Financial Supervisory Commission

2022 AUDIT OVERSIGHT REPORT

DECEMBER 2023

CONTENTS

2022 AUDIT OVERSIGHT REPORT

I. Overview of Audit Oversight

The audit oversight authority in Taiwan is the Financial Supervisory Commission (FSC), established on July 1, 2004, pursuant to the Financial Supervisory Commission Organization Act. The FSC is responsible for overseeing the development, supervision, administration, and inspection of financial markets and financial service enterprises. The Securities and Futures Bureau under the FSC is responsible for matters relating to the supervision, administration, and policies and regulations of the securities and futures markets enterprises. One of its key functions is audit oversight in Taiwan, including supervising the enactment of audit standards (SAS) in Taiwan, approval, and registration of certified public accountant (CPA), inspection of audit firms, and CPA discipline as well.

The FSC is also the competent authority under the Certified Public Accountant Act.

Key Audit Oversight Functions of the FSC

Supervision of Stipulation of Auditing Standards	Overseeing the Accounting Research and Development Foundation in referencing international standards to establish domestic standards.
Approval and Registration of CPAs	Managing the registration and practice of CPAs and approving CPAs to audit public companies.
Audit Firm Inspection	Annual inspections of CPA firms to understand compliance.
CPA Discipline	Taking appropriate disciplinary actions against CPAs violating relevant laws and regulations.

1. Audit Oversight in 2022

– **Supervision of Stipulation of Auditing Standards:**

The FSC supervises the Accounting Research and Development Foundation in Taiwan (ARDF) to refer to the auditing standards, review standards, assurance standards, other related services standards and quality control standards of the International Auditing and Assurance Standards Board (IAASB) when researching and revising local standards. In 2022, ARDF issued Quality Control Standard No. 1 "Quality Control for Accounting Firms" and revised relevant standards in alignment with the "General Guidelines for CPA Service Cases" issued by the ARDF Auditing Standards Committee.

– **Approval and Registration of CPAs:**

As of the end of December 2022, the number of registered practicing CPAs in Taiwan was 3,883, of which 709 (about 18.26%) were approved by the FSC to provide attestation services for financial reports of publicly traded companies. The number of registered CPA firms was 2,226, of which 59 (about 2.7%) were approved by the FSC to undertake attestation engagements of financial reports for publicly traded companies.

– **Audit Firm Inspections:**

Since 2009, the FSC has inspected CPA firms in Taiwan annually, focusing on firms' quality control systems and review of audit engagements. In 2022, the FSC inspected 2 large firms and 1 medium/small firm in total. Please refer to Part IV Firm Inspections, 2022 Firm Inspection Results for details.

– **CPA Discipline:**

The CPA disciplinary actions made by CPA Disciplinary Committee has made 5 disciplinary actions in 2022, and the number of CPAs subject to disciplinary actions is 10.

2. International Audit Regulatory Cooperation

Due to globalization, multinational corporations are actively expanding their businesses, and audit regulatory practices must therefore also adapt to an increasingly international world. In view of this, the FSC actively participates in international audit regulatory affairs. In addition to joining the International Forum of Independent Audit Regulators (IFIAR), it also maintains close cooperative relationships with audit regulators in the United States, Japan, Singapore, and other countries.

* **Served as a board member of IFIAR and actively participated in related initiatives**

The IFIAR is the largest global organization of audit regulators. The FSC joined IFIAR in 2008 and has participated in various activities and hosted the 2015 IFIAR Annual Meeting in Taipei. In 2019, the FSC was successfully elected as a board member again, actively participating in board discussions and decisions. The IFIAR Board is the highest governing body of IFIAR, currently comprising 16 board members including the US, UK, Japan, Germany, France and the FSC. The FSC is also a member of the Audit & Finance Committee (AFC) under the Board. IFIAR has 5 major working groups, including the Enforcement Working Group (EWG), Global Audit Quality Working Group (GAQWG), and Inspection Workshop Working Group (IWWG). The FSC is a member of the EWG and actively participates in the group's activities. In addition, every year the FSC also sends delegates to attend the IWWG meetings in exchange for inspection techniques with regulators from other jurisdictions.

To improve global audit quality, the FSC responded to the "25% Reduction Metric in Inspection Findings" initiative proposed by the GAQWG under IFIAR. The main purpose of this initiative is to urge, through the joint efforts of global audit regulators, the 6 largest international accounting firm networks - Deloitte Touche Tohmatsu, PricewaterhouseCoopers, KPMG, Ernst & Young, BDO and Grant Thornton, to enhance their audit quality. Currently, IFIAR members participating in this initiative include 25 countries such as the UK, US, and Japan. It utilizes the inspection reports on the global six accounting firm networks published by the audit regulators before June 2019 (i.e., results from inspections executed in 2018) as the baseline. With a comparison period over four years, it aims to decrease inspection findings 25% by 2023.By setting concrete timelines and goals, it aims to urge the six global accounting firm networks to improve audit quality within a definite period.

* **Conducted Joint Inspections with the U.S. Public Company Accounting Oversight Board (PCAOB)**

With the internationalization of capital markets, the fundraising needs of large enterprises in overseas markets have increased, and the primary overseas fundraising market for Taiwanese companies is the United States. In order to meet the regulatory requirements for Taiwanese companies listed in the US, the FSC has jointly executed inspections on accounting firms with the PCAOB since 2011 to strengthen audit regulatory cooperation. In addition to sharing inspection information, expertise and experience in inspection techniques were also exchanged.

II. Overview of the Audit Market

The following analyzes the overall landscape of the CPA profession in Taiwan from aspects including the number of CPAs, organization types and operating scales of CPA firms, based on the “2022 Survey Report on CPA Firms” published in December 2022 and relevant statistics of the FSC. The audit market share in the publicly traded company audit market is also analyzed based on market share. In addition, challenges faced by the CPA profession in recent years are explained.

1. An Overview of the Audit Market

– Number of CPAs

Table 2-1 summarizes the number of CPA certificate holders, registered practicing CPAs, and CPAs approved to provide attestation services for publicly traded companies in Taiwan for the recent 3 years. It shows that among those who have obtained CPA certificates in Taiwan, around 45% apply for registration as practicing CPAs with the Taiwan CPA Association, and around 8% are approved by the FSC to provide attestation services for financial reports of publicly traded companies.

CPA Practice Status[1]	2020		2021		2022	
	Number	%	Number	%	Number	%
Approved to Audit Public Companies	676	8%	699	8%	709	8%
Registered as Practicing CPAs	3,651	45%	3,754	45%	3,883	45%
Certificate Holders Not Practicing	4,458	55%	4,581	55%	4,669	55%
Certificate Holders	8,109	100%	8,335	100%	8,552	100%

Table 2-1: CPA Practice Status in Recent 3 years

[1] According to the Certified Public Accountant Act, ROC citizens who pass the CPA examination and obtain a CPA certificate and qualification may serve as CPAs. Those holding CPA certificates shall establish or join a CPA firm, apply for practice registration with the competent authority, and become a practicing member of the CPA association where the firm is located before, they can practice as CPAs nationwide. The financial reports of public companies shall be jointly audited and certified by 2 or more practicing CPAs of a joint or corporate CPA firm as stipulated in Article 15 of the CPA Act. Joint or corporate CPA firms shall obtain FSC approval before conducting audits and attestation of financial reports for public companies.

- **CPA Firm Types:**

Statistics at year-end for the recent 3 years show the number of CPA firms in Taiwan grew from 2,112 at end of 2020 to 2,226 at end of 2022, an increase of about 5.4%, mainly due to the increase in sole proprietorships. According to FSC statistics, as of end of 2022, CPA firms in Taiwan are still predominantly sole proprietorships and partnerships, accounting for 77% and 21% respectively.

CPA Firm Types[2]	2020		2021		2022	
	Number	%	Number	%	Number	%
Sole proprietorship	1,638	77%	1,683	77%	**1,717**	**77%**
Partnership	436	21%	449	21%	**469**	**21%**
Joint CPA Office	37	2%	37	2%	**39**	**2%**
Corporation	1	-	1	-	**1**	**-**
Total	**2,112**	**100%**	**2,170**	**100%**	**2,226**	**100%**

Table 2-2: Organization Types of CPA Firms

Note: Percentages in tables are rounded to the nearest whole number, therefore the total may not add up to exactly 100% (subsequent tables are the same).

- **Business Scale:**

According to statistics in the "2021 Survey Report on CPA Firms", there were 920 firms with a total annual business revenue less than NT$10 million (77%), indicating most CPA firms in Taiwan are small-scale operations. However, looking at the number of practicing staff and total business revenue, although there were only 16 firms (1.3% of total) with annual business revenue exceeding NT$100 million, they employed 12,933 practicing staff (58% of total) and had total business revenue of NT$25.1 billion (73.3% of total CPA industry).

Income from Professional Practice	Audit Firms		Employees		Total Income from Professional Practice in 2022	
	Number	%	Number	%	Amount (Unit NT$100 million)	%
<10 Million	920	77%	4,077	18%	31	9%
10 Million ~25 Million	191	16%	2,617	12%	29	8%
25 Million ~50 Million	54	4%	1,672	8%	19	6%
5,0 Million ~100 Million	19	2%	997	4%	12	4%
>100 Million	**16**	**1%**	**12,933**	**58%**	**251**	**73%**
Total	**1,200**	**100%**	**22,296**	**100%**	**342**	**100%**

Source: 2021 Survey Report on CPA Firms

Table 2-3: Distribution of Audit firms by income, number of firms and employees

[2] According to Taiwan's CPA Act, CPA firm types include sole proprietorship, partnership (CPAs practicing together but taking on work and liability separately), joint CPA firm, and corporate CPA firm (attestation work signed by the corporate firm and engaged CPA).

2. Audit Market of Public Companies

According to the CPA Act and relevant regulations, the financial reports of public companies shall be audited and certified by 2 or more practicing CPAs of a partnership or incorporated CPA firm as stipulated in Article 15 of the CPA Act. Before undertaking attestation engagements on financial reports of public companies, a partnership or incorporated CPA firm must first obtain approval from the FSC. As of the end of December 2022, the number of CPAs and CPA firms approved by the FSC to provide attestation services for financial reports of public companies were 709 and 59, respectively. The number of companies served, and scales (market capitalization and paid-in capital in NT$) are as follows:

CPAs and firms Approved for Public Company Attestation (as of Dec 31, 2022)

709 CPAs

59 CPA Firms

Number and Scales of Public Companies in Taiwan (as of Dec 31, 2022)

1,779 Listed Companies	+	**785** Emerging Stock Companies and Public Companies
NT$486 Trillion Market Capitalization		**NT$13.9** Trillion Paid-in Capital

The table above shows that as of end of 2022, the financial reports of 2,564 public companies in Taiwan were audited by 59 CPA firms. Looking at firm scales, nearly 90% of public companies' financial reports were audited by the Big 4 CPA firms. Table 2-4 summarizes the market share of CPA firms providing attestation services for public companies in Taiwan. The market share of large, medium, and small firms was 89%, 6% and 5% respectively. The Big 4 market share is 99% for the S&P 500 in the US and 97% for the FTSE 350 in the UK, showing a comparable situation to Taiwan with concentration of public company attestation services at the Big 4 firms.

	Listed	OTC	Emerging	Public	Total
Large (Big 4)	90%	87%	96%	84%	89%
Medium	6%	6%	3%	7%	6%
Small	4%	7%	1%	9%	5%

Table 2-4: Market Share of Public Company Attestation

Large CPA firms are those providing attestation services for 100 or more public companies; medium CPA firms provide attestation services for 10 to 100 public companies; small CPA firms provide attestation services for less than 10 public companies. The Big 4 large CPA firms are Deloitte Taiwan, PwC Taiwan, KPMG Taiwan, and EY Taiwan.

3. Emerging Challenges Faced by the Audit Industry in Taiwan

In addition to intense internal competition, the CPA industry has also faced various challenges in recent years due to changes in the external economic environment and other factors. Based on understanding from CPA firms, this section summarizes the challenges and difficulties faced by the CPA profession in recent years, firms' responsive measures, and recent development goals and plans, as follows:

- **Emerging Issues Raised:**
- **Increased Audit Cost:**

  Factors including changes in audit environment and increasing regulatory requirements (e.g., increased complexity from joint auditor system for public companies, tightened deadline for public companies' financial reporting, adding pressure on audit timeline) have led to increased audit costs, while audit fees have not increased correspondingly.

- **High Turnover Rate:**

  The audit industry is labor-intensive. Rising staff turnover rates in the CPA profession, coupled with difficulties in recruiting talent due to long working hours and remuneration issues, have impacted firms' human resource management. Moreover, the current labor force cannot meet the rapidly growing demand for ESG-related services.

- **Firm's Responses to the Challenges and Recent Development:**
- **Reduce the Turnover Rate of Personnel and Attract Talent:**

  Measures include implementing flexible work models (hybrid remote and physical work modes becoming the norm), raising salaries, or improving employee benefits to enhance remuneration competitiveness, adjusting promotion criteria to accelerate promotion of top performers, expanding talent recruitment (e.g., internship programs with universities or giving lectures to share practical experience).

- **Using Technology to Enhance Efficiency and Provide Differentiated Services:**

  Utilizing digital tools such as robotic process automation (RPA) and analytic process automation (APA), confirmation system, etc. to improve audit efficiency and provide differentiated services, while continuing to invest in developing innovative services.

- **Training or Recruiting Professionals in Response to the Increase in Demand for Sustainable Reporting and Assurance Services:**

  Strengthen strategic partnerships in the ESG ecosystem, expand ESG-related assurance and consulting services.

III. Audit Quality Information

Audit quality is the core value of the auditing profession. In recent years, there has been increased international focus on measuring audit quality, especially via Audit Quality Indicators (AQIs). AQIs are quantitative metrics that measure audit quality. Currently, countries like the United States and Canada encourage accounting firms and audit committees to use AQIs. Taiwan has also adopted international practices by releasing the "Audit Quality Indicators (AQI) Disclosure Framework and Template" on August 19, 2021. It covers 5 aspects and 13 indicator items related to professional competence, quality control, independence, oversight, and innovation. It encourages the Big 4 accounting firms to voluntarily provide AQI information when appointed for the 2023 financial statement audit engagements of TWSE/TPEx listed companies, to serve as a reference for audit committees in evaluating (re)appointment of auditors.

To assist audit committees in effectively interpreting AQI information, the FSC released the "Guidance for Audit Committees on Understanding Audit Quality Indicators" on June 29, 2022. Audit committees are able to refer to the background explanations for each AQI indicator to gain understanding of auditing practices, then further interpret the relevance to audit quality in conjunction with the measurement focuses of each AQI indicator, to strengthen communication and discussion with the accounting firm. To ensure consistency and comparability of AQI information provided by accounting firms, which enhances the usefulness and reference value, the FSC also concurrently released the "Guidance for Accounting Firms on Preparing Audit Quality Indicators". It provides clear definitions and calculation guidance for the detailed AQI metrics, serving as an important basis for accountants and firms in preparing AQI information.

Considering the Big 4 firms audit close to 90% of public companies in Taiwan and, therefore, have a significant impact on audit quality, the FSC has been requesting them to provide audit quality related information since 2019 to assess reasonable ranges for the various indicators or related information to serve as supplementary audit supervision reference. The FSC has requested the Big 4 firms to provide relevant audit quality information with reference to the AQI indicators issued by the FSC:

- **Professionalism:**

  Ratio and turnover of managers, ratio of professional support staff, years of professional experience of CPAs and senior staff, hours of professional training.

- **Quality control:**

  CPA workload and ratio of manager hours spent on audits, ratio of hours spent on engagement quality reviews, capabilities of quality support.

- **Independence:**

  Audit client retention and audit fees.

- **Monitoring:**

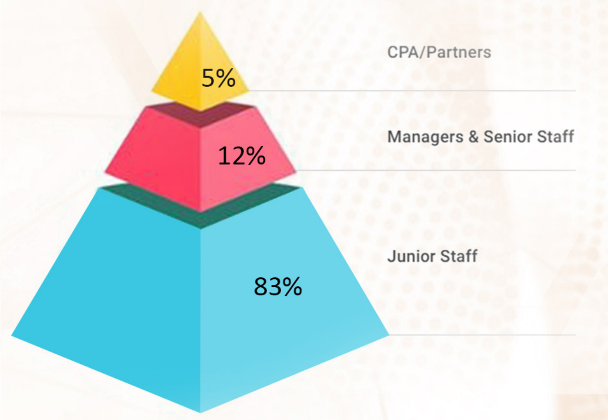
  External inspection findings and disciplinary actions, ratio of issues raised by regulators.

It should be noted that currently there is no consistent definition of audit quality, and no single indicator can fully reflect a firm's audit quality. Therefore, data should be interpreted with care, and audit quality should not be judged solely based on a single data point.

1. Professionalism

- **Proportion of Managers**

  Audit staff of a firm can be broadly classified into 3 levels: CPAs (partners), managers and senior staff, and junior staff. Based on information provided by the Big 4 firms, the average ratios of CPAs, managers and senior staff, and junior staff in 2021 were 5%, 12% and 83% respectively, showing a pyramid structure, with managers comprising 17% on average.



Managers typically have over 5 years of auditing experience and are responsible for leading engagement teams and supervising junior staff, so their competence and number significantly influence audit quality. Therefore, the ratio of managers to total audit staff can appropriately reflect audit quality. The chart below shows that CPA/partner ratios ranged 4-6% among the Big 4, without significant variance. For managers and senior staff, ratios ranged from 10-17% among firms, with noticeable differences. This may arise from different requirements on years of experience or qualifications for managers, or overall differences in firm size.

Chart 1: Composition of Big 4 Staff

– **CPA's Professional Experience**

CPA professional experience also affect audit quality. The table below uses years as CPA/partner since becoming partner as a metric for CPAs' professional experience. On average, the lead CPAs auditing Taiwanese public companies have around 11 years of experience as partner. Data also shows professional experience of CPAs does not vary significantly among the Big 4 firms.

	Firm A	Firm B	Firm C	Firm D	Average
2021	**11**	**10**	**13**	**12**	**11**
2020	11	11	13	10	11
2019	11	11	13	9	11

Table 3-1-1: Average Professional Experience of CPAs in Big 4 Firms

– Professional Training hours

Professional training helps improve auditors' competence. Article 5 of Taiwan's CPE Regulations for CPAs requires CPAs providing attestation services for public companies to complete at least 40 CPE hours annually. The table below summarizes the average training hours per audit staff in the Big 4 firms in 2021, including CPAs, managers and above, and junior staff. The overall average was 95 hours per person, about 2.3 times the legal requirement for CPAs, representing an increase from the 86-hour average in 2020.

	Firm A	Firm B	Firm C	Firm D	Average
2021	**86**	**104**	**101**	**85**	**95**
2020	72	94	87	109	86
2019	85	83	91	95	87

Table 3-1-2: Audit Staff Training Hours

– Attrition Rate

Managers and above are normally responsible for leading engagements and supervising junior staff, so their competence and numbers significantly influence audit quality. Therefore, turnover rates of these senior staff can indicate whether a firm maintains adequate experienced resources. Aggregating data for 2021 shows the average turnover rate for senior managers and above (excluding partners) was 16.8%, representing an increasing trend compared to 12.7% in 2020.

	Firm A	Firm B	Firm C	Firm D	Average
2021	**11.2%**	**16.4%**	**17%**	**22.7%**	**16.8%**
2020	12.7%	10.5%	14.6%	8.9%	11.7%

Table 3-1-3: 2021 Turnover Rates of Senior Managers and Above in Big 4 Firms

– Professional support

Professional support staff possess expertise in areas to support audit engagements, such as knowledge management or risk management, but excludes those in non-audit functions like tax or widespread support functions like HR and IT. CPAs may require various expertise during financial statement audits, like valuation, IT audit or legal consultation. Therefore, adequate professional staff (excluding audit staff) to support engagement teams should contribute to audit quality of financial statements.

The table below shows the ratio of audit staff supported per professional support staff in CPA firms. On average in 2021, each professional support staff member supported around 22 audit staff for financial statement audits, slightly improved from the 25-audit staff per support staff in 2020, indicating firms' continued efforts in enhancing professional support personnel.

	Firm A	Firm B	Firm C	Firm D	Average
2021	**12**	**52**	**39**	**36**	**22**
2020	14	52	51	39	25
2019	21	51	58	29	87

Table 3-1-4: Number of Audit Staff Supported Per Professional Support Staff

2. Quality Control

"Quality control" measures firms' and CPAs' audit quality control capabilities. Relevant indicators include CPA workload, audit input, engagement quality review implementation, and capabilities of quality review staff, covering 4 metrics.

– CPA workload

CPA workload is closely related to their audit quality control capabilities. Excessive workload at firm level, such as auditing many public companies as lead CPA or high ratio of time input, may indicate overloading and negatively impact audit quality. At the engagement level, CPAs' time input on each audit engagement may vary significantly depending on the size, risks, and complexity of the public company client. Therefore, assessing CPA workload should consider both the number of audit clients and ratio of time input, rather than just the number of audit clients.

	Firm A	Firm B	Firm C	Firm D	Average
2021	**6.9**	**8.3**	**6.4**	**6.1**	**6.9**
2020	7.5	8.6	6	5.6	6.9

Table 3-2-1: 2021 Public Company Audit Clients per CPA in Big 4 Firms

The table shows in 2021, CPAs in the Big 4 firms on average audited around 7 public companies as lead CPA, with no notable change from 2020. Their average ratio of time input was 52%, also similar to 2020, indicating no excessive workload for CPAs in the Big 4 firms that could compromise audit quality.

	Firm A	Firm B	Firm C	Firm D	Average
2021	**56%**	**55%**	**60%**	**35%**	**52%**
2020	71%	52%	59%	28%	52%

Table 3-2-2: 2021 Ratio of CPA Time Input on Audits

– Involvement

The competence of audit staff and time input are key factors influencing audit quality. As audit staff competence is difficult to measure objectively, the composition of experienced staff is used as an alternative metric. A higher ratio of input from CPAs and senior managers should positively impact audit quality. The table below shows that in 2021, CPAs and managers on average contributed 19% of total audit hours in the Big 4 firms, increasing from 16% in 2020.

	Firm A	Firm B	Firm C	Firm D	Average
2021	**19%**	**15%**	**25%**	**17%**	**19%**
2020	12%	19%	23%	11%	16%
2019	11%	12%	20%	11%	13%

Table 3-2-3: Ratio of Input from CPAs and Managers

– Engagement Quality Control Review

TWSQC1 requires engagement quality reviews (EQR) for audits of TWSE/TPEx listed companies, which should be completed before the audit report date. More time spent on EQRs should positively impact audit quality. Therefore, the ratio of EQR hours to total audit hours can appropriately reflect audit quality.

The table below shows the ratios of EQR hours for TWSE/TPEx company audits in the Big 4 firms. Overall, in 2021, the average ratio was around 1.23%, increased from 0.85% in 2020.

	Firm A	Firm B	Firm C	Firm D	Average
2021	**1.23%**	**1.30%**	**1.40%**	**1.00%**	**1.23%**
2020	0.95%	0.70%	1.16%	0.42%	0.85%
2019	0.83%	1.00%	0.97%	0.42%	0.85%

Table 3-2-4: Ratio of Engagement Quality Review Hours

Although TWSQC1 only requires EQRs for TWSE/TPEx company audits, 3 of the Big 4 firms perform EQRs for all public company audit engagements, demonstrating their commitment to audit quality.

3. Independence

The "independence" indicators measure whether firms and CPAs maintain independence in mindset and appearance when conducting audits to ensure. Relevant indicators include the ratio of non-audit fees and client retention.

– Non-Audit Service Fees

CPAs' ability to maintain an objective and independent stance during financial statement audits is key to audit quality. Currently, besides audit services, CPAs also provide other non-audit services, so their fees comprise both audit and non-audit service fees. The level and composition of fees may impact CPAs' independence. If the non-audit fee ratio is too high for a firm, it may affect the independence of CPAs providing financial statement attestation services. Therefore, EU Regulation 537/2014 prohibits non-audit fees paid by a public company and its affiliates to accountants and affiliated firms from exceeding 70% of the average audit fees paid in the preceding 3 years. Overall, the average ratio of non-audit fees to total fees for the Big 4 firms' audit clients in Taiwan ranged 22-32% in 2021, representing an increasing trend from the 22% average in 2020, but like 2019 the ratios are not considered excessive compared to international standards, so the impact of non-audit revenue on audit independence does not appear significant currently.

	Firm A	Firm B	Firm C	Firm D	Average
2021	**29%**	**26%**	**32%**	**22%**	**27%**
2020	20%	26%	26%	14%	22%
2019	26%	27%	34%	14%	27%

Table 3-3-1: 2021 Non-Audit Fee Ratios in Big 4 Firms

Note: Non-audit fees include fees for services other than audits, mainly tax attestation and consulting services.

– Familiarity

Auditors' familiarity with a client (familiarity threat) may impact their independence when conducting audits. Familiarity can be measured by the consecutive years the same CPA or firm has audited a client. Therefore, many countries have CPA and/or firm rotation requirements for public company audits. TWSQC1 paragraph 68 requires rotation of the lead CPA for TWSE/TPEx company audits after several years (typically no more than 7 years), with a cooling off period of at least 2 years) before returning as lead CPA. Currently however, Taiwan has no rotation requirement at the firm level.

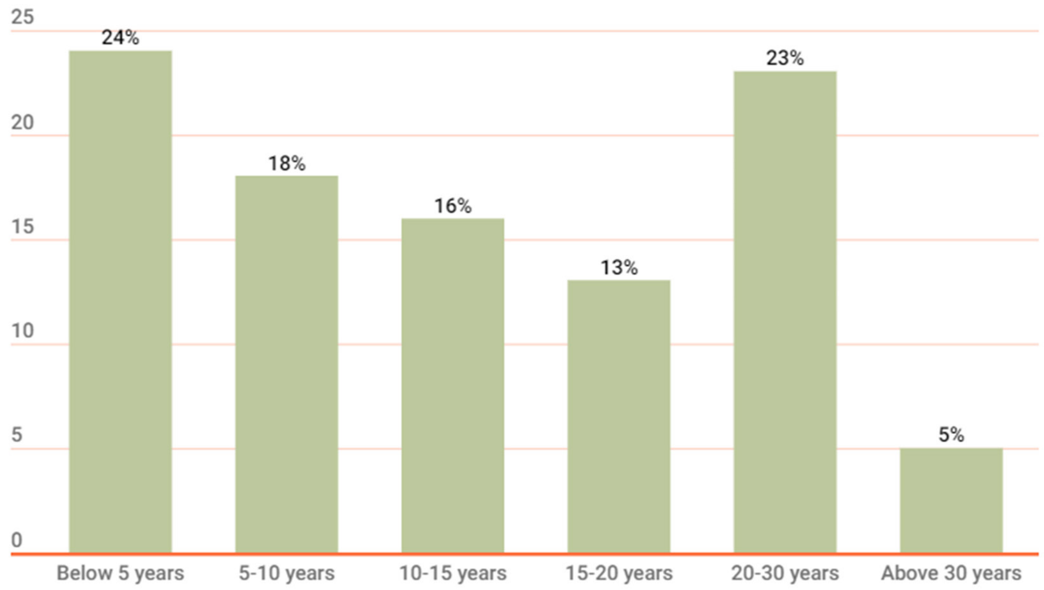


Chart 2: Experience Profile of Big 4 Audit Teams

The chart above shows around 28% of the Big 4 firms' 2021 public company audit clients had been audited by the same firm for over 20 consecutive years, indicating nearly 30% of engagements have been audited long-term by the same firm. The FSC will continue monitoring the impact of such long auditor-client relationships on independence. The table below also shows differing client retention profiles among the Big 4 firms.

Consecutive Years	Firm A	Firm B	Firm C	Firm D
5 years or less	22%	23%	29%	18%
5 - 10 years	19%	23%	14%	17%
10 - 15 years	15%	22%	15%	8%
15 - 20 years	15%	11%	12%	19%
20 - 30 years	25%	15%	24%	32%
Over 30 years	4%	5%	5%	7%

Table 3-3-2: Audit Client Retention in Big 4 Firms

4. Monitoring

Oversight indicators measure inspection findings and disciplinary actions taken by regulators against firms and CPAs, reflecting the actual audit quality outcomes. Therefore, they can also provide references for assessing audit quality. This indicator consists of two items, including external inspection deficiencies and penalties (e.g., disciplinary actions against accountants and penalties in accordance with Article 37 of the Securities and Exchange Act), and the number of improvement letters issued by the competent authorities.

– External Inspection Results and Enforcement

In addition to firms' and CPAs' self-discipline and internal controls, maintaining audit quality also relies partly on external supervision. Therefore, audit regulators in most countries have measures like firm inspections, disciplinary actions, and sanctions against CPAs. The table below summarizes the Big 4 firms' inspection findings by the FSC and the US PCAOB in the past 3 years (shown as ranges), and the number of disciplinary/sanction cases ruled by the FSC against CPAs based on the CPA Act or Securities and Exchange Act:

Firm Inspection	2022	2021	2020
Quality Control Deficiencies	2	0	1 - 4
Audit Deficiencies per Engagement	0.48	0	0.3 - 1
PCAOB Firm Inspections	**2022**	**2021**	**2020**
Audit Deficiencies per Engagement	0	0	0 - 1.3
CPA Discipliary Actions	**2022**	**2021**	**2020**
Disciplinary and Sanction Cases	3	1	4

Note: Neither the FSC nor the PCAOB inspected any of the Big 4 Firms in 2020.

Table 3-4-1: FSC, PCAOB Findings and CPA Disciplinary Cases in Recent 3 Years

– Notices Issues by the Authorities

The FSC, TWSE and TPEx oversee Taiwan's capital markets and regularly review the financial reports of TWSE/TPEx listed companies. Any auditing or review deficiencies requiring are communicated to the CPAs/firms via official letters. Therefore, the "ratio of issues raised by regulators" serves as an important external oversight indicator, calculated as the number of deficiency letters issued by regulators for a CPA's audit or review of TWSE/TPEx company financial reports in a year, divided by the number of TWSE/TPEx companies audited or reviewed by the CPA that year. Aggregating data for the most recent 3 years shows the Big 4 firms' average ratio of regulatory deficiency letters was 0.38%, arising from a single firm. The 2022 average increased from 0.15% in 2021 but was lower than 0.42% in 2020. Based solely on this metric, the Big 4 firms' audit quality appears to have declined.

Year	A	B	C	D	Average
2022	**0.30%**	**0.00%**	**0.80%**	**0.58%**	**0.38%**
2021	0.00%	0.00%	0.00%	0.59%	0.15%
2020	0.00%	0.00%	0.00%	1.20%	0.42%

Table 3-4-2: Ratio of Regulatory Deficiency Letters

5. Conclusion

– Audit Firm Professionalism

The ratio of managers (and the above) and CPA of the Big Four accounts for about 17% of the total manpower of the firm, and staffs account for 83%. Each manager supervised about 5 audit staff. In 2021, the average years of experience as partner for lead CPAs signing public company audits was 11 years, the same as 2020, indicating stable promotion mechanisms in the firms.

Regarding professional training and support, in 2021 the Big 4 firms' audit staff received 95 training hours on average, an increase from 86 hours in 2020. Each professional support staff member supported around 22 audit staff in 2021, slightly improved from 25 staff in 2020, indicating firms' continued efforts in enhancing professional support personnel.

– Quality control

CPA overwork may compromise audit quality. The number of public company audit clients measures a CPA's involvement in important audit engagements. Together with the ratio of time input on audits, CPA workload can be assessed more comprehensively. In 2021, CPAs in the Big 4 firms on average audited around 7 public companies as lead CPA, with no notable change from 2020. Their average ratio of time input was 52%, similar to 2020, indicating no CPA overwork that could compromise audit quality within the Big 4 firms.

Competence and time input of audit staff, especially CPAs and seniors, are key factors influencing audit quality. A higher ratio of input from experienced staff should positively impact quality. In 2021, CPAs and managers in the Big 4 firms on average contributed 19% of total audit hours, increased from 16% in 2020, indicating increased input from experienced auditors.

More engagement quality review (EQR) hours should improve audit quality. In 2021, the average EQR to total audit hours ratio was around 1.23%, increased from 0.85% in 2020.

- **Audit Firm Independence**

  Regarding client familiarity, around 28% of the Big 4 firms' public company audit clients had been served for over 20 consecutive years by the incumbent firm. Currently, Taiwan only has CPA rotation rules, but no firm rotation requirements. Noting that the European Union (Regulation (EU)) No. 537/2014) recently imposed 10-year limits on firm audit tenures, the FSC has reminded audit committees in the AQI guidance to be aware of the potential negative impacts of client familiarity and will continue monitoring international developments and assessing their potential application in Taiwan.

  For non-audit service fees, EU rules limit public company non-audit fees to 70% of average audit fees over past 3 years. In Taiwan, the Big 4 firms' non-audit fee ratios ranged between 22-32% in 2021. While higher than 2020, they are still not considered excessive compared to international standards, therefore currently, the impact of non-audit revenue on independence does not seem significant.

- **Monitoring**

  External supervision like inspections and disciplinary actions supplements firms' and CPAs' self-discipline in maintaining audit quality. Therefore, audit supervisory authorities in various countries have set up supervisory measures such as firm inspections and penalties. In 2022, the average ratio of regulatory deficiency letters for Big 4 audits of TWSE/TPEx companies increased to 0.38% from 0.15% in 2021, arising from a single firm.

IV. Audit Firm Inspection

1. The Purpose of Audit firm Inspection

According to Article 19 of the CPA Act, the competent authority may send personnel to inspect the business and financial status related to the business of accounting firms approved to perform audit and attestation services for publicly traded companies to safeguard public interests and promote social welfare. Accounting firms may not evade, obstruct, or refuse such inspections. The purpose of our inspections is to improve audit quality, strengthen office quality control systems, and prevent potential audit failures. Through the inspection mechanism, the supervisory function is exerted to enhance audit quality, thereby increasing public confidence in CPA audits. The purpose is not to punish, but if errors or omissions in the CPA's audit report are found during the inspection process, or if there are circumstances under Article 61 of the CPA Act that are serious enough to affect the CPA's reputation, we will report it to the CPA Disciplinary Committee.

2. Inspection Principle and focal Points of Inspections

The FSC conducts audit firm inspections based on a risk-based approach, considering factors such as risk assessments of individual firms and CPAs, cases with higher audit risks in specific industries, etc. For quality control system deficiencies and case review deficiencies identified during the inspection process, the firm is required to take necessary remedial measures for improvement, thereby enhancing audit quality.

- **Quality Control System:**

  According to TWSQC1, the firm's quality control system should be evaluated based on six major elements, including the "Leadership's Responsibility for Quality," "Independence," "Client Acceptance and Continuance," "Human Resources," "Engagement Performance," and "Monitoring." Inspection methods include: ,

  - Understand the firm's quality control policies and procedures via interviews and documentation review.
  - Evaluate the design of the firm's internal quality control system.
  - Test to assess whether said quality control system is effectively implemented.

- **Review of Audit Engagement:**

  Since 2019, we have adopted a “key inspection items” approach for the audit engagement review section, referencing inspection practices of foreign audit oversight bodies. Based on the level of audit risk, common deficiencies locally and internationally, and regulatory needs, we select several accounting items or audit procedures for in-depth review and expand the number of audit engagements reviewed. On average, 4-8 audit engagements were selected for in-depth review for each of the Big Four firms, and 2-4 engagements for non-Big Four firms. Inspection methods include:

- Interview the auditors and engagement managers of the selected audit engagements to understand the risk assessments, focus of the audit, and audit approaches.
- Review workpapers to understand whether the audit procedures comply with the requirements of the Regulations Governing Auditing and Attestation of Financial Statements by CPAs and accepted auditing standards.

3. Follow-Up Procedures after Inspection

FSC inspections of accounting firms are based on a risk-based approach. The inspection results do not represent all cases and firms inspected during that cycle, nor do they represent certification of the firm's quality control system or audit engagements. Any other deficiencies found in subsequent inspections by our office or other competent authorities shall still be dealt with in accordance with the law. The related handling procedures after completion of inspections are as follows:

After the firm inspection is completed, we will compile the results into a draft inspection report within 1-2 months and send it to the firm for written feedback. After considering the firm's feedback, the final inspection report will be issued, and an appropriate improvement plan should be submitted by the firm within two months. If the firm fails to implement the improvement plan or improve within the prescribed time limit after being ordered to make improvements, and the circumstances are considered serious enough to affect the reputation of the CPA, we may revoke or annul the firm’s approval to perform audit and attestation services for publicly traded companies in accordance with Subparagraph 6, Paragraph 1, Article 10 of the “Regulations Governing the Approval of Certified Public Accountants Handling Auditing and Attestation of Financial Reports of Public Companies."

Communication between Management, Audit Committee, and Auditors

Company management and the audit committee are responsible for preparing and overseeing the proper presentation of the financial statements. To ensure the quality of financial reporting preparation and information disclosure, management and the audit committee should strengthen communication with CPAs. They can incorporate common deficiencies identified in the FSC's annual inspection reports or by IFIAR into communication topics with the auditors, to ensure proper audit execution.

4. Key Findings for 2022 Inspection

The inspection team conducted 2022 office inspections, considering the inspection cycle of accounting firms and risk factors. This time, 2 large firms and 1 medium-sized joint firm were inspected, with a focus on the firm's quality control system and review of audit engagements. The overall inspection results are as follows:

- **Quality Control System Deficiencies**

The 2022 inspections identified 18 quality control system deficiencies, a significant decrease from the 62 deficiencies found in the 2021 inspections of 4 medium and small firms. This is due to the difference in size between the firms inspected in the two periods. The 2021 inspections were of medium and small firms, while the 2022 inspections were of large and medium firms. Small firms have fewer resources and less manpower than large or medium firms, leading to more deficiencies.

	2022	2021	2020	2019
Number of Firm Inspected	3	4	4	3
Number of Deficiencies Identified	18	62	35	3
Average Deficiencies per Firm	**6**	**15.5**	**8.75**	**1**

Table 4-1: Deficiencies of Quality Control System

Through understanding and evaluating the design and implementation of the firms' quality control systems, the inspection team identified the following quality control deficiencies:

Leadership's Responsibility for Quality Control in the Firm

- When the firm's Risk Management Committee discussed the risk assessments for accepting new clients and continuing specific clients, the meeting chair and attendees were the engagement partners. The meeting minutes did not record whether conflicts of interest were avoided and the reasons.
- The firm's board of directors resolved to promote a certain accountant to partner. The proposer and director were relatives of the accountant, but the meeting minutes did not record whether conflicts of interest were avoided and the reasons.

Independence and Ethics

- The firm's policies on partner rotation or engagement quality control review failed to address independence requirements, such as two engagement partners being spouses and signing audit reports for the same client for over 20 years, which may imply threats to independence.
- The firm only reviewed the independence of partners and senior managers annually and did not review lower-level staff.
- The firm's policies and procedures relating to "related entities" should be enhanced to provide reasonable assurance that independence is maintained in accordance with ethical standards.

- Although the firm has mechanisms to review independence by selecting accountants and engagement team members' securities account numbers and individual income tax returns, there is no selection ratio specified, and the information provided by those selected may be incomplete. It is better to review the concentrated custody records of securities provided by the securities depository. There were cases where the review materials were incomplete, or no review report was prepared.

Client Acceptance and Continuance

- The firm's policies on client acceptance and continuance were not updated in a timely manner. The requirements for approving the continuance of audit engagements in some quality control policies were inconsistent.

Human Resources

- The firm failed to follow the regulations of the Professional Training Regulations, which require specific departments to continually develop staff training plans and submit them to the partner-in-charge for approval. Instead, the plans were developed by the individual branch offices. The regulations require professional staff above manager level to receive at least 40 training hours annually, but some branch office staff did not meet the 40-hour requirement, which violates the regulations. The regulations clearly state that failure to complete the required course hours will result in deduction of performance evaluation scores. However, reviews found cases where staff did not complete the required training hours, but it was not accounted for in their performance evaluation.
- The firm's policies and procedures for staff promotion did not fully comply with its written staff promotion policy.
- The firm's training on independence was only briefly introduced in the quality control system course for new hires. No specific courses were provided.
- Although the firm includes partners' professional quality as a factor in profit distribution, in practice the bonus amounts were decided by the individual branch office profit centers. Professional quality was not appropriately incorporated into the firm's profit distribution considerations at the overall level.

Engagement Performance

- The firm requires that the engagement quality control reviewer (EQCR) be appointed by the partner-in-charge of each "service line" within the branch office. In practice, the EQCRs were all from the same service line as the engagement partner, resulting in mutual review among service lines. This may affect the EQCR's objectivity. Centralized planning at the firm level is recommended.
- For some engagements, the EQCR did not sign and date the quality control review checklist, so it cannot be confirmed whether the EQCR completed the important review procedures before the date of the audit report. The checklists only indicated YES/NO/NA without referencing workpaper indexes. The EQCR's signature was also absent in the audit planning and performance sections of the workpaper, so it is difficult to confirm whether the EQCR actually performed the review.

- Although the firm has documentation access policies and procedures setting a 3-month limit for workpaper check out, the percentage of workpapers checked out for over 3 months was high. No periodic reviews were performed to check for overdue unarchived documents and follow up accordingly.

Monitoring

- The branch office review procedures require the partner-in-charge of each service line to appoint reviewers from the same service line, resulting in mutual reviews between service lines which may affect objectivity. The review checklist only covered selective quality items and did not include review of key audit procedures, therefore compliance with professional standards and regulations cannot be confirmed. Some service lines selected engagements without relevant workpapers, did not sample new clients as required, etc. The review results from all branch office reviews did not identify any deficiencies, so it is questionable whether the internal monitoring purpose was achieved.
- For the firm-wide inter-service line reviews performed by the national office, engagements of engagement partners with whom our office requested improvements in the last 3 years were not selected for review. The related policies should be revised to specify the qualifications and appointment method of the reviewers for such firm-wide monitoring reviews, case selection criteria, review cycles, review checklists, etc. The overall annual quality monitoring procedures performed for the AICPA peer review or global network inspections should still be maintained to achieve internal monitoring effectiveness.
- For deficiencies noted in the global network inspection report, no further assessments were performed to evaluate the impact of such deficiencies and take appropriate remedial actions to ensure timely reflection in the firm's quality control policies and procedures.
- After closing investigation cases for complaints and allegations, the handling processes and results were not properly documented in writing (e.g., handling personnel not recorded). The written documentation was not numbered and archived in accordance with the firm’s policies and procedures.

- **Review of Audit Engagement Deficiencies**
  During the 2022 inspections, 21 audit engagements were selected for review, identifying a total of 23 audit deficiencies, fewer than the 31 deficiencies in the previous year. The average deficiencies per audit engagement also decreased, likely because the 2021 inspections were of medium and small firms, while the 2022 inspections were of large and medium firms, resulting in significantly fewer deficiencies per audit engagement.

	2022	2021	2020	2019
Deficiencies Identified	23	31	44	5
Audit Engagements Reviewed	21	12	24	24
Average Deficiencies per Engagement	**1.1**	**2.58**	**1.83**	**0.2**

Table 4-3: Audit Engagement Review Deficiencies in Recent Years

Substantive Analytical Procedures

- Did not use video sampling to check the consistency of scanned documents such as original vouchers, contracts, or other documents obtained through the subsidiary's internal controls and audit procedures with the original documents.
- Accounts receivable confirmation information was incomplete, and no documentation of the auditor's evaluation of the reliability of such confirmations and whether further audit evidence was needed.

Accounting Estimates/Fair Value Measurement

- Did not adequately determine whether the company incorporated forward-looking information in assessing expected credit losses for accounts receivable in accordance with IFRS 9.
- Did not determine whether there were indications that the equity method investments were impaired, and whether the company's impairment testing and accounting treatment were appropriate.
- When performing an impairment assessment of intangible assets, did not adequately determine the reasonableness of the estimated recoverable amount. Did not evaluate the reasonableness and relevance of the data and assumptions used by the expert in the intangible asset impairment assessment report based on current conditions.
- Did not determine the appropriateness of the year-end valuation of financial assets measured at fair value through profit or loss.

Documentation

- Did not document the consideration and assessment of the overall materiality level and performance materiality percentage used in the workpapers.
- Did not adequately document the assessment of fraud risks related to revenue recognition in the workpapers.
- The valuation report for bonds payable was reviewed by TAS. However, documentation of their independence evaluation and sign-off was not included in the workpapers.

Key Audit Matters (KAMs)

- There is no documentation supporting why certain significant matters were not determined to be key audit matters.
- Impairment of property, plant and equipment was a key audit matter, but did not adequately explain the reasons for impairment indicators.

Materiality

- The materiality threshold determined by the group audit team for significant components was not properly documented in the workpapers. Some significant components did not apply the threshold in their audits.

Adequacy of Financial Statement Presentation and Disclosures

- Did not determine whether the company failed to disclose the aggregate carrying amounts of biological assets and accumulated depreciation as required by IAS 41 paragraph 54.

Others

- Did not fully determine the relevant rights and obligations for land registered under a third-party name.
- Workpaper changes after the report date were not properly logged in the archiving system, resulting in actual archiving date exceeding the 14-day limit after report date required by firm policy. Late archiving was not included in the firm's list of late archiving cases.

5. Summary of Deficiencies in Recent Years

- **Quality Control System Deficiencies**

As of 2022, we have completed 4 inspection cycles of the Big Four firms, covering 51 inspection engagements. Below is a summary of the quality control system deficiencies identified in office inspections in the past 5 years (2018-2022):

	2018	2019	2020	2021	**2022**	Total
Leadership Responsibilities	1	0	2	3	**2**	8
Independence	5	0	5	17	**4**	31
Client Acceptance & Continuance	4	0	3	5	**1**	13
Human Resources	11	0	11	10	**4**	36
Case Execution	17	3	9	14	**3**	46
Monitoring	5	0	5	13	**4**	27
Total	**43**	**3**	**35**	**62**	**18**	**161**

Table 4-2: Deficiencies of Quality Control System over past Five Years

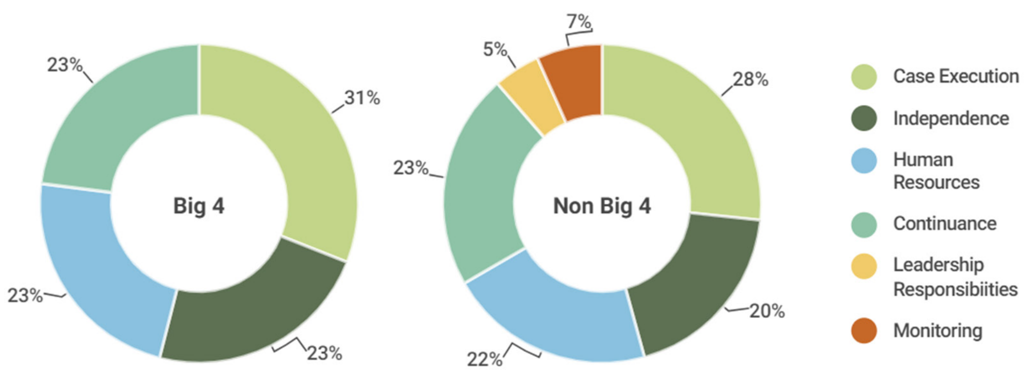


Chart 3: Deficiency Percentage by Element - Big 4 vs. Non Big 4 within the Past 5 Years

Analyzing the results above by firm size, quality control deficiencies of the Big Four firms over the years appear to be concentrated in certain areas, while those of non-Big Four firms are more dispersed. Analysis of the deficiencies are as follows:

Big Four:

Approximately one-third of the deficiencies in the past 5 years relate to “Engagement Performance,” mostly concerning completeness of workpapers and workpaper management, such as inconsistencies between electronic workpapers and hard copies, incomplete archiving, or late archiving. The main deficiencies under “Client Acceptance and Continuance” were accepting audit clients before completing risk evaluation procedures or signing the engagement letter. For “Human Resources,” performance evaluations of partners were not appropriately linked to audit quality. The deficiencies under “Independence” were mostly about partner rotation or engagement quality control review policies not addressing independence requirements.

Non-Big Four:

The deficiencies were related to “Audit Execution,” “Human Resources,” and “Independence.” Details are as follows:

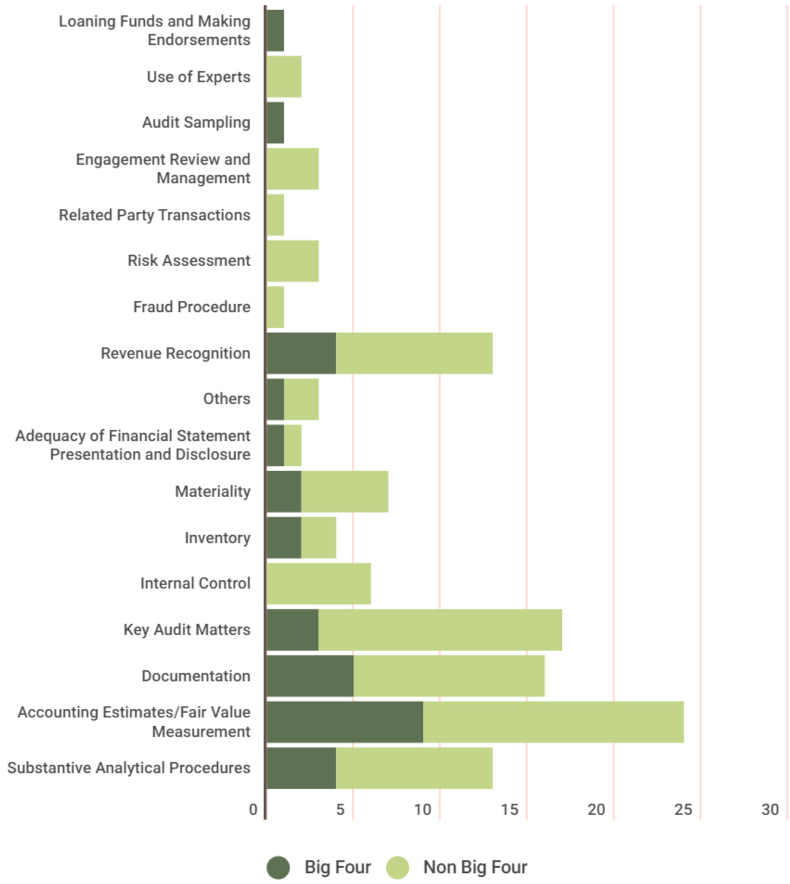
- **Engagement Performance:**
  Failed to formulate audit procedures for all items need to be audited, failed to define the scope of quality control review for engagements, failed to define the qualification of EQCR or the quality control review was performed by unqualified personnel, or the procedures regarding to documentation was incomplete. (Such as the firm failed to formulate procedures to prevent working papers from unauthorized modification, failed to archive working papers within the time limit given by firm’s procedures, the date of working paper modification records was after later the archived date.)
- **Audit Execution:**
  Incomplete audit procedures defined for all audit areas
  Unclear scope for which audit engagements should have quality control reviews
  No qualification criteria established for personnel performing engagement quality control reviews, or reviews done by unqualified personnel
  Incomplete policies and controls over work papers (e.g., lack of controls to prevent unauthorized changes to or loss of work papers, untimely archiving of work papers, work paper changes occurring after archiving date, etc.)
- **Human Resources:**
  Incomplete policies on promotion, compensation, and performance evaluation standards for partners and staff, without proper linkage to audit quality
  Lack of controls over required training hours for personnel
- **Independence:**
  Lack of documented procedures and measures for providing non-audit servicesFailure to establish or properly implement independence controls (e.g., incomplete independence sampling)
  Missing independence declarations from internal specialists involved in audit engagements

Lack of auditor rotation policies or failure to properly implement partner rotation
No rotation policy defined for senior personnel such as managers

- **Review of Audit Engagements**
  As of 2022, the FSC has completed 4 inspection cycles on the Big 4 accounting firms, covering 51 firm-years. By analyzing audit case deficiencies found in inspections over the past 5 years (2018-2022), the fundamental issues were related to "accounting estimates/ fair value measurements", "key audit matters", "work paper documentation", "revenue recognition", and "analytical procedures".

	2018	2019	2020	2021	**2022**	**Total**
Substantive Analytical Procedures	0	0	2	7	**3**	**12**
Accounting Estimates/Fair Value Measurements	0	0	15	6	**5**	**26**
Documentation	2	0	4	6	**7**	**19**
Key Audit Matters	3	2	8	4	**4**	**21**
Internal Control Testing	0	0	3	3	**0**	**6**
Inventory Audit	0	0	1	2	**0**	**3**
Materiality	4	0	0	1	**1**	**6**
Financial Reporting/Presentation and Disclosure	0	0	2	1	**1**	**4**
Others	1	0	0	1	**2**	**4**
Revenue Recognition	6	3	4	0	**0**	**13**
Group Audit	0	0	0	0	**0**	**0**
Fraud Audit	1	0	0	0	**0**	**1**
Risk Assessment	0	0	3	0	**0**	**3**
Related Party Transactions	1	0	0	0	**0**	**1**
Case Supervision and Management	3	0	0	0	**0**	**3**
Audit Sampling	0	0	0	0	**0**	**0**
Use of Management's Experts	0	0	2	0	**0**	**2**
Lending and Endorsements/Guarantees	1	0	0	0	**0**	**1**
Total	**22**	**5**	**44**	**31**	**23**	**125**

Table 4-4: Summary of Audit Case Deficiencies in Recent 5 Years



The chart above shows the audit case deficiencies of the Big 4 vs non-Big 4 firms over the past 5 years. Overall, the Big 4 had fewer deficiencies due to greater audit resources. The common deficiencies for the top issue areas are:

- **Accounting estimates/fair value measurements:**
  Failed to verify whether the audited company's has considered expected credit losses in accordance with IFRS9 regulations (such as incorporating forward-looking information into the assessment of expected credit impairment of accounts receivable) when estimating allowance loss provision policy, or failed to assess whether the assets of the audited company (such as financial assets, plant and equipment, right-of-use assets and investment real estate, goodwill, etc.) shows signs of impairment or whether related decommissioning costs need to be estimated.
- **Key Audit Matters:**
  documentation lacked sufficient evidence that auditors communicated with management to determine key audit matters. For smaller firms, auditors did not discuss key audit matters with management nor perform procedures based on them.
- **Documentation Deficiencies:**
  Auditors did not document considerations for determining materiality thresholds in work papers. Or failed to properly document understanding of the company and environment. Or did not fully document inventory price testing in work papers. Or had work paper completeness issues (e.g. missing signing date, independence declarations).

- **Revenue Recognition:**
  Did not verify significant write-offs matched sales counterparts. Or alternative procedures for unreturned receivable confirmations had low collection rates, resulting in insufficient audit evidence. Or did not document why receivable notes inventory was not performed.

- **Substantive Analytical Procedures:**
  Issues with receivable confirmations, such as no bank confirmation replies or insufficient alternative procedures, unresolved discrepancies in replies, confirmations not sent directly to auditors. Smaller firms failed to compare growth trends between receivables/notes and revenue as required.

  The latest 2022 inspection did not uncover revenue recognition deficiencies, and deficiencies in accounting estimates/fair value measurements decreased (previously due to not considering expected credit losses per IFRS 9, which improved after 2021). This indicates firms have remediated major deficiencies identified in past inspections. However, work paper documentation deficiencies increased in 2022, primarily due to auditors not documenting considerations and assessments for using percentage thresholds for overall and performance materiality in work papers. The FSC will continue to monitor improvements in subsequent inspections.

V. Disciplines and Sanctions of CPAs

In addition to auditor's self-discipline, audit oversight is also indispensable for the enhancement of audit quality. To impose discipline actions against the auditors who have committed serious violations of audit regulation or standards would not only bring vigilance against those got disciplined but also reminds other auditors to perform their audit work with due professional care and to reduce the risk of audit failure.

1. Disciplinary Procedures

CPA discipline in Taiwan is handled by the CPA Disciplinary Committee, comprised of industry, government, and academic representatives. If a CPA commits violations listed in Article 61 of the CPA Act, the competent authority or the National Federation of Certified Public Accountant Associations may report to the Committee to request discipline. According to Article 62 of the CPA Act, CPA disciplinary actions include fines (NT$120,000-1.2 million), warnings, admonishment, suspension of practice (2 months-2 years), or delisting.

CPAs dissatisfied with the Committee's decisions may apply for a review by the CPA Disciplinary Review Committee. If dissatisfied with the review decision, they may file an administrative lawsuit with the Taipei High Administrative Court. Disciplinary decisions become final if the CPA does not apply for review or file an administrative lawsuit within the deadline. Once finalized, the Committee will publish the disciplinary ruling in the government bulletin and on its website.

2. Disciplinary Actions in Recent Years

The table below summarizes disciplinary cases ruled by the Committee in the last 3 years, with 8, 2, and 5 cases respectively, disciplining 18, 4, and 10 CPAs in total.

	2020	2021	2022
Cases	8	2	**5**
CPAs	18	4	**10**

Table 5-1: Annual Disciplinary Cases Ruled and CPAs Disciplined

The FSC website also discloses details of finalized CPA disciplinary rulings in the recent5 years (2018-2022), including the name of disciplined CPAs, reasons, and results. The analysis of disciplinary results and violations over the past 5 years is as follows:

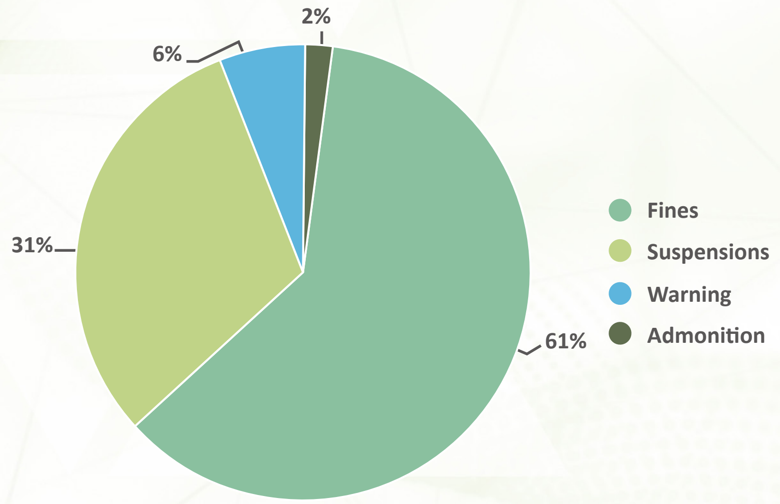
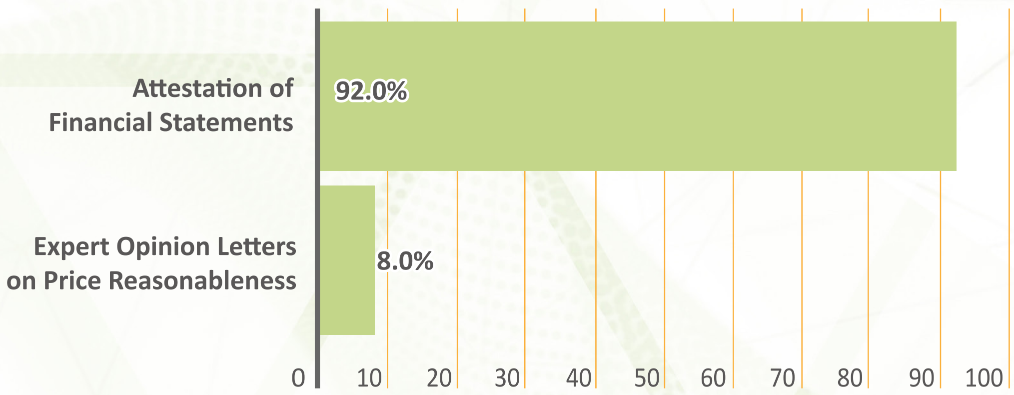


Chart 5: Disciplinary Actions of Finalized CPA Cases in Recent 5 Years

The chart shows that among finalized cases in the past 5 years, 61% received fines, followed by 31% receiving suspensions (up to 9 months). 25% of fines were the maximum NT$1.2 million.



By case nature, 92% were attestation cases, with 8% being expert opinion letters on price reasonableness.

3. Sanctions Against CPAs

The above CPA disciplinary system under the CPA Act punishes violations of various business laws or professional ethics when carrying out work. Additionally, to strengthen public company management, Article 37 of the Securities and Exchange Act states that CPAs performing attestation of public company financial reports must receive FSC approval. In case of errors or negligence, the FSC may issue warnings, suspend attestation eligibility for up to 2 years, or revoke attestation approval depending on the circumstances. The disciplinary impact is limited to attestation of public company reports and is typically applied in cases involving significant public interest that require immediate action.

If dissatisfied with the disciplinary action, the CPA may file an appeal with the Executive Yuan in accordance with the Administrative Appeal Act. However, Article 93.1 of the Act states that unless otherwise provided by law, filing of an appeal shall not suspend execution of the original disciplinary action. Thus, CPAs disciplined under the Securities and Exchange Act must still execute the original punishment even if they file an appeal or subsequent administrative lawsuit.

4. Sanctions under the Securities and Exchange Act in Recent Years

In recent years, the FSC has focused on CPA discipline through the CPA Act system, with 1 case disciplining 2 CPAs in 2020 under the Securities and Exchange Act. The FSC discloses details of Securities and Exchange Act disciplinary actions, including names of disciplined CPAs, punishment types, and results on its website.

(https://www.sfb.gov.tw/ch/home.jsp?id=940&websitelink=artwebsite.jsp&parentpath=0,8,935)

VI. Supervision Measures Implemented in 2022

1. Promoting Adoption of Audit Quality Indicators (AQI) by TWSE/TPEx Companies

- **Issued AQI framework and templates:**

  To improve financial statement audit quality in Taiwan, on August 19, 2021 the FSC released the "AQI Disclosure Framework and Templates" covering 5 aspects and 13 metrics on professionalism, quality control, independence, oversight, and innovation, to aid companies and audit committees in more effectively and objectively evaluating audit firms and engagement teams on their commitment and capabilities in improving audit quality when appointing auditors.

- **Two-phase approach to promote AQI adoption by domestic companies:**

  Phase 1: TWSE/TPEx companies may voluntarily obtain AQI information from audit firms starting in 2023 when appointing auditors for that year's financial reports.

  Phase 2: In 2023 and beyond, the FSC will evaluate mandating AQI for smaller firms and non-listed public companies by assessing Phase 1 adoption and outcomes by Big 4 firms and TWSE/TPEx companies.

- **Released guidelines on preparing and interpreting AQI:**

  On June 29, 2022, the FSC published the "Guidelines for Audit Committees on Interpreting Audit Quality Indicators" and "Guidelines for CPA Firms on Preparing Audit Quality Indicators" to aid firms in preparing AQI information and committees in interpreting it. On October 26, 2022, peer firm AQI information was announced in the Audit Quality section of the FSC Securities and Futures Bureau website for reference by companies when comparing and evaluating AQI.

2. Encouraging firms to publish transparency reports to improve governance transparency

At the end of 2021, the FSC released the "Principles for Preparation of CPA Firm Transparency Reports" as the basis for firms to prepare future transparency reports, aiming to improve audit quality by enhancing firm transparency and promoting healthy competition.

The transparency report contents include firm background, legal structure, governance structure, risk management and quality control systems, audit quality metrics, financial and operational information. Disclosures should be factual without misleading marketing intent. To help the public understand whether international network membership improves audit quality and whether provision of non-audit services may compromise a firm's audit quality focus, firms that are international network members should further disclose the network's risk management, quality control, monitoring, and support provided to member firms. They should also increase disclosure of related entities like subsidiaries and affiliates, covering areas such as names, business overview, and non-audit revenue percentages.

Based on international promotion experiences, the FSC will take a two-phase approach in encouraging transparency report publication by firms:

Phase 1: The Big 4 firms to publish inaugural transparency reports in 2023.

Phase 2: In 2023 and beyond, evaluate feasibility for smaller firms based on Big 4 firm reporting outcomes and effectiveness.

3. Designing Differentiated Regulatory Approaches for Firms Based on Firm-Level and Engagement-Level AQI

- **Firm categorization:**

  Preliminarily consider categorizing firms based on public interest impact (e.g., number of public company audit clients or market value audited disclosed in transparency reports).

- **Tailored regulatory scrutiny:**

  Use oversight or quality control AQI to design differentiated regulatory actions for each firm category. For example, increase inspection frequency for low-performing firms (e.g., from every 3 years to annually) request CPA associations strengthen inspection, or increase sample testing for accountants with clearly insufficient audit inputs and training.

VII. Conclusion

The 2022 inspections continued the risk-based approach and core item checking, increasing the sample selection of first-time TWSE/TPEx listed companies’ audit engagements. They also included systemically important banks in the audit case sample selection, after the FSC formally designated 5 banks as domestic systemically important banks (D-SIBs) in June 2018, to expand the scope and understand audit quality in the banking sector. The FSC will evaluate including all financial institutions in the audit case inspection scope going forward.

In accordance with the timelines of the Corporate Governance Roadmap 3.0 and Capital Market Blueprint, the FSC published the AQI metrics and related guidelines for Taiwan, to assist companies' audit committees in evaluating the appointment of audit firms and accountants. It also encouraged firms to publish transparency reports, disclosing relevant governance and audit quality information to enhance governance transparency. Going forward, the FSC will screen certain AQI metrics to aid in differentiated regulatory approaches for firms.

Given the importance of audit quality to the capital market, the FSC will continue performing oversight and supervising firms to improve audit quality. Maintaining and enhancing audit quality is not just the responsibility of CPAs, but also incumbent upon corporate management and audit committees based on their roles, to jointly commit to improving audit quality. Management and audit committees should strengthen communication with accountants. The FSC plans to incorporate the inspection deficiency findings of this audit oversight report into communication items with accountants, to ensure they properly execute relevant audit procedures and enhance audit quality, thereby safeguarding the rights of general investors.

Financial Supervisory Commision

Securities and Futures Bureau
Financial Supervisory Commission

No.85, Sec. 1, Xinshen S. Rd.,
Da'an District, Taipei City 106237
Taiwan (R.O.C.)

Tel (+886) 2 8773 5100

WWW.SFB.GOV.TW