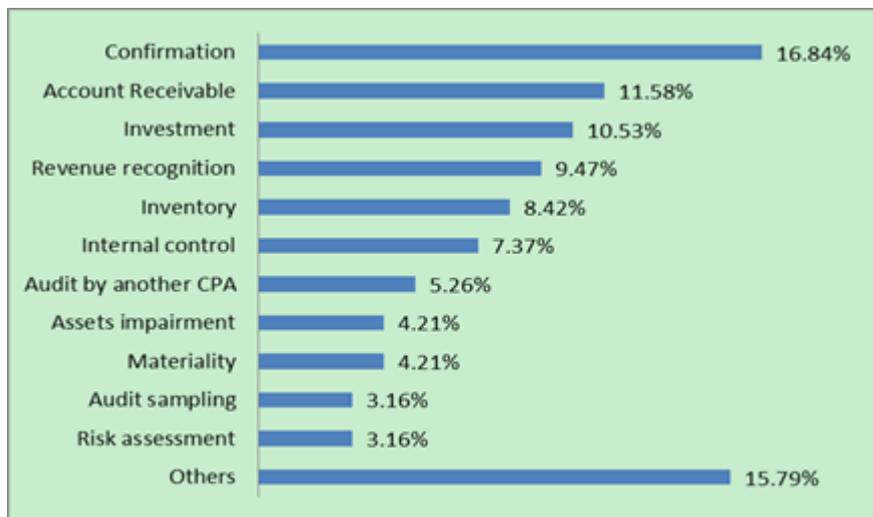
review, as required under Article 58 of SAS No.46.

(IV) Analysis of review findings 2009-2015

The FSC commenced inspection activities in 2009. In 2011, the FSC entered into Cooperative Arrangement with the Public Company Accounting Oversight Board (PCAOB) of the United States. The FSC successfully completed the first cycle of inspections on all big-four audit firms and ten medium/small size audit firms in 2012. Subsequently, the FSC began the second inspection cycle, and had inspected ten audit firms by 2015. To assure the audit firms' capability in auditing IFRSs financial reports, the FSC undertook the IFRSs thematic inspection of 54 medium/small audit firms during 2011 and 2012. The analysis of inspection findings during 2009-2015 is as below:

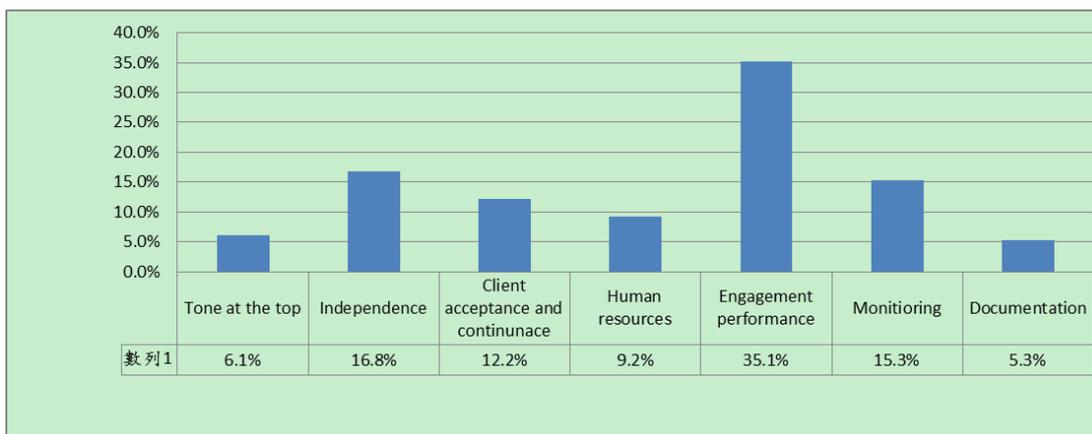
1. File review findings

Confirmation	Account Receivable	Investment	Revenue recognition	Inventory	Internal control	Audit by another CPA	Assets impairment	Materiality	Audit sampling	Risk assessment	Others
16	10	9	11	8	7	5	4	4	3	3	15



2. Firm review findings

	Tone at the top	Independence	Client acceptance and continuance	Human resources	Engagement performance	Monitoring	Documentation	Total
findings	8	22	16	12	46	20	7	131
%	6.1%	16.8%	12.2%	9.2%	35.1%	15.3%	5.3%	100%



IV. Conclusion

This general inspection report is a summary of the major findings observed from FSC's inspection conducted in 2015 and the inspection findings 2009-2015. By releasing the deficiencies, the FSC expects audit firms to undertake necessary measures to improve engagement audit quality and to comply with related regulations and the GAAS. It is also expected that audit firms will continue initiatively reviewing their audit practices to ensure high quality audits, with the aim of increasing the trust of investors in audit quality and bolstering the transparency of capital markets.

The Financial Supervisory Commission 金融監督管理委員會

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The Financial Supervisory Commission (FSC, Taiwan) was established on 1 July 2004 as the competent authority responsible for development, supervision, regulation, and examination of financial markets and financial service enterprises in Taiwan. The FSC seeks to ensure safe and sound financial institutions, maintain financial stability, and promote the development of our financial markets. Since its establishment, the main goals of the FSC have been to: create a sound, fair, efficient, and internationalized environment for the financial industry, strengthen safeguards for consumers and investors and help the financial industry achieve sustainable development.