2023 AUDIT OVERSIGHT REPORT

Financial Supervisory Commision

June 2024

CONTENTS

Overview of Audit Oversight

The Financial Supervisory Commission (the FSC), Taiwan's authority responsible for auditing oversight, was established on July 1st, 2004, in accordance with the "Organic Act Governing the Establishment of the Financial Supervisory Commission." The FSC is in charge of the development, supervision, management, and inspection of financial markets and the financial service industry. The Securities and Futures Bureau (the SFB) under the FSC is responsible for the supervision, management, and policy-making, enacting, planning and execution of securities and futures markets as well as the securities and futures industry. One of its important duties is to oversee auditing in Taiwan, including supervising the establishment of auditing standards, approval, registration and practice of certified public accountants (CPAs), inspections of CPA firms, and disciplinary actions against CPAs. The FSC is also the competent authority under the Certified Public Accountant Act (the CPA Act).

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

A. Audit Oversight in 2023

1. **Supervision of Stipulation of Auditing Standards:** The FSC supervises the ARDF in researching and amending domestic standards with reference to the Auditing Standards, Review Standards, Assurance Standards, other related service standards, and Quality Control Standards issued by the International Auditing and Assurance Standards Board (the IAASB). Following the issuance of Taiwan Standards on Quality Management 1 (TWSQM 1) "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" in 2022, TWSQM 2 "Engagement Quality Reviews" was issued in 2023. And the "Regulations Governing Financial Statement Audit and Attestation Engagements of Certified Public Accountants" and "Regulations Governing Approval of Certified Public Accountants to Audit and Attest to the Financial Reports of Public Companies" were amended in line with the "Preface to the Pronouncements Issued by Auditing Standards Committee" released by the ARDF with reference to international standards.

2. **Approval and Registration of CPAs:** As of the year ended December 31st, 2023, the number of registered practicing CPAs in Taiwan was 4,004, of which 692 (approximately 17.28%) were approved by the FSC to audit and attest to the financial reports of public companies. There were 2,284 registered CPA firms, of which 52 (approximately 2.3%) were approved by the FSC to undertake financial report audits and attestations for public companies.

3. **Audit Firm Inspections:** The FSC has conducted inspections of domestic CPA firms annually since 2009, focusing on the firms' quality control systems and reviews of audit engagements. In 2023, a total of two large CPA firms and one small and medium-sized CPA firm were inspected. For detailed inspection results, please refer to "D. Key Findings for 2023 Inspection" of "IV. Audit Firm Inspection".

4. **CPA Discipline:** In 2023, the number of cases in which disciplinary actions were imposed by the CPA Discipline Committee was five, and the number of CPAs disciplined was nine.

B. International Audit Regulatory Cooperation

With the rapid development of globalization, multinational companies are actively expanding their business and deploying globally. Auditing oversight also requires international cooperation. In light of this, the FSC actively participates in international auditing oversight matters. In addition to joining the International Forum of Independent Audit Regulators (the IFIAR), it maintains close cooperative relationships with auditing oversight authorities in the United States, Japan, Singapore, and other countries.

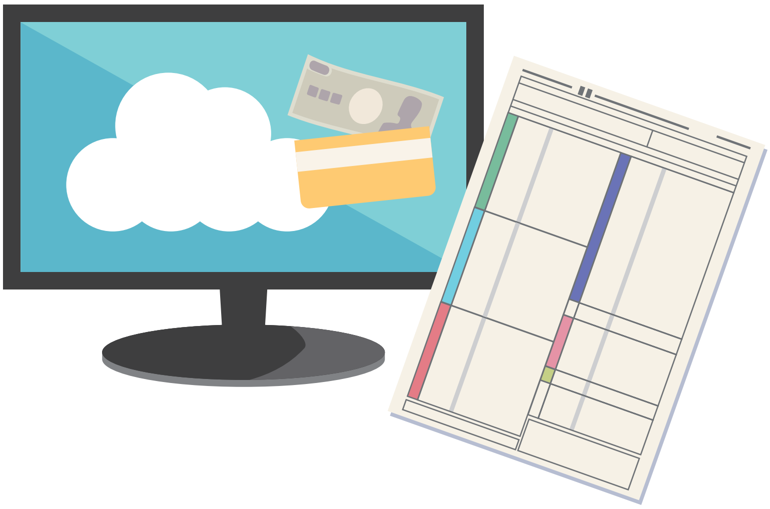
1. Served as a Board Member of IFIAR and Actively Participated in Related Initiatives

IFIAR is the largest organization of auditing oversight authorities in the world. The FSC joined IFIAR in 2008 and has actively participated in various activities. It hosted the 2015 IFIAR Plenary Meeting in Taipei, was successfully elected as a Board Member in 2019, and was successfully re-elected in 2023, actively participating in board discussions and decision-making. The IFIAR Board is the highest governing body of IFIAR and currently includes sixteen Board Members from the United States (US), United Kingdom (UK), Japan, Germany, France, Taiwan, etc. The FSC is also a member of the Audit & Finance Committee (AFC) under the Board. IFIAR has five working groups under its Board: the Enforcement Working Group (the EWG), Global Audit Quality Working Group (the GAQWG), Inspection Workshop Working Group (the IWWG), and two others. The FSC is a member of the EWG and actively participates in various activities organized by the group. In addition, it sends personnel every year to attend meetings of the IWWG to exchange inspection techniques with inspection personnel from other countries. Recently, due to the increasing international attention on the quality of sustainability information reporting, the FSC joined IFIAR's Sustainability Assurance Task Force to collect information on the reporting, assurance, and oversight trends of sustainability information in various countries. This helps keep abreast of international developments in auditing and assurance and serves as a reference for policy-making.

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

With the internationalization of capital markets, the demand for large companies to raise funds overseas has increased, and the US is the primary overseas fund-raising market for Taiwanese companies. In response to the need for oversight of Taiwanese companies listed in the US, the FSC has conducted joint inspections of CPA firms with the PCAOB since 2011 to strengthen auditing oversight cooperation, share inspection information, and exchange inspection techniques and experiences.

II



Overview of the Audit Market

The following analysis of the overall situation of Taiwan's accounting profession is based on the "2022 Survey Report on CPA Firms" published in December 2023 and relevant statistical data from the FSC, looking at aspects such as the number of CPAs, the organizational structure and scale of operations of CPA firms. It also analyzes the public company audit market in terms of market share and describes the challenges faced by the accounting profession in recent years.

A. Overview of the Audit Market

1. **Number of CPAs:** Table 2-1 summarizes the number of people holding CPA certificates, registered as practicing CPAs, and approved by the FSC to audit and attest to the financial reports of public companies in Taiwan over the past three years (2021-2023). It showed that among those holding CPA certificates in Taiwan, about 46% apply to the CPA association to register as practicing CPAs, and about 8% were approved by the FSC to audit and attest to the financial reports of public companies.

Table 2-1: CPA Practice Status in Recent Three Years

CPA Staus	2021		2022		2023	
	Number	%	Number	%	Number	%
Approved to Audit Public Companies[1]	699	8%	709	8%	692	8%
Registered as Practicing CPAs	3,754	45%	3,883	45%	4,004	46%
Certificate Holders Not Practicing	4,581	55%	4,669	55%	4,795	54%
Certificate Holders	8,335	100%	8,552	100%	8,799	100%

2. **CPA Firm Types:** A review of the overview of CPA firms in Taiwan at the end of the past three years (2021-2023) showed that in terms of number, it increased from 2,170 at the end of 2021 to 2,284 at the end of 2023, a growth of about 5.3%, mainly due to the increase in sole practitioner CPA firms. According to the FSC's statistical results, as of the year ended December 31st, 2023, sole proprietorships and joint CPA firms were still the main types in Taiwan, accounting for 77% and 21%, respectively.

Table 2-2: Organization Types of CPA Firms

CPA Firm Type[2]	2021		2022		2023	
	Number	%	Number	%	Number	%
Sole Practitioner CPA Firm	1,683	77%	1,717	77%	1,750	77%
Joint CPA Firms	449	21%	469	21%	493	21%
Co-Location CPA Firms	37	2%	39	2%	40	2%
Incorporated CPA Firms	1	-	1	-	1	-
Total	**2,170**	**100%**	**2,226**	**100%**	**2,284**	**100%**

Note: The ratios in this table may be adjusted after rounding to maintain a total of 100% (the same applies to the following tables).

3. **Business Scale:** According to the statistical results of the "2022 Survey Report on CPA Firms", there were 894 firms had annual business revenues of less than NT$10 million, accounting for 75%, indicating that most CPA firms in Taiwan operate on a small scale. However, in terms of number of employees and amount of annual business revenue, although there were only sixteen large-scale firms with annual business revenues of NT$100 million or more (accounting for only 1.3% of the total number of firms), they employed 13,369 people (accounting for 58% of the total) and had annual business revenues of NT$27 billion (accounting for 73.8% of the total business revenues of the accounting profession).

Table 2-3: Distribution of Audit Firms by Income, Number of Firms and Employees

Income from Professional Practice (NTD)	Audit Firms		Employees		Total Income from Professional Practice in 2022	
	Number	%	Number	%	Amount (NT$ 100 million)	%
< 10 million	894	75%	4,061	18%	31	8%
10-25 million	200	17%	2,711	12%	30	8%
25-50 million	59	5%	1,788	8%	21	6%
50-100 million	21	2%	1,023	4%	14	4%
>100 million	16	1%	13,369	58%	270	74%
Total	**1,190**	**100%**	**22,952**	**100%**	**366**	**100%**

1. According to the CPA Act, a citizen of the R.O.C who passes the CPA examination, obtains a CPA certificate, and acquires the CPA qualification may serve as a CPA. Those holding CPA certificates should establish or join an CPA firm, apply for practice registration with the competent authority, and join the local CPA association where the CPA firm is located as a practicing member before practicing as a CPA nationwide. The financial reports of public companies shall be jointly audited and attested by two or more practicing CPAs from a joint or incorporated CPA firm as stipulated in Article 15 of the CPA Act. Joint or incorporated CPA firms should obtain FSC approval before conducting audits and attestation of financial reports for public companies.
2. According to the CPA Act in Taiwan, CPA firms can be categorized into sole proprietorships, co-location partnerships (CPAs co-locate offices, individually undertake business, and bear individual responsibility), joint firms, and incorporated firms (attestation work signed by the incorporated firm and engaged CPA).

B. Audit Market of Public Companies

According to the CPA Act and relevant regulations, the financial reports of public companies should be jointly audited and attested by two or more practicing CPAs from joint or incorporated CPA firms as stipulated in Article 15 of the CPA Act. Before joint or incorporated CPA firms engage in auditing and attesting to the financial reports of public companies, they should first report to the FSC for approval. As of the end of 2023, there were 692 CPAs and 52 CPA firms approved by the FSC to audit and attest to the financial reports of public companies. The number and scale of companies they had undertook (company market value and capital are in New Taiwan dollars) are as follows:

CPAs and Firms Approved by the FSC to Audit and Attest Financial Reports of Public Companies (December 31st, 2023)

692 CPAs

52 CPA firms

Number and Scale of Public Companies in Taiwan (December 31st, 2023)

1,813 TWSE/TPEx-Listed Companies
Market Value NT$ **62.6344** trillion

\+

828 Emerging Stock and Public Companies
Capital NT$ **1.382** trillion

As of the end of 2023, there were 2,641 public companies' financial reports were attested by 52 CPA firms according to the aforementioned information. If reviewed through firm size, nearly 90% of the financial reports were attested by the Big Four CPA firms. Table 2-4 summarizes the market share of CPA firms attesting to Taiwan public companies. The market share of large, medium, and small CPA firms was 90%, 6%, and 4%, respectively. A review of major international capital markets shows that it is worldwide situation, as in Taiwan, where the attestation business concentrated in the Big Four CPA firms, such as 99% S&P 500 companies in the United States and 98% for the FTSE 350 in the United Kingdom.

Large CPA firms refer to those provide attestation services for 100 or more public companies (including TWSE/TPEx listed companies, emerging stocks, and public companies); medium-sized CPA firms refer to those provide attestation services for 10 to 100 public companies; and small CPA firms refer to those provide attestation services for less than 10 public companies. The Big Four including Deloitte & Touche Taiwan, PwC Taiwan, KPMG Taiwan, and Ernst & Young Taiwan.

Table 2-4: Market Share of Public Company Attestation

Firm Size	TWSE-Listed	TPEx-Listed	Emerging	Public	Total
Large (Big Four)	91%	87%	95%	85%	90%
Medium	6%	7%	4%	7%	6%
Small	3%	6%	1%	8%	4%

C. Emerging Challenges Faced by the Audit Industry in Taiwan

In addition to intense internal competition, the accounting profession has also faced different challenges in recent years due to factors such as changes in the external economic environment. After consulting with CPA firms, the following summarizes the challenges and difficulties faced by the accounting profession in recent years, the countermeasures taken by firms, and recent development goals:

1. Emerging Issues Raised

a. **Increased Audit Cost:** Factors such as changes in the audit environment and Increased regulatory requirements (e.g., the dual CPA attestation system for public companies increases the difficulty of rotation, and shortening the timeline for TWSE/TPEx-listed companies to release financial reports increases the time pressure on auditing work) have led to Increased audit costs, but audit fees do not seem to have Increased proportionately.

b. **High Turnover Rate:** The audit industry is a labor-intensive industry. The increase in employee turnover in the accounting profession, coupled with factors such as long working hours and salaries, makes recruiting talent even more difficult, impacting firms' human resource management. Furthermore, the current lack of talents is hard to response the rapidly increased demand to the ESG-related service.

2. Firm's Responses to the Challenges and Recent Development

a. **Reduce the Turnover Rate of Personnel and Attract Talent:** Measures include adopting flexible work models (making a hybrid office model combining physical and remote work the norm), increasing salaries or optimizing employee benefits to enhance salary competitiveness, adjusting promotion regulations to accelerate the advancement of high-performing personnel, and expanding talent recruitment (such as cooperating with colleges and universities to organize internship programs or serving as lecturers to share practical experience).

b. **Using Technology to Enhance Efficiency and Provide Differentiated Services:** Measures include applying digital tools, such as robotic process automation (RPA), analytical process automation (APA), confirmation systems, etc. These measures not only improves operational efficiency but also enables the provision of differentiated services. Concurrently, it maintains a focus on investing in innovative business development to stay at the forefront of industry advancements.

c. **Training or Recruiting Professionals in Response to the Increase in Demand for Sustainable Reporting and Assurance Services:** Strengthen strategic cooperation in the ESG ecosystem and expand ESG-related assurance and consulting services.

> **"The quality of personnel is a core element of audit quality, and human resources have always been one of the most important issues for CPA firms. Each firm is actively attracting outstanding talent to join and retain. With the rise of ESG-related issues, recruiting relevant industry experts has become a trend."**

III

Audit Quality Information

Audit quality is the core value of the CPA auditing profession. In recent years, there has been increasing international attention on measuring audit quality, including the use of Audit Quality Indicators (the AQIs). Currently, countries such as the US and Canada encourage CPA firms or audit committees to adopt AQIs, which is quantitative indicators for measuring audit quality. Taiwan has also adopted international practices and released the “Audit Quality Indicator (AQI) Disclosure Framework and Template” on August 19th, 2021. It covers five dimensions and thirteen indicator items, including professionalism, quality control, independence, supervision, and innovation capability. The Big Four are encouraged to proactively disclose AQIs starting with their 2023 financial report audits and attestations for TWSE/TPEx-listed companies. This information will serve as a reference for audit committees in evaluating the appointment or reappointment of CPAs.

The FSC released the “Guidance for Audit Committees on Interpreting the Audit Quality Indicators” on June 29th, 2022, to assist Audit Committee comprehension of AQIs. This guidance provides background explanations for each AQI, offering a preliminary understanding of auditing practices. It also outlines key measurement points to elucidate the correlation between AQIs and audit quality, thereby facilitating more effective communication and discussion with CPA firms. Concurrently, to ensure consistency and comparability of AQI data across CPA firms and to enhance its usability and reference value, the FSC issued the “Guidance for CPA firms on Preparing Audit Quality Indicators” This document provides clear definitions and calculation methodologies for each detailed AQI, serving as a crucial resource for CPAs and firms in compiling AQI information.

Given that the Big Four for 90% of the public companies attested, which significantly impacts audit quality in Taiwan, the FSC has continually requested the Big Four to provide relevant audit quality information since 2019. This information is used to assess the reasonable range of each indicator and serves as supplementary information for auditing oversight. The FSC has requested the Big Four to provide relevant audit quality information with reference to the AQI indicators issued by the FSC:

1. **Professionalism:** Percentage and turnover rate of managerial personnel, percentage of professional support personnel, professional tenure of CPAs plus managers and above, professional training hours.

2. **Quality Control:** CPA workload and ratio of manager hours spent on audits, ratio of hours spent on Engagement Quality Reviews (EQR), capabilities of quality support.

3. **Independence:** Audit client retention and audit fees.

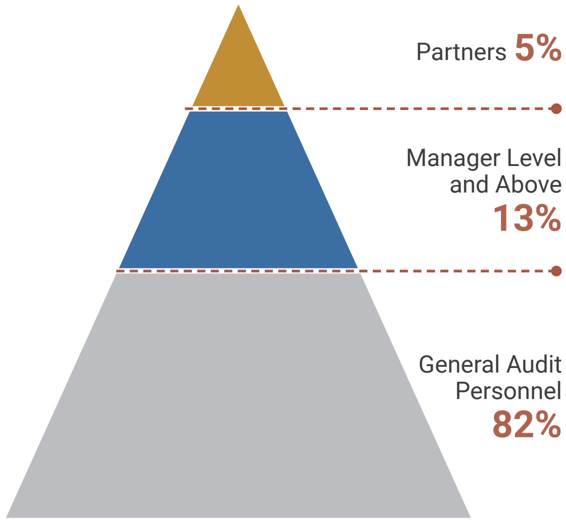
4. **Monitoring:** External inspection findings and disciplinary actions, proportion of issues raised by regulators.

It should be noted that there is currently no consistent definition of audit quality among various parties, and no single indicator can fully reflect a firm's audit quality. Therefore, special attention should be paid when interpreting the data, and the quality of the audit should not be judged based on the level of a single data point.

A. Audit Market Overview

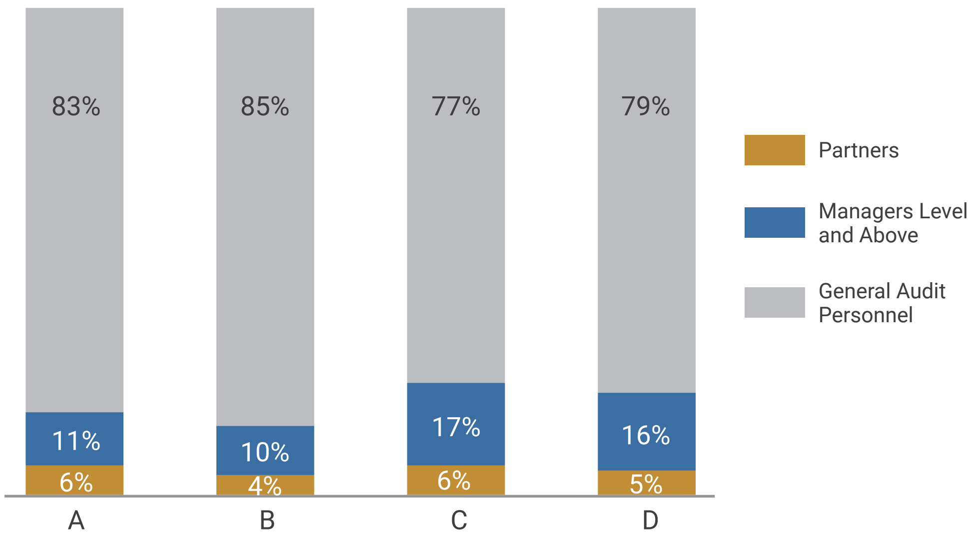
1. Proportion of Managers

Firm audit personnel can be roughly divided into three levels: CPAs (partners), managers and above, and general audit personnel. According to the information provided by the Big Four, in 2022, the average percentage of CPAs, managers, and general audit personnel were 5%, 13%, and 82%, respectively. Their manpower allocation shows a pyramid structure, with managerial personnel accounting for 18% on average.



Managers usually have more than five years of audit experience and are responsible for the execution and control of major audit work. They also have the responsibility of guiding other new audit personnel. Their quality and number have a significant impact on the quality of audit work. Therefore, the proportion of managers to audit personnel can appropriately reflect audit quality. According to the Table below, the partner ratio among the Big Four ranges from 4% to 6%, with little difference among firms. At the same time, the proportion of managers ranges from 10% to 17%. Although there were significant differences among the Big Four, the reason for the differences may be due to different requirements on years of experience or qualifications for managers in each firm, or differences in firm size.

Chart 3-1: Overall Composition of Audit Personnel in the Big Four



2. CPA's Professional Experience

The audit quality is also influenced by the experience of practicing CPAs, quality control CPAs, and senior audit personnel. The tables below measure the numbers of years since attesting CPAs and quality control CPAs became partners and the audit experience of audit personnel at the manager level and above. CPAs in Taiwan who attest to public corporations have been partner CPAs for an average of 12 years. Engagement quality control review (EQCR) have up to thirteen years of professional experience, whereas audit personnel at the manager level and above (excluding CPAs) have an average of eleven years. The data also shows that the differences in professional tenure of CPAs and audit personnel at the manager level and above among the Big Four are not significant.

Table 3-1-1: Average Professional Tenure of CPAs in the Big Four

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	11	12	13	11	12
2021	12	12	13	11	12

Table 3-1-2: Average Professional Tenure of EQCR in the Big Four.

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	11	14	15	11	13
2021	12	15	14	12	13

Table 3-1-3: Average Professional Tenure of Audit Personnel at Manager Level and Above (Excluding CPAs) in the Big Four

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	12	12	10	11	11
2021	12	12	10	11	11

3. Professional Training Hours

Professional training is an essential key to the quality of audit personnel. Regarding to the Article 5 of the "Regulations Governing CPA Continuing Professional Education" in Taiwan, it stipulates those CPAs who audit and attest to the financial reports of public companies should have a minimum of 40 hours of continuing education each year. Table 3-1-4 shows that in 2022, the average annual professional training hours per CPA in the Big Four reached 110 hours, a significant increase from 93 hours compared to previous year. The average annual training hours per audit personnel at the manager level and above (excluding CPAs) in 2022 also reached 95 hours, an increase from an average of 89 hours in 2021.

Table 3-1-4: Training Hours of Attesting CPAs

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	126	81	107	117	110
2021	101	87	102	63	93

Table 3-1-5: Training Hours of Audit Personnel at Manager Level and Above (Excluding CPAs)

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	102	87	91	95	95
2021	100	83	84	79	89

4. Attrition Rate

Personnel at the manager level and above in the audit department are usually responsible for the execution and control of major auditing, as well as the responsibility of guiding junior staff. Their capacity and number have a significant impact on auditing quality. Therefore, the turnover rate of such personnel can serve as an indicator, whereas the firm maintains sufficient senior labors. The average turnover rate of personnel at the manager level and above (excluding CPAs) in the Big Four in 2022 was 13%, showing a tendency of decreasing employee turnover compared to 17% in 2021.

Table 3-1-6: Turnover Rate of Audit Personnel at Manager Level and Above (Excluding CPAs)

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	8%	12%	17%	18%	13%
2021	11%	16%	17%	34%	17%

5. Professional Support

Professional consulting personnel are those who possess professional knowledge to support or assist auditing, such as personnel in knowledge management or risk management. However, it does not include personnel from departments unrelated to financial report audits, such as the tax department, or other general administrative support personnel of human resources and information technology. When CPAs perform financial report attestation, they may require assistance from various professionals depending on the nature of the engagement, such as asset valuation, computer auditing, or legal consultation. Therefore, having sufficient professional (excluding audit personnel) to support the audit team should help improve the audit quality of financial reports.

Table 3-1-7 shows the number of financial report audit personnel supported by each professional in the Big Four. On average, in 2022, each consulting professional supported about 18 financial report auditor, while a slight increase in professional support manpower compared to each personnel supporting 19 financial report auditor in 2021.

Table 3-1-7: Number of Audit Personnel Supported by Each Professional

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	19	28	15	11	18
2021	21	32	14	10	19

B. Quality Control Indicators

The "Quality Control Indicators" mainly measure the audit quality control capabilities of firms and CPAs. Related indicators include four items: CPA workload, audit investment, EQR, and quality control support capability.

1. CPA Workload

The workload of CPAs is closely related to their audit quality control capabilities. An excessively high workload may affect their audit quality. At the firm level, a high number of public companies under a lead CPA's responsibility, or a large proportion of their available working hours invested, may raise concerns about excessive workload potentially impacting audit quality. However, at the engagement level, the audit work required can vary significantly due to differences in scale, audit risk, and complexity of public companies. Therefore, CPA workload assessment should not rely solely on the number of public companies they attest. Instead, a more comprehensive evaluation should consider both the number of attestations and the proportion of available working hours invested by CPAs. This approach provides a more accurate representation of CPA workload and its potential impact on audit quality.

According to the tables below, CPA in the Big Four Firms on average audited around 7.2 public companies as lead CPA, which is not significantly different from 2021. In addition, the average ration of time input on audit by CPAs in 2022 was 60%, an increase from 55% in 2021, indicating that CPAs in the Big Four put more working hours in financial report audits and reviews. Overall, the workload of CPAs in performing audit has increased.

Table 3-2-1: Number of Public Company Audit Clients per CPA in Big Four Firms

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	7.0	8.5	6.9	6.1	7.2
2021	6.9	8.3	6.4	6.1	7.0

Table 3-2-2: Ratios of Time Input on Audits by CPAs

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	65%	56%	56%	56%	60%
2021	57%	55%	60%	35%	55%

2. Involvement

The quality of personnel and audit hours of the audit team are key factors affecting audit quality. However, the quality of personnel is not easy to have objective measurement indicators. Therefore, the composition of senior audit personnel in firms is used as an alternative option. A higher ratio of input from CPAs and managers should have a positive impact on audit quality. Table 3-2-3 shows that in 2022, the proportion of audit hours input by CPAs and managers was 22%, an increase from 19% in 2021.

Table 3-2-3: Ratio of Audit Hours Input by CPAs and Manager Levels

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	28%	16%	24%	17%	22%
2021	19%	15%	25%	18%	19%

3. Engagement Quality Control Review

According to TWSQM 1 “Quality Management for Firms”, engagement quality reviews (EQR) should be performed for audit engagements of TWSE/TPEx-listed companies’ financial statements, and the reviews should be completed before the audit report date. The hours invested in EQR reviews should have a positive impact on audit quality. Therefore, the proportion of EQR hours invested to total audit hours can appropriately reflect audit quality.

Table 3-2-4 shows the proportion of EQR hours to total audit hours for TWSE/TPEx-listed companies performed by the Big Four in accordance with TWSQM 1. Overall, in 2022, the proportion of EQR hours to total audit hours was approximately 1.29%, increased from 1.26% in 2021.

Although TWSQM 1 only stipulates that EQRs should be performed for audit engagements of TWSE/TPEx-listed companies’ financial statements, the Big Four also perform EQR for public company attestation engagements, demonstrating the firms’ commitment for enhancing audit quality.

Table 3-2-4: Ratio of EQR Hours

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	1.4%	1.1%	1.4%	1.0%	1.29%
2021	1.2%	1.3%	1.4%	1.0%	1.26%

4. Quality Control Support Capability

Whether a firm has sufficient quality control personnel to support the audit team is also one of the observation points of the firm's quality control. The higher the proportion of full-time equivalent (FTE) EQCR in a firm, the more positive impact it can reasonably be expected to have on audit quality.

Table 3-2-5 shows that in 2022, the average proportion of FTE EQCR to the total number of personnel in the audit service department of the Big Four was 3.2%, an increase from 3.0% in 2021. It disclosed each firm has invested more EQCR for audit services.

Table 3-2-5: Ratio of EQCR Personnel

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	4.2%	2.2%	3.1%	2.7%	3.2%
2021	3.9%	2.2%	2.5%	2.7%	3.0%

C. Independence Indicators

The "Independence" measure whether firms and CPAs maintain substantive and formal independence when performing audit work and express their opinions impartially. Related indicators include two items: the proportion of non-audit service (NAS) fees and client familiarity.

1. Non-audit Service Fees

CPA's ability to maintain independence while conducting financial statement audits or reviews is a critical factor influencing audit quality. Currently, in addition to providing financial statement audit services, CPAs also provide other non-audit business services. Therefore, CPA fees can be divided into audit fees and non-audit fees. The amount and composition of fees may impact CPAs' independence. If the proportion of a firm's income from non-audit fees is too high, it may affect the independence of CPAs in attesting to financial reports. Therefore, the "Regulation (EU) No 537/2014" stipulates that the non-audit fees paid by financial report attestation clients and their groups to firms as well as their affiliated businesses in the current year must not exceed 70% of the average audit fees for the past three years. Overall, the average ratio of NAS fees to total fees for audit engagements of the Big Four in Taiwan in 2022 ranged from 17% to 27%, with a mean of 22% across the four firms. This table represents a decrease from the 27% average observed in 2021. When compared to international benchmarks, this ratio is not considered excessively high, suggesting that NAS fee income does not significantly compromise audit independence.

Table 3-3-1: Ratio of NAS Fees in the Big Four in 2022

Year	Firm A	Firm B	Firm C	Firm D	Average
2022	22%	24%	27%	17%	22%
2021	29%	26%	32%	22%	27%

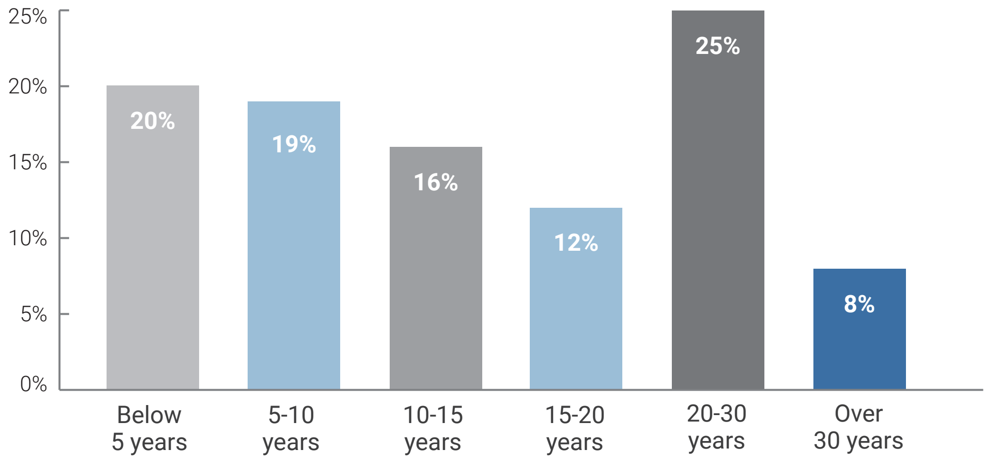
Note: NAS fees refer to fees other than audit service fees, mainly including fees charged for providing tax attestation, consulting, and other services.

2. Familiarity

The degree of familiarity of auditors with the same audit client may affect the independence of performing audit work. The degree of familiarity with an audit client can be measured by the cumulative number of audit years by the same attesting

CPA or the same CPA firm for the same audit client. Therefore, many countries have rotation regulations for CPAs or firms regarding the number of years undertaking engagements. According to Article 68 of TWSQM 1, for attestation engagements of TWSE/TPEx listed companies, the lead CPA must rotate after a period (usually not exceeding 7 years) and must not return for at least a certain period (usually not less than 2 years). However, there are currently no rotation requirement at the firm level in Taiwan.

Chart 3-2: Overall Attestation Years of the Big Four



The bar chart above illustrates the cumulative audit tenure for financial attestation clients of the Big Four as of 2022. Notably, about 33% of these clients have been audited by the same firm for over 20 years. The SFC will continue monitoring the impact of such long audit-client relationships on CPA's independence. Table 3-3-2 disclosed the various number of years for each firm undertook clients.

Table 3-3-2: Statistics on Years of Client Undertaking by the Big Four

Years Undertaken	Firm A	Firm B	Firm C	Firm D
Below 5 years	16%	21%	27%	25%
5-10 years	20%	22%	14%	18%
10-15 years	17%	18%	14%	8%
15-20 years	13%	14%	9%	10%
20-30 years	23%	19%	31%	31%
Over 30 years	11%	6%	5%	8%

D. Monitoring

"Oversight Indicators" measure the deficiencies found by regulatory authorities when supervising firms and CPAs. They are the actual results of the audit quality exhibited by firms and CPAs and thus also serve as a reference for evaluating audit quality. This indicator includes two items: External inspection findings and disciplinary actions (such as CPA disciplinary actions and actions taken under Article 37 of the Securities and Exchanges Act [SEA]) and the number of deficiency letters issued by regulators.

1. External Inspection Results and Enforcement

The maintenance of audit quality relies not only on the self-discipline of CPAs and firm management but also partly on external supervision. Therefore, auditing oversight authorities in various countries have established supervisory measures such as firm inspections, disciplinary actions, and CPAs sanctions. Table 3-4-1 summarizes the deficiencies found in firm inspections conducted by the FSC or the US PCAOB on the Big Four in the past three years. It also includes the number of cases in which the FSC has imposed disciplinary actions or sanctions under the CPA Act or the SEA:

Table 3-4-1: Number of Deficiencies Found in FSC and PCAOB Inspections and Number of Disciplinary Cases Against CPAs in the Past Three Years

		2023	2022	2021
FSC Firm Inspections	Number of Quality Control Deficiencies	1	2	(Note 1)
	Average Number of Deficiencies per Audit Engagement	0.83	0.48	(Note 1)
Disciplinary Actions Against CPAs	Number of CPA Disciplinary Cases and Cases under Article 37 of the SEA	0	3	1
US PCAOB Firm Inspections	Average Number of Deficiencies per Audit Engagement	(Note 2)	0	0

Note 1: The FSC did not conduct inspections of the Big Four in 2021.

Note 2: In 2023, the PCAOB sampled two firms of the Big Four for inspection. It has released the inspection result of zero deficiencies for one firm, while the inspection result for the other has not yet been announced.

2. Notices Issues by the Authorities

The FSC, TWSE, and TPEx are responsible for overseeing Taiwan's capital market. They conduct regular and irregular reviews of the financial reports of TWSE/TPEx-listed companies. If deficiencies are found in the audit or review of these financial reports, the regulatory bodies will send a letter to the attesting CPAs or CPA firms requesting further improvements. As a result, the "Percentage of Deficiency Improvement Letters from the Authority" serves as a crucial external supervision indicator. This ratio is calculated by dividing the number of deficiency letters issued by regulators for CPAs' audits or reviews of financial reports of TWSE/TPEx-listed companies, by the total number of audited or reviewed financial reports of TWSE/TPEx-listed companies in the same year. Table 3-4-2 summarizes the ratio of Regulatory Deficiency letters from the authorities to the Big Four in the past three years. The average ratio of issues raised by regulators in 2023 was 0.21%, a decrease from 2022. Therefore, if observed solely based on this indicator, the audit quality of the Big Four in attesting to the financial reports of TWSE/TPEx-listed companies has improved.

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

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	0.30%	0.00%	052%	0.00%	0.21%
2022	1.00%	0.00%	0.80%	0.58%	0.60%
2021	0.00%	0.00%	0.00%	0.59%	0.15%

E. Conclusion

1. Audit Firm Professionalism

a. The proportion of managerial personnel (including CPAs and managers plus above) in the Big Four accounted for about 18% of the total personnel (17% in the previous year), while general audit personnel accounted for 82% (83% in the previous year). On average, each managerial personnel needed to supervise four auditors. The turnover rate of audit personnel at the manager level and above decreased from 17% in 2021 to 13% in 2022. In addition, in 2022, the average number of years served as a partner CPA by lead CPAs for public companies was twelve years, the same as in 2021, indicating that the changes in the personnel structure of each firm were not significant, and the promotion mechanism should be relatively stable.

b. In 2022, the Big Four significantly increased their professional training and support from consulting personnel. The average annual professional training hours per CPA rose to 110 hours, up from 93 hours in 2021. Similarly, the training hours for audit personnel at the manager level and above (excluding CPAs) increased from an average of 89 hours in 2021 to 95 hours in 2022, demonstrating the Big Four's commitment to enhancing professional training for senior staff. Furthermore, the ratio of consulting professionals to financial report auditors improved from 1:19 in 2021 to 1:18 in 2022, indicating that firms were gradually strengthening the provision of professional consulting human resources.

2. Audit Quality Control

a. An excessive workload for CPAs may compromise audit quality. The number of public companies for which a CPA serves as the lead CPA indicates the volume of critical audit engagements under their responsibility. Moreover, analyzing the proportion of available working hours CPAs dedicate to audit engagements provides a more comprehensive assessment of their workload. In 2022, the average number of public companies for which a CPA in the Big Four served as the lead CPA was about 7.2, which is not significantly different from an average of 7.0 in 2021. The average proportion of available working hours input by CPAs was 60%, a slight increase compared to 55% in 2021. Overall, the audit workload of CPAs in the Big Four slightly increased.

b. Competence and time input by audit personnel is an important factor affecting audit quality, especially CPAs and senior personnel. The higher the proportion of audit hours invested by senior personnel to the overall audit hours, the more positive impact it should have on audit quality. In 2022, the average proportion of financial report audit hours invested by CPAs and managers in the Big Four was 22%, an increase from 19% in 2021, indicating an rising trend in the investment of senior audit personnel in audit engagements.

c. The hours invested by engagement quality review (EQR) personnel in financial report reviews should have a positive impact on improving audit quality. In 2022, the proportion of EQR hours to total audit hours was approximately 1.29% on average, an increase from 1.26% in 2021.

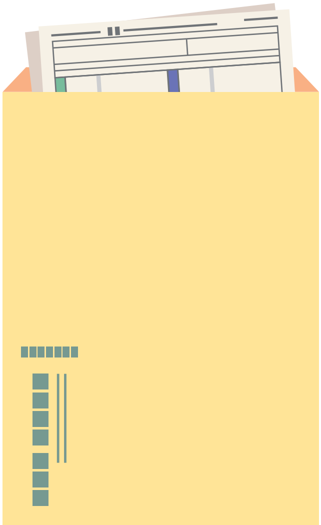
3. Audit Firm Independence

a. Regarding client familiarity, about 33% of the Big Four's clients have been undertaken for more than 20 cumulative years. Currently, Taiwan only has rotation regulations for CPAs but no firms rotation requirements. Internationally, there is growing concern over the potential negative impact of long-term auditor-client relationships on audit quality. The EU (Regulation (EU) No 537/2014) has mandated that CPA firms attest to the same client for a maximum of 10 years, in principle. Similarly, Germany's recent auditing oversight reform has limited the period for firms to attest to the same client to 10 years. In response, the FSC has advised audit committees, through its guidance on interpreting AQIs, to carefully consider the potential negative impact of prolonged auditor-client relationships. If the cumulative number of attestation years is extensive (e.g., 10 to 14 years), the audit committee should thoroughly assess whether the potential negative impact is likely to outweigh the positive impact. The FSC will continue to monitor international developments and evaluate the need for adjusting relevant domestic regulations accordingly.

b. Regarding non-audit service fees, the EU rules limit public company NAS fees to 70% of average audit fees for the past three years. The proportion of NAS fees to total fees for the Big Four ranged from 17% to 27% on average, indicating that the impact of NAS fees on independence should not be significant. The FSC has also reminded audit committees in the AQI guidance that when the proportion of NAS fees to total fees for an audit engagement exceeds 40% to 45%, they should strengthen their understanding of whether the nature of NAS provided by the firm may affect audit independence or if there are other matters that may affect CPA independence.

4. Monitoring

The maintenance of audit quality relies not only on the self-discipline of CPAs and firm management but also partly on external supervision. Therefore, auditing oversight authorities in various countries have established supervisory measures such as firm inspections, disciplinary actions, and CPA sanctions. The average ratio of regulatory deficiency letters for Big Four audits issued by regulators in 2023 decreased compared to 2022. The audit quality of the Big Four in auditing the financial reports of TWSE/TPEx-listed companies has improved.



IV Audit Firm Inspection

A. Purposes of Firm Inspections

According to Article 19 of the CPA Act, 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 operations-related financial condition of an approved CPA firm that provides attestation services to public companies. A CPA firm may not avoid, impede, or refuse to cooperate with such an inspection. The FSC conducts inspections to enhance audit quality, strengthen firms' quality control systems, and mitigate potential risks of audit failure. The inspection mechanism serves as a supervisory function to improve audit quality and raise public confidence in CPAs' audits. The primary goal is not to punish but to identify areas for improvement. However, if during the inspection process, the FSC discovers that CPAs have made significant errors or omissions in attesting to financial reports or are involved in circumstances under Article 61 of the CPA Act that severely impact their credibility, the FSC will report the matter to the CPA Discipline Committee for appropriate disciplinary action to maintain the integrity of the CPA profession.

B. Firm Inspections Methods

The FSC adopts a risk-based approach for inspections of CPA firms, considering factors such as risk assessments of individual firms and CPAs, specific industries, or high-risk audit engagements. For deficiencies found in the quality control system and engagement reviews during the inspection process, firms are required to take necessary measures for improvement to enhance audit quality.

In addition, to align with the FSC's official announcement of five banks in Taiwan as Domestic Systemically Important Banks (D-SIBs) in June 2019, D-SIBs have been included in the samples of audit engagement inspections since 2020 to expand the scope of inspections and understand the audit quality of the banking industry.

1. **Quality Control System:** Based on the content stipulated in TWSQM 1, the inspection focuses on understanding and evaluating the quality control system of firms, including 6 key components: "Leadership's Responsibilities for Quality," "Independence," "Client Acceptance and Continuance," "Human Resources," "Engagement Performance," and "Monitoring." The inspection methods are as follows:

    a. Through interviews and reviews of relevant written materials, understand the policies and procedures of the firm's quality control.

    b. Evaluate the design of the inspected firm's internal quality control system.

    c. perform appropriate tests to assess whether the quality control system is effectively implemented.

2. **Audit Engagement Reviews:** With reference to the inspection methods of foreign auditing oversight authorities, starting from 2019, the "key audit matters" (KAMs) approach has been adopted for the audit engagement review section. The FSC selects several accounting items or audit procedures for in-depth inspections based on the level of audit risk, prevalent domestic and international deficiencies, or regulatory requirements. The number of audit engagements reviewed is expanded to ensure a comprehensive assessment. For the Big Four, an average of 4 to 8 audit engagements are chosen for in-depth audits, while for non-Big Four firms, an average of 2 to 4 audit cases are selected. The inspection methods are as follows:

    a. Interview the CPAs and lead audit managers of the audit engagement to understand the risk assessment, KAMs and audit methods of the engagement.

    b. Review the working papers to understand whether the audit procedures comply with the "Regulations Governing Financial Statement Audit and Attestation Engagements of Certified Public Accountants" (the Audit Regulations) and auditing standards.

C. Follow-Up Procedures after Inspection

The FSC adopts a risk-based approach for firm inspections. The inspection results do not represent all engagements and all inspected CPA firms in the current inspection, and the inspection results do not represent certification of the firm's quality control system and audit engagements. If other deficiencies are found in these audit engagements by the FSC or other competent authorities in the future, they should still be handled in accordance with the law. The follow-up procedures after the completion of the inspection are as follows:

Within 1 to 2 months after the completion of the firm inspection, the FSC will summarize the inspection results, prepare a draft inspection report, and send a letter requesting the inspected entity to provide a written response. After considering the firm's opinions, the FSC will issue the final inspection report to the firm. The inspected firm shall submit an improvement plan to the FSC within two months. If it is found that the inspected entity has not effectively implemented the improvement plan or has not made improvements and the circumstances are considered to be serious enough to affect the reputation of CPA, the FSC may revoke or abolish the approval for the inspected entity to audit and attest to the financial reports of public companies in accordance with Article 10, Paragraph 1, Subparagraph 6 of the "Regulations Governing Approval of Certified Public Accountants to Audit and Attest to the Financial Reports of Public Companies."

Communication Between Management, Audit Committees, and CPAs

The management and audit committee of a company are responsible for preparing or overseeing the fair presentation of the company's financial statements. To ensure the quality of financial reporting preparation and information disclosure, the management and audit committee should enhance communication with CPAs. The FSC's firm inspection reports or common inspection deficiencies released by IFIAR over the years can be included in the communication matters with CPAs to ensure that CPAs properly perform relevant audit work.

D. Key Findings for 2023 Inspection

The FSC conducted firm inspections in 2023. Considering the firm inspection cycle and risk factors, this inspection covered two large joint firms and one medium-sized joint firm. The inspection primarily focused on the firms' quality control systems and a review of audit engagements. The overall inspection results are as follows:

1. Quality Control System Deficiencies

In the 2023 inspection, a total of 20 quality control system deficiencies were found, which is not significantly different from the 18 deficiencies found in the inspected firms in the previous year (2022). This is mainly because the inspected firm size in the two periods is similar. In both 2023 and 2022, the inspected entities were two large firms and one small/medium-sized firm. Small/medium-sized firms have fewer audit resources and personnel compared to large firms, so there are relatively more inspection deficiencies.

Table 4-1: Comparison of Quality Control Audit Deficiencies

	2023	2022	2021	2020	2019
Number of Inspected Firms	3	3	4	4	3
Number of Deficiencies Found	20	18	62	35	3
Average Number of Deficiencies per Firm	6.3	6.0	15.5	8.8	1.0

After understanding and evaluating the design and implementation of the firm's quality control system, the inspection team identified the following quality control deficiencies:

Independence and Ethics

- The firm did not adjust its internal code of ethics in accordance with the newly revised bulletin on the code of ethics.
- The firm failed to notify its personnel of newly accepted engagements in time, which hindered their ability to determine compliance with independence standards.
- The independence declaration of firm personnel and the declaration of audit personnel only state that "I" or "I or my spouse" have no investment or benefit-sharing relationship with the client, without fully including "family members." Furthermore, the firm failed to obtain independence declarations from newly hired personnel.
- The audit personnel or reviewers in the working papers failed to sign the audit personnel independence declaration.
- Although the firm has an independence check mechanism in place, it only applies to personnel at the manager level and above, whereas the sampling frequency and proportion for each level of personnel were failed to be specified.

Client Acceptance and Continuance

- The firm failed to document the evaluation basis for each assessment item in the "Investigation Form Before Accepting New Clients" and "Evaluation Form for Continuing Clients."

Human Resources

- Public company financial report attestation engagements were significantly concentrated on the same lead CPA, and multiple deficiencies were found in the inspected attestation engagements. The lead attesting CPA failed to have adequate time to perform duties.
- The firm failed to include quality control-related matters as a condition for promotion to partner.
- The distribution of partner profits was not executed according to the calculation factors listed in the "Partner Management Regulations."

Engagement Performance

- Some audit engagements were performed without using the firm's audit program guidelines or the latest version of the guidelines, failing to effectively control that each engagement was executed in accordance with necessary audit procedures as required.
- Some of the firm's audit procedures, forms, and quality control management forms were not updated in accordance with newly issued IFRS accounting standards or the firm's quality control system.
- The lead CPA failed to sign and date the "Audit Planning and Completion Memorandum," making it impossible to check whether the audit plan had been properly reviewed and approved before the commencement of the audit work. Furthermore, the main audit procedures were reviewed by only one lead attesting CPA, with no evidence of participation in discussion or review by another lead attesting CPA.
- The EQCR only signed the "EQR Checklist," without a description or index of the selected review scope. The audit planning or execution-related working papers also lacked review traces, making it impossible to confirm whether the relevant important review work was actually completed before the audit report date.
- E-files related to the working papers of public interest or sensitive audit engagements were not encrypted and preserved. Moreover, the firm failed to design and implement appropriate controls for confidentiality, access, and retrieval of the aforementioned files.
- The E-files used for audit work were uploaded to the cloud; however, the firm failed to establish policies and procedures related to cloud information security and risk management.

Monitoring

- The firm's "Engagement Quality Tracking and Monitoring Guidelines" regarding the policy of "before the issuance of the audit report" were similar to the EQR policy, which may cause confusion. Additionally, the timeline for tracking and monitoring the overall quality control elements of the firm failed to establish.
- The personnel performing the tracking and monitoring failed to meet the firm's policy requirement of being a partner CPA.
- The selection criteria for the firm's tracking and monitoring of audit engagements failed to consider factors such as past tracking and monitoring results and specific engagement risks.
- The engagement tracking and monitoring form failed to have the handwritten signature of the tracking and monitoring personnel, and the working paper index was not recorded for individual items.
- The firm failed to clearly specify policies and procedures for complaints and allegations.

2. Review of Audit Engagement Deficiencies

In 2023, 16 audit engagements were selected for review, and a total of nineteen audit engagement deficiencies were found, a decrease from the 23 deficiencies identified in the previous year. The average number of deficiencies per audit engagement was similar in both 2023 and 2022, based on the comparable scales of the inspected entities, which included 2 large firms and 1 small and medium-sized firm in each year.

Table 4-2: Comparison of Audit Engagement Deficiencies in Recent Years

	2023	2022	2021	2020	2019
Deficiencies Identified	19	23	31	44	5
Audit Engagements Reviewed	16	21	12	24	24
Average Deficiencies per Engagement	1.2	1.1	2.58	1.83	0.2

Substantive Analytical Procedures

- For accounts receivable confirmations and confirmations of investments using the equity method, some of the confirmation replies only had the company's uniform invoice seal or the accounting supervisor's signature field signed in English. The working papers failed to demonstrate that the CPA performed appropriate audit procedures to confirm the reliability of the confirmation replies.
- According to the working papers, some of the notes receivable of significant subsidiaries were collected by banks on behalf of the company. However, the bank's confirmation reply stated that no notes were collected on behalf of the company. The CPA failed to investigate the reason for the discrepancy.
- For non-replies to accounts receivable confirmations, appropriate follow-up procedures were not performed, and appropriate alternative audit procedures were not adopted.
- Some of the confirmation letters for transactions with financial institutions, long-term investments, accounts payable, and accounts receivable were sent by personal delivery, fax, or email, but the traces of confirmation replies were not preserved.

Accounting Estimates/Fair Value Measurement

- For property, plant, and equipment asset items that have been identified as possibly impaired, the appropriateness of the estimated recoverable amount was not examined.
- The CPA's audit report listed the impairment assessment of long-term non-financial assets as a KAM, which stated that sensitivity analysis had been performed on the relevant significant assumptions used by the inspected client. However, the working papers failed to include audit procedures for performing sensitivity analysis.
- It was not examined whether there were signs indicating possible impairment of property, plant, and equipment.

Documentation

- The conclusion of the communication with those charged with governance to determine matters of high concern, the process and reasons for determining whether matters of high concern were listed as KAMs, and other matters were not documented in the audit working papers as evidence for determining KAMs.
- Participation in the inventory count of hand-held notes receivable of significant subsidiaries was not included in the working papers.
- The record of examining whether the company had incorporated forward-looking information into the assessment of expected credit impairment of accounts receivable in accordance with IFRS 9 was not included in the audit working papers.
- There were two behaves failed to record in the working papers: The process of determining the materiality amount and the evidence of performing accounts receivable confirmation procedures. In addition, when performing audit procedures for "Investments Accounted for Using the Equity Method," only self-prepared financial statements were obtained for some components. However, the working papers stated that they were verified against the audited financial reports, and the aforementioned self-prepared financial statements were not consolidated into the audit working papers.
- Some of the evidence for performing the sales cutoff test and the record of examining whether the company had incorporated forward-looking information into the assessment of expected credit impairment of accounts receivable in accordance with IFRS 9 were not included in the audit working papers. Additionally, for some components, the CPA observed the inventory count through video conferencing but failed to explain the method and retain relevant evidence in the working papers.

Key Audit Matters (KAMs)

- The working papers failed to demonstrate the communication with those charged with governance to determine matters of high concern and the reasons for determining whether each matter of high concern was a KAM.
- There was no record of communicating the determination of KAMs with those charged with governance.

Materiality

- The consideration factors for determining the overall materiality and performance materiality amounts were not recorded in the working papers.

Internal Control Testing

- The company's top 10 sales customers for the current period were not completely included in the internal control audit samples.

Adequacy of Financial Statement Presentation and Disclosures

- For the "Financial assets at fair value through other comprehensive income-recycle" item in the parent company only financial report, the assessed adjustment amount was between the performance materiality and clearly trivial threshold, but it was not included in the "Summary of Unadjusted Differences" (SUD) to aggregate the uncorrected misstatements and evaluate the impact on the financial statements.
- It was not examined that the company failed to disclose the accounting policies and related information of investment properties in the notes to the financial statements in accordance with paragraphs 75 and 79 of IAS 40.

E. Summary of Deficiencies in Recent Years

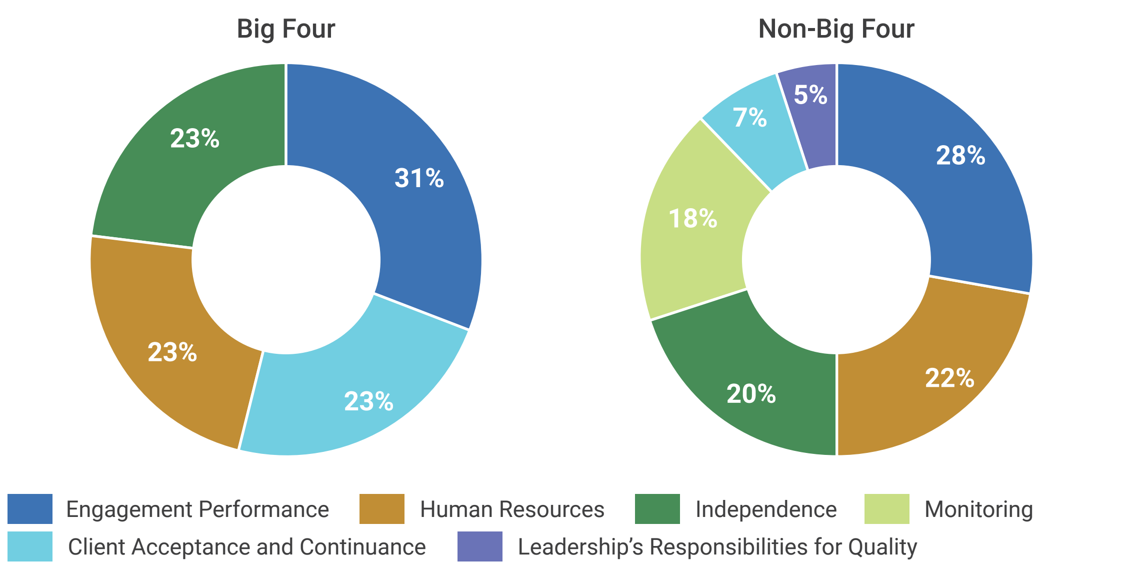
1. Quality Control System Deficiencies

As of 2023, the FSC has completed 5 inspection cycles of the Big Four, with a total of 54 firm inspections (including large, medium, and small firms). Table 4-3 summarizes the quality control system deficiencies found in firm inspections in Taiwan over the past five years (2019-2023).

Table 4-3: Quality Control System Audit Deficiencies in the Past Five Years

	2019	2020	2021	2022	2023	Total
Leadership Responsibilities	0	2	3	2	0	7
Independence	0	5	17	4	5	31
Client Acceptance and Continuance	0	3	5	1	1	10
Human Resources	0	11	10	4	3	6
Engagement Performance	3	9	14	3	6	35
Monitoring	0	5	13	4	5	27
Total	3	35	62	18	20	138

Chart 4-1: Proportion of Quality Control Deficiencies in the Big Four and Non-Big Four in the Past Five Years



Regarding above deficiencies, which were categorized by firm size, those items of the Big Four are relatively concentrated, while those of non-Big Four firms are more dispersed over the years. The content of the deficiencies of the two is further analyzed as follows:

a. Big Four: Among the deficiencies in the past five years, approximately one-third are related to “Engagement Performance,” primarily due to working papers not being filed within the firm’s established deadline, such as not using the latest version of the firm’s audit program guidelines. Deficiencies in “Client Acceptance and Continuance” fell into two scenarios: firstly, some policies still refer to either inapplicable auditing standards or inconsistence on continuance among different policies; secondly, the reasonableness of the selected peer companies is not explained when evaluating client acceptance, or the evaluation content is incomplete. Deficiencies in “Human Resources” are related to partner performance evaluations not being properly linked to audit quality. In contrast, those in “Independence” involve not obtaining independence declarations from experts participating in audits or not being performed for audit personnel below the manager level.

b. Non-Big Four: The main deficiencies are related to “Engagement Performance,” “Human Resources,” and “Independence,” which are described separately as follows:

c. Engagement Performance: Some audit procedures or forms are not updated in accordance with the latest regulations. The lead CPA does not sign and date the relevant working papers of the audit planning. The qualification standards for EQCR are either not established, or EQR are performed by unqualified personnel. EQCR reviewers do not track their reviews on the working papers or sign and date their reviews. The working paper-related regulations or management are incomplete, such as not setting a deadline for filing working papers or a retention period for regulation, working papers not being filed within the deadline, working paper revision records being later than the filed date, e-working papers under sensitive engagements not being encrypted and managed, and other issues.

d. Human Resources: The main deficiencies are not fully establishing promotion and reward standards for partners or general employees. Partner performance evaluations or promotion conditions were not being properly linked to audit quality, and not establishing a control mechanism for the number of hours of personnel’s education and training.

e. Independence: The main deficiencies are not revising internal policies in accordance with the latest Code of Ethics, not clearly specifying procedures and measures for independence reviews when providing NAS, not establishing or implementing an independence control mechanism (such as only checking audit personnel at the manager level and above or not setting the frequency and proportion of sampling checks), not establishing or not effectively controlling CPA rotation or not establishing a rotation mechanism for senior personnel (such as assistant managers).

f. Monitoring: The main deficiencies included the selection criteria for monitoring do not consider specific engagement risks and past monitoring results, the qualifications of personnel performing monitoring do not comply with the firm's policies, and CPAs from the same business division mutually monitoring each other. Other issues involve not taking appropriate improvement measures for monitoring deficiencies, incomplete supporting documents for evaluation matters, and not establishing policies on the qualification conditions of monitoring personnel, inspection cycle, and follow-up improvements.

2. Review of Audit Engagements

As of 2023, the FSC has completed five inspection cycles of the Big Four, with a total of 54 firm inspections. Table 4-4 summarizes the audit engagement deficiencies found in firm inspections in Taiwan over the past five years (2019-2023), which are mainly related to "Accounting Estimates/Fair Value Measurement," "Paperwork Documentation Deficiencies," "KAMs," and "Substantive Analytical Procedures."

Table 4-4: Summary of Audit Engagement Inspection Deficiencies in the Past Five Years

Year	2019	2020	2021	2022	2023	Total
Substantive Analytical Procedures	0	2	7	3	4	16
Accounting Estimates/Fair Value Measurement	0	15	6	5	3	29
Paperwork Documentation Deficiencies	0	4	6	7	5	22
Key Audit Matters	2	8	4	4	2	20
Internal Control Testing	0	3	3	0	1	3
Inventory Audit	0	1	2	0	0	3
Materiality	0	0	1	1	1	3
Financial Reporting/Presentation and Disclosure	0	2	1	1	2	6
Others	0	0	1	2	1	4
Revenue Recognition	3	4	0	0	0	7
Group Audit	0	0	0	0	0	0
Fraud Audit	0	0	0	0	0	0
Risk Assessment	0	3	0	0	0	3
Related Party Transactions	0	0	0	0	0	0
Case Supervision and Management	0	0	0	0	0	0
Audit Sampling	0	0	0	0	0	0
Use of Management's Expert	0	2	0	0	0	2
Lendings and Endorsements/Guarantees	0	0	0	0	0	0
Total	**5**	**44**	**31**	**23**	**19**	**122**

Chart 4-2: Audit Engagement Deficiencies in the Big Four and Non-Big Four in the Past Five Years

Chart 4-2 shows the audit engagement review deficiencies of the Big Four and non-Big Four firms over the past five years. Overall, the Big Four have fewer audit engagement deficiencies due to their more abundant audit resources. Common deficiencies in the items for reference are listed below:

a. Accounting Estimates/Fair Value Measurement: The main deficiencies included the CPA did not understand whether the inspected company's allowance for losses provisioning policy has considered expected credit losses in accordance with IFRS 9 (e.g. incorporating forward-looking information into the assessment of expected credit impairment of accounts receivable), identified asset items that may be impaired but did not examine the appropriateness of the estimated recoverable amount, did not examine or properly evaluate whether the inspected company's assets (e.g. financial assets, property, plant, and equipment, right-of-use assets and investment properties, goodwill, and more.) have signs of possible impairment, and whether relevant decommissioning costs need to be estimated.

b. Paperwork Documentation Deficiencies: The main deficiencies included the CPA did not record the consideration factors for determining the materiality level (including overall materiality, performance materiality, clearly trivial threshold, and more) in the working papers, did not include the evidence of performing accounts receivable confirmation procedures in the working papers, did not properly record the understanding of the inspected company and its environment and conclusions in the working papers, did not completely include the inventory price testing performed in the paper and e-working papers, working paper incompleteness (such as not signing the date on the audit plan, not filing the audit team's independence declarations together), and beyond.

c. Key Audit Matters: the main deficiencies included insufficient evidence in the working papers to show the CPA has communicated with clients' governance bodies to determine high-concern matters either the conclusion or the process and reasons are listed as KAMs. As for small/medium-sized firms, there are two implementation deficiencies: firstly the CPA not discussing KAMs with clients' governance bodies, the rest was not performing audits in accordance with the response procedures for KAMs.

d. Substantive Analytical Procedures: The main deficiencies are related to accounts receivable confirmations, such as not performing appropriate audit procedures to confirm the reliability of the confirmation replies, not retaining the traces of confirmation replies, not obtaining bank confirmation replies and not performing appropriate confirmation follow-up procedures, not examining the reasons for discrepancies in accounts receivable confirmation replies, and other issues. Small/medium-sized firms also had the deficiency of not comparing and analyzing the relationship between accounts receivable, notes receivable, and their respective growth rates, as well as not comparing them with operating revenue growth rates in accordance with the Audit Regulations.

From the audit engagement inspection deficiencies in the past five years, it can be observed that the deficiencies in "Accounting Estimates/Fair Value Measurement" have gradually decreased since 2021 (many deficiencies in the past were not considering expected credit losses in accordance with IFRS 9). In addition, the deficiencies in "Paperwork Documentation Deficiencies" in 2023 also decreased compared to 2022, indicating that firms should have made improvements to the common deficiencies found in the FSC's inspections in previous years. In 2023, the number of deficiencies in "Substantive Analytical Procedures" was higher than in 2022, mainly due to not confirming the reliability of accounts receivable confirmation replies and not examining the reasons for discrepancies in confirmation replies. The FSC will continue to observe whether firms have made improvements when conducting firm inspections in the future.

V

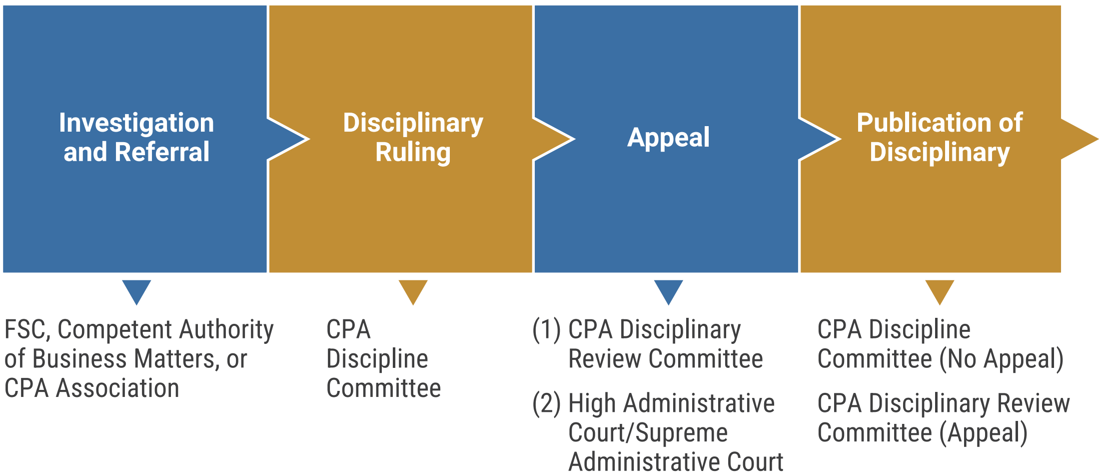
Disciplines and Sanctions of CPAs

In addition to self-discipline by the industry, appropriate supervision by the competent authority is also necessary to improve the audit quality of CPAs. For CPAs who do not comply with relevant regulations and have serious deficiencies when performing their duties, if appropriate disciplinary actions are taken, it can not only have a warning effect on the disciplined CPAs but also remind all CPAs to strengthen their professional attention when performing auditing to reduce the risk of audit failure.

A. Disciplinary Procedures

The disciplinary actions against CPAs in Taiwan are carried out by the CPA Discipline Committee in accordance with the CPA Act. The committee is composed of members from the industry, government, and academia. If a CPA is involved in any of the circumstances listed in Article 61 of the CPA Act, the competent authority of the business matter or the CPA Associations may report to the CPA Discipline Committee for disciplinary action. According to Article 62 of the CPA Act, the disciplinary actions against CPAs include fines (NT$120,000 to NT$1.2 million), warnings, reprimands, suspension of practice (two months to two years), or expulsion.

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.



B. Disciplinary Actions in Recent Years

Table 5-1 summarizes the number of cases in which disciplinary actions were resolved and confirmed by the CPA Discipline Committee in the past three years. The number of cases in each year was two, five, and five, respectively. The number of CPAs disciplined in each year was 4, 10, and 9, respectively.

Table 5-1: Number of Cases and CPAs with Confirmed Disciplinary Decisions

Year	2021	2022	2023
Cases	2	5	5
CPAs	4	10	9

In addition, the names of the disciplined CPAs, reasons for disciplinary action, and results of the confirmed cases of CPA disciplinary actions by the FSC in the past five years (2019-2023) are announced on the FSC's website. An analysis of the results and deficiency circumstances of the confirmed cases in the past five years is as follows:

Chart 5-1: Discipline Committee Actions of Finalized CPA Cases in Recent Five Years

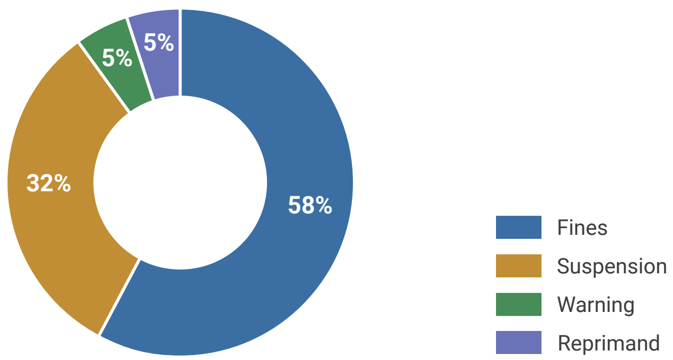
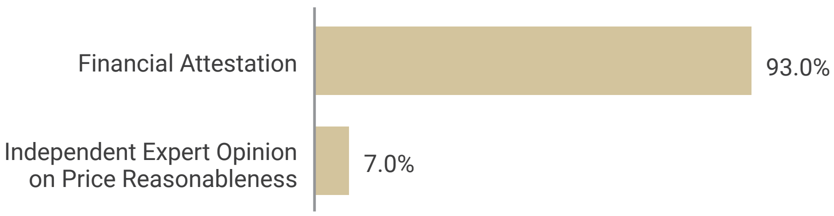


Chart 5-1 disclosed that among the confirmed disciplinary cases in the past five years, 58% of the disciplinary actions were fines, followed by suspension of practice (the longest suspension period was 9 months), accounting to 32%. Among the cases with fines, 47% of the cases were fined the maximum amount of NT$1.2 million.

Chart 5-2: Nature of Disciplinary Cases in the Past Five Years



Furthermore, if categorized according to the nature of the disciplinary cases, 93% of the disciplinary cases were financial report attestation engagements, and 7% of the cases were independent expert opinion letters on price reasonableness.

C. Sanctions Against CPAs

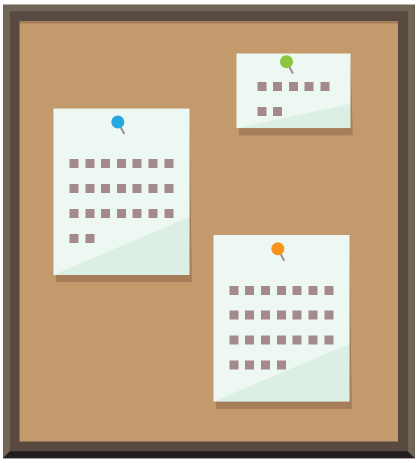
The aforementioned disciplinary regulations for CPAs established under the CPA Act are penalties for CPAs who violate relevant laws and regulations or professional ethics and discipline when performing their duties. To strengthen the management of public companies, Article 37 of the Securities and Exchange Act (the SEA) stipulates that CPAs who audit and attest to the financial reports of public companies must be approved by the competent authority. If errors or omissions occur, the FSC may, depending on the severity of the circumstances, impose disciplinary actions such as warnings, suspension of attestation for a period not exceeding two years, or revocation of attestation approval. 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 the disciplined person objects, they must file a petition with the Executive Yuan through the FSC in accordance with the provisions of the Administrative Appeal Act. However, according to Article 93, Paragraph 1 of the Administrative Appeal Act, unless otherwise stipulated by law, the filing of an administrative appeal does not suspend the execution of the original disciplinary action. Therefore, even if a CPA disciplined under the SEA files an administrative appeal or subsequent administrative litigation in accordance with the aforementioned Administrative Appeal Act, the original disciplinary action must still be executed.

D. 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 SEA. The FSC discloses details of SEA disciplinary actions, including names of disciplined CPAs, punishment types, and results on its website.

VI



Supervision Measures Implemented in 2023

A. Promoting Adoption of Audit Quality Indicators (AQI) by TWSE/TPEx-Listed Companies

1. Issued AQI Framework and Templates

a. To enhance the audit quality of financial reports in Taiwan, the FSC released the "Audit Quality Indicator (AQI) Disclosure Framework and Template" on August 19th, 2021. It covers five dimensions and thirteen indicator items, including professionalism, quality control, independence, supervision, and innovation capability, to assist companies and audit committees in more effectively and objectively evaluating the ability and commitment of CPA firms and audit teams to improve audit quality when appointing CPAs.

b. Two-phase approach to promote the AQIs adoption by domestic companies:

   i. **Phase 1:** When appointing CPAs for the 2023 financial report audit, TWSE/TPEx-listed companies can obtain AQI information from the CPAs as a reference for evaluating the appointment of CPAs.

ii. **Phase 2:** After 2023, the FSC will appropriately evaluate the feasibility of adopting AQIs by small/medium-sized firms and non-TWSE/TPEx-listed public companies based on the adoption and effectiveness of AQIs by the Big Four and TWSE/TPEx-listed companies.

2. Issued Guidance to AQI Framework and Templates

The FSC released the "Guidance for Audit Committees on Interpreting the Audit Quality Indicators" and "Guidance for CPA firms on Preparing Audit Quality Indicators" on June 29th, 2022, to assist CPA firms in compiling AQI information and audit committees in interpreting AQI information. Subsequently, on October 26th, 2022, the FSC announced peer AQI information of CPA firms in the Audit Quality section of the SFB official website for the convenience of TWSE/TPEx-listed companies in comparing and referring to when interpreting AQI information.

B. Encouraging Firms to Publish Transparency Reports to Improve Governance Transparency

The FSC released the "Principles for Preparation of CPA Firm Transparency Reports" at the end of December 2021 as a basis for CPA firms to prepare transparency reports, with the expectation of promoting healthy competition among firms by enhancing the transparency of CPA firms, thereby improving domestic audit quality.

The content of transparency reports mainly includes the firm's overview and legal structure, governance structure and management information, risk control and quality control system information, audit quality-related indicators, financial and business information, and other relevant details. The disclosed content should be factual and not intended to mislead, market, or sell services. Additionally, to enable external parties to understand the influence of joining an international alliance, firms should disclose whether it elevates audit quality and whether providing diversified services may affect the firm's culture of focusing on audit quality. If an CPA firm is a member of an international alliance, it should also disclose the risk control and internal control system management measures and the support provided by the international alliance to member firms. Furthermore, the firm should strengthen the disclosure of information on related parties (including subsidiaries and affiliated companies), such as their names, business overviews, and the proportion of revenue from NAS.

The FSC adopts a two-phase approach to sequentially promote the publication of transparency reports by CPA firms with reference to international promotion experiences:

Phase 1: The Big Four publish their first transparency report in 2023 complied with the preparation principles.

Phase 2: After 2023, the FSC will appropriately evaluate the feasibility of publishing transparency reports by small and medium-sized firms based on the situation and effectiveness of the publication of transparency reports by the Big Four.

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

1. **Firm Categorization:** Based on the degree of impact on the public interest (for example, using the number of public companies attested as the initial grading standard for firms).

2. **Tailored Regulatory Scrutiny:** Considering the degree of impact on the public interest, increasing the inspection frequency for firms that attest to a larger number of public companies. In addition, with reference to the AQIs in the supervision dimension or the quality control dimension, for firms that have abnormalities compared to the average value of the same level, have poor overall audit quality performance, or frequently have audit failures, the FSC will strengthen audits and increase the inspection frequency.

VII Conclusion

The FSC has announced Taiwan's AQI items and related guidance to assist companies' audit committees in more carefully evaluating the selection of firms and attesting CPAs. It encourages firms to publish transparency reports to externally disclose relevant information on firm governance and audit quality, thereby increasing the transparency of firm governance. It has also included some AQIs in the FSC's differentiated oversight of firms.

Given the importance of audit quality to the capital market, the FSC will continue to carry out its oversight work and supervise CPA firms to improve audit quality. Maintaining and improving audit quality is not only the responsibility of CPAs but also the duty of company management and audit committees to work together to enhance audit quality. The management or audit committee should strengthen communication with CPAs. The FSC also continues to include the deficiencies summarized in this auditing oversight report in the communication matters with CPAs to ensure that CPAs properly perform relevant audit work, improve audit quality, and thereby safeguard the interests of the investing public.

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