



# 2024

## AUDIT OVERSIGHT REPORT

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**Financial Supervisory Commission R.O.C. (Taiwan)**

# Table of Contents

	<b>I.</b> Audit Oversight in Taiwan ..... 01	
<b>II.</b> Overview of the Audit Market in Taiwan ..... 04		
	<b>III.</b> Audit Quality Information ..... 10	
<b>IV.</b> Accounting Firm Inspections..... 24		
	<b>V.</b> Discipline and Sanctions of CPAs..... 35	
<b>VI.</b> Supervision Measures Implemented in Recent Years..... 38		
	<b>VII.</b> Conclusion..... 41	



# I.

## AUDIT OVERSIGHT IN TAIWAN

Taiwan's audit oversight authority, the Financial Supervisory Commission (FSC), was established on July 1, 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 (SFB), operating under the FSC, is responsible for the supervision, management, policymaking, enacting, planning and execution of securities and futures markets as well as the securities and futures industry. Among its key functions, the SFB is responsible for the oversight of auditing in Taiwan, including supervising the establishment of auditing standards; managing the approval, registration, and practice of certified public accountants (CPAs); conducting inspections of CPA firms; and enforcing disciplinary actions against CPAs. The FSC is also the regulatory authority under the Certified Public Accountant Act (CPA Act).



## THE FSC'S FOUR MAJOR AUDIT OVERSIGHT FUNCTIONS



### ESTABLISHMENT OF OVERSIGHT AUDIT STANDARDS

Oversee the Accounting Research and Development Foundation (ARDF) in developing national auditing standards with reference to international auditing standards.



### APPROVAL, REGISTRATION, AND PRACTICE OF CERTIFIED PUBLIC ACCOUNTANTS (CPAs)

Manage the registration and practice of CPAs and approve CPAs to perform attestation services for the financial reports of public companies.



### ACCOUNTING FIRM INSPECTIONS

Conduct annual inspections of accounting firms to understand the firms and CPAs' compliance with relevant laws and regulations.



### DISCIPLINARY ACTIONS AGAINST CPAs

Impose appropriate disciplinary actions against CPAs who violate the CPA Act, the Securities and Exchange Act (SEA), and other relevant regulations.

## A. OVERVIEW OF AUDIT OVERSIGHT IN THE PAST YEAR

### 1. Oversight of Audit Standards Development

The FSC supervised the Accounting Research and Development Foundation (ARDF) in revising domestic standards with reference to the International Auditing and Assurance Standards Board's (IAASB) standards on auditing, review, assurance, other related services, and quality management in order to align with international practices. Since 2022, following the issuance of the Framework of Standards Governing CPA Services by the Auditing Standards Committee, which restructured Taiwan's auditing standards framework, the ARDF issued the 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; Taiwan Standards on Quality Management 2 (TWSQM 2) Engagement Quality Reviews; and Assurance Standard No. 3410 Assurance Engagements on Greenhouse Gas Statements. In 2024, Auditing Standard No. 220 Quality Management for an Audit of Financial Statements and No. 600 Special Considerations for Audits of Group Financial Statements were also issued.

### 2. Approval, Registration, and Practice of CPAs

As of December 31, 2024, the number of registered practicing CPAs in Taiwan was 4,107, of which 700 (approximately 17.04%) were approved by the FSC to perform attestation services for the financial reports of public companies. There were 2,376 registered accounting firms, of which 51 (approximately 2.1%) were approved by the FSC to undertake attestation cases for the financial reports of public companies.

### 3. Accounting Firm Inspections

The FSC has conducted annual inspections of domestic accounting firms since 2009, focusing on the firms' quality control systems and reviews of audit engagements. In 2024, two large accounting firms and one medium-sized accounting firm were inspected. For detailed inspection results, please refer to IV. Firm Inspections and 4. 2024 Accounting Firm Inspection Results.

### 4. Disciplinary Actions Against CPAs

In 2024, there were five cases in which disciplinary actions were imposed by the CPA Discipline Committee, and the number of CPAs disciplined was nine.



## B. INTERNATIONAL AUDIT OVERSIGHT COOPERATION

With the rapid advancement of globalization, multinational companies are actively expanding their businesses and establishing a global presence. As a result, audit oversight activities also require international oversight cooperation. In light of this, the FSC actively participates in international auditing oversight matters, joining the International Forum of Independent Audit Regulators (IFIAR), and maintaining close cooperative relationships with auditing oversight authorities in the United States, Japan, Singapore, along with other countries.

### 1. Serving as a Board Member of IFIAR, Actively Participating in Related Initiatives and Engaging in Experience Exchange

IFIAR is the largest organization for auditing oversight authorities in the world. The FSC joined IFIAR in 2008 and has since actively participated in its various activities. It hosted the 2015 IFIAR Plenary Meeting in Taipei, was elected as a Board Member in 2019, and re-elected in 2023. It continues to engage in board discussions and decision-making. The IFIAR Board is the organization's highest governing body and currently consists of 16 members, including those from the United States, the United Kingdom, Japan, Germany, France, and our organization. The FSC is also a member of the Audit & Finance Committee (AFC) which operates under the Board. IFIAR has five working groups under its Board including the Enforcement Working Group (EWG); the Global Audit Quality Working Group (GAQWG); and the Inspection Workshop Working Group (IWWG). 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, in response 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 how various countries are reporting, assuring, and overseeing sustainability disclosures. This helps track international developments in auditing and assurance and serves as a reference for policymaking.

### 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. The U.S. is the primary overseas fundraising market for Taiwanese companies, and in response to the need for oversight of Taiwanese companies listed in the U.S., the FSC has conducted joint inspections with PCAOB-registered firms since 2011 to strengthen auditing oversight cooperation, share inspection information, and exchange inspection techniques and experiences.

# II.

## OVERVIEW OF THE AUDIT MARKET IN TAIWAN

The following analysis provides an overview of the accounting industry in Taiwan and is based on the 2023 Report on the Survey of Accounting Firms Service published in December 2024 and relevant statistical data from the FSC. It examines aspects such as the number of CPAs and the organizational structure and operational scale of accounting firms. It also addresses the audit market for public companies based on market share and details the challenges faced by the accounting industry in recent years.





## A. OVERVIEW OF THE ACCOUNTING INDUSTRY

### 1. Number of CPAs

Table 2-1 summarizes the number of individuals holding CPA certificates, those registered as practicing CPAs, and those approved by the FSC to attest the financial reports of public companies in Taiwan over the past three years (2022-2024). The data indicates that among those holding CPA certificates in Taiwan, approximately 45% of individuals apply to the CPA Association to register as practicing CPAs and approximately 8% are approved by the FSC to attest to the financial reports for public companies.

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

CPA Status <sup>1</sup>	2022		2023		2024	
	Number of CPAs	Ratio	Number of CPAs	Ratio	Number of CPAs	Ratio
Individuals approved to provide attestation for public companies	709	8%	692	8%	700	8%
Individuals registered as practicing CPAs	3,883	45%	4,004	46%	4,107	45%
Individuals holding CPA certificates but not practicing	4,669	55%	4,795	54%	4,948	55%
Individuals holding CPA certificates	8,552	100%	8,799	100%	9,055	100%

### 2. Number and Organizational Types of Accounting Firms

An overview of the status of accounting firms in Taiwan at the end of the past three years (2022-2024) revealed that the number of firms increased from 2,226 at the end of 2022 to 2,376 at the end of 2024. This indicates a growth of about 6.7% that is mainly due to the increase in sole practitioner accounting firms. According to the FSC's statistical findings, as of the end of 2024, sole practitioner and joint accounting firms were still the main types of firms in Taiwan, accounting for 76% and 22%, respectively.

**Table 2-2: Types of Accounting Firms**

Types of Firms <sup>2</sup>	2022		2023		2024	
	Number of Firms	Ratio	Number of Firms	Ratio	Number of Firms	Ratio
Sole Practitioner	1,717	77%	1,750	77%	1,810	76%
Joint	469	21%	493	21%	524	22%
Co-Location	39	2%	40	2%	2%	2%
Incorporated	1	-	1	-	-	-
Total	2,226	100%	2,284	100%	2,376	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).

1. According to the CPA Act, a national of the Republic of China who passes the CPA examination, holds a CPA certificate and acquires CPA qualifications may serve as a CPA. Those holding CPA certificates should establish or join an accounting firm, apply for practice registration with the regulatory authority, and join the local CPA Association where the accounting 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 joint or incorporated accounting firm as stipulated in Article 15 of the CPA Act.

2. According to the provisions of the CPA Act in Taiwan, accounting firms can be categorized into sole practitioner accounting firms, co-location accounting firms (where CPAs share office space, individually undertake business, and individually assume responsibility), joint accounting firms, and incorporated accounting firms (when performing attestation services, the seal must be affixed by the incorporated accounting firm and the CPA conducting the attestation).

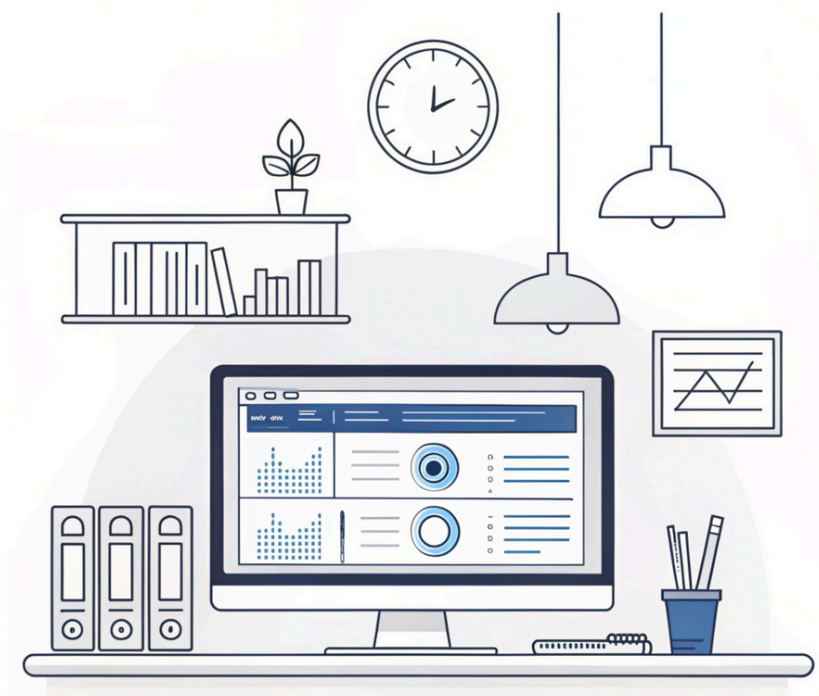
### 3. Scale of Operations

According to the statistical results of the 2023 Report on the Survey of Accounting Firms Service, 877 firms had annual business revenues below NT\$10 million, accounting for 74% of all firms, indicating that most accounting firms in Taiwan operate on a small scale. Although there are only 16 large-scale firms with annual business revenues exceeding NT\$100 million (accounting for only 1% of all firms), they employed 13,946 professionals (accounting for 60% of the total workforce) and generated annual business revenues of NT\$28.8 billion (accounting for 75% of the industry's total business revenue).

**Table 2-3: Distribution of Accounting Firms by Revenue Scale, Number of Firms, and Employees in 2023**

Scale of Business Revenue	Accounting Firms		Employees		Total Annual Operating Revenue	
	Number	Percentage	Number	Percentage	Total (NT\$100 million)	Percentage
< 10 million	877	74%	3,895	17%	30	8%
10-25 million	204	17%	2,694	11%	30	8%
25-50 million	61	5%	1,722	7%	21	5%
50-100 million	24	2%	1,119	5%	16	4%
>100 million	16	1%	13,946	60%	288	75%
Total	1,182	100%	23,356	100%	385	100%

Reference: 2023 Report on the Survey of Accounting Firms Service.





B. OVERVIEW OF THE AUDIT MARKET FOR PUBLIC COMPANIES

The financial reports of public companies should be jointly audited and attested by two or more practicing CPAs from joint or incorporated accounting firms as stipulated in Article 15 of the CPA Act and other relevant regulations. Joint or incorporated accounting firms should obtain FSC approval before conducting attestation services on the financial reports for public companies. As of the end of 2024, there were 700 CPAs and 51 accounting firms approved by the FSC to conduct attestation services on the financial reports of public companies. The number and scale of the companies they undertook (with company market value and capital amount expressed in New Taiwan Dollars) are as follows:

CPAs and Accounting Firms Approved by the FSC to Attest Financial Reports of Public Companies (December 31, 2024)

700 CPAs	51 Accounting Firms
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Number and Scale of Public Companies in Taiwan (December 31, 2024)

1,869 TWSE/TPEX-Listed Companies Market Value of NT\$80.4352 trillion	852 Emerging Stock Companies and Public Companies Capital of NT\$1.3578 trillion
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As can be seen above, as of the end of 2024, there were 2,721 public companies’ financial reports that were attested by 51 accounting firms. With respect to firm size, nearly 90% of the financial reports of public companies were audited by the Big Four. Table 2-4 summarizes the market share of accounting firms auditing public companies in Taiwan. The market shares of large, medium-sized, and small accounting firms were 90%, 6%, and 4%, respectively. According to data from major international capital markets, the Big Four hold a market share of 99% in the U.S. S&P 500 and 98% in the UK FTSE 350. This indicates that Taiwan shares a similar situation with other countries, where attestation engagements are concentrated among the Big Four.

Table 2-4: Market Share of Public Company Attestation Engagements by Accounting Firms

Accounting Firm Size	TWSE-Listed	TPEX-Listed	Emerging Stock	Public	Total
Large (Big Four)	91%	88%	96%	85%	90%
Medium-Sized	6%	7%	3%	7%	6%
Small	3%	5%	1%	8%	4%

Large accounting firms refer to those that provide attestation services for 100 or more public companies (including TWSE/TPEX-Listed companies, emerging stocks, and public companies); medium-sized accounting firms refer to those that provide attestation services for ten to 100 public companies; and small accounting firms refer to those that provide attestation services to fewer than ten public companies. There are four large accounting firms in Taiwan, including Deloitte & Touche, PricewaterhouseCoopers, KPMG, and Ernst & Young (the Big Four).

## C. RECENT CHALLENGES FACED BY THE ACCOUNTING INDUSTRY

In addition to intense internal competition, the accounting industry has also faced multiple pressures due to external economic changes in recent years. The challenges and difficulties faced by the accounting industry in recent years, the corresponding response strategies by accounting firms, and their short-term planning and development goals are summarized below:

### 1. Current Challenges Facing the Audit Industry in Taiwan:

#### a. Stricter International Standards and Oversight Requirements Have Raised Audit Costs:

To align with international practices, domestic auditing standards, assurance standards, and other related services standards are being continuously revised. CPAs and auditors need to constantly update their professional knowledge and comply with the audit quality supervision requirements set by the regulatory authority, resulting in increased audit costs. Audit fees, however, do not appear to have increased proportionally.

#### b. Industry Innovation and Emerging Service Demands:

Newly established companies, digital platforms, cryptocurrency, and the AI industry all involve complex business models. As businesses increasingly adopt information technology, auditors face increased challenges in conducting audits. Additionally, the growing demand to review ESG disclosures and sustainability reports, which involve non-financial information, is beyond the traditional scope of financial audits which makes auditors' services more diverse.

#### c. High Employee Turnover Rate and Labor Shortage:

The audit industry is a highly labor-intensive industry. The increase in employee turnover rate in the accounting industry, coupled with factors such as long working hours and salary competitiveness, makes recruiting talent even more difficult. This in turn has impacted firms' human resources management. Furthermore, the demand for ESG (Environmental, Social, Governance)-related services is growing rapidly, while the supply of talent remains insufficient.



## 2. Measures Proposed by Accounting Firms to Address Challenges and Short-Term Planning and Development Goals:

### a. Emphasize Risk Management and Enhance Audit Quality:

In response to the issuance and revision of auditing and assurance standards, efforts have been made to strengthen educational training, establish comprehensive quality control systems, enhance internal quality reviews, thereby reducing litigation and compliance risks.

### b. Reduce Employee Turnover Rate and Attract Outstanding 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 collaborating with universities to organize internship programs or giving lectures to share practical experience).

### c. Utilize Digital Technologies to Enhance Audit Efficiency and Provide Differentiated Services:

Measures include the application of digital tools, such as Robotic Process Automation (RPA), Analytics Process Automation (APA), confirmation systems, and other tools. These measures enhance audit efficiency and provide differentiated services, while continuing to invest in the innovative business development.

### d. Respond to the Surge in Sustainability Reporting and Assurance Service Demand Through Active Training of Professional Consultants:

Continue to strengthen professional education and training in ESG, sustainability reports, and assurance standards to broaden professional capacity. Firms need to increase investment in digital technology and specialized personnel across more fields or establish professional service teams.

*The accounting industry is undergoing global and digital transformation, requiring the active recruitment and retention of talented professionals. Beyond ensuring professional expertise and quality in audit services, firms must respond to increasingly complex business environments and technological innovations. By broadening international perspectives, mastering digital tools and new technology applications, accounting firms should expand from traditional auditing work to value-added services such as computer auditing and emerging fields such as ESG. This enables accounting firms to utilize professional knowledge to assist corporate growth in the digital era.*

# III.

## AUDIT QUALITY INFORMATION

Audit quality is at the core of CPAs' professional work. In recent years, there has been increasing international attention on measuring audit quality, including the use of Audit Quality Indicators (AQIs). Currently, countries such as the U.S. and Canada encourage accounting firms and audit committees to adopt AQIs, which are quantitative indicators for measuring audit quality. Taiwan has also adopted international practices and released the AQI Disclosure Framework and Template on August 19, 2021. It covers five dimensions and 13 indicator items, including professionalism, quality control, independence, oversight, 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.





To help audit committees effectively interpret AQI information, the FSC issued the Guidance for Audit Committees on Interpreting the Audit Quality Indicators on June 29, 2022. Audit committees can refer to the background information of various AQI indicators in the guidance to gain initial understanding of audit practices, then combine this with the key measurement points of each AQI indicator to further interpret their relationship with audit quality and strengthen communication with firms. Additionally, to ensure the consistency and comparability of AQI data provided by firms and enhance the usefulness and reference value of AQIs, the FSC simultaneously issued the Guidance on the Audit Quality Indicators which provides clear definitions and calculation instructions for each detailed AQI indicator, serving as an important basis for CPAs and firms to prepare AQI information.

The Big Four collectively hold a market share of 90% in auditing and attesting public companies, which significantly impacts the audit quality in Taiwan. Since 2019, the FSC has consistently requested that the Big Four provide relevant audit quality information to help assess the reasonable ranges of each indicator and related data, serving as supplementary reference for auditing oversight. Additionally, the Big Four have been asked to refer to the AQI guidelines issued by the FSC when providing relevant audit quality information.

#### **PROFESSIONALISM INDICATORS**

Proportion of supervisory-level personnel and turnover rate, proportion of professional support personnel, professional tenure of CPAs as well as personnel at managerial-level and above, plus professional training hours.

#### **QUALITY CONTROL INDICATORS**

CPA workload and ratio of managerial-level audit hours invested, proportion of hours spent on Engagement Quality Control Reviews (EQCR) and quality support capabilities.

#### **INDEPENDENCE INDICATORS**

Engagement tenure and audit fees.

#### **OVERSIGHT INDICATORS**

External inspection findings and disciplinary actions, and proportion of improvement notices issued by the regulatory authority.

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.

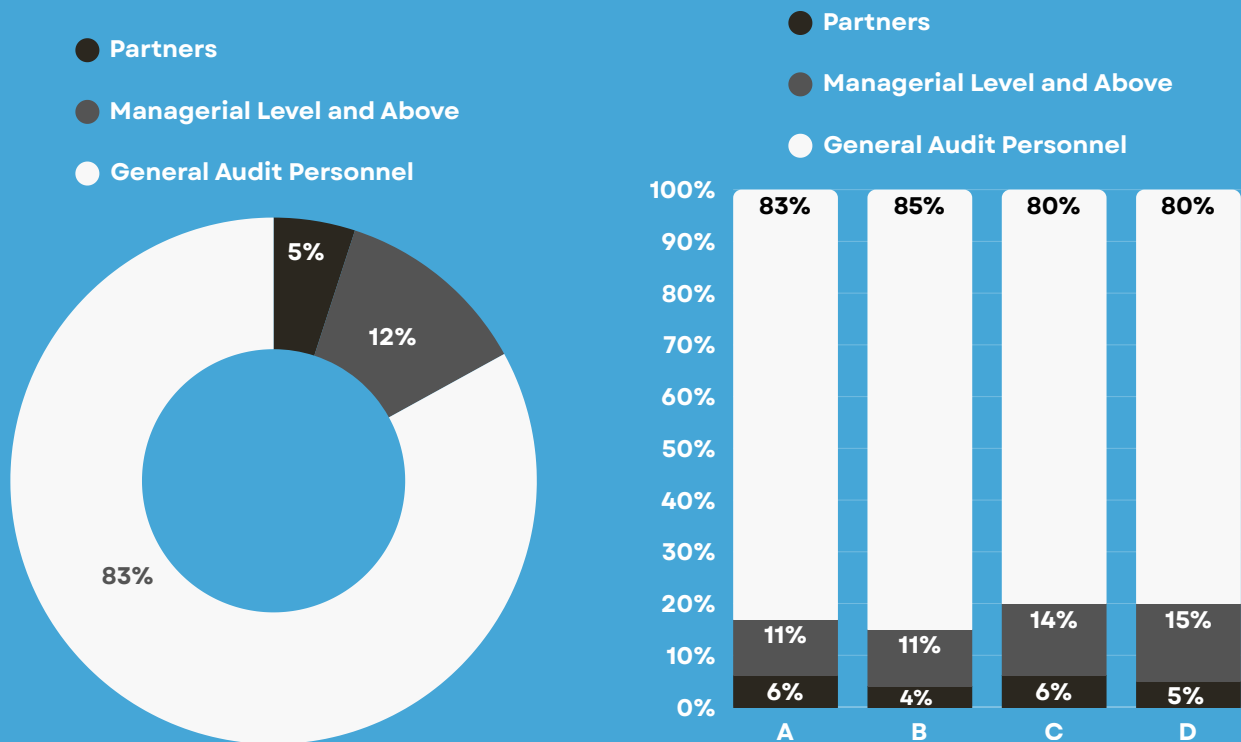
## A. PROFESSIONALISM INDICATORS

### 1. Proportion of Supervisory-Level Personnel

Firm audit personnel can be roughly divided into three levels: CPAs (partners), managerial-level and above, and general audit personnel. According to the information provided by the Big Four, in 2023 the average proportion of CPAs, managerial-level personnel, and general audit personnel were 5%, 12%, and 83%, respectively. The firms' staffing structures exhibit a pyramid shape, with supervisory-level personnel accounting for an average 17%.

Managerial-level personnel usually have more than five years of audit experience and are responsible for the execution and control of key audit work, as well as providing guidance to newly recruited audit personnel. Their competence and number have a significant impact on the quality of audit work; therefore, the proportion of managerial-level personnel to audit personnel can serve as an appropriate indicator of audit quality. According to the table below, the partner ratio among the Big Four ranges from 4% to 6%, with little difference among the firms. The proportion of managerial-level personnel ranges from 11% to 15%. Although there are significant differences among the firms, the differences may stem from each firm having different experience or qualification requirements for managerial-level personnel, or differences in the overall number of personnel at each firm.

Chart 3-1: Overall Composition of Audit Personnel at the Big Four Accounting Firms



## 2. Audit Experience

The audit quality is also influenced by the professional experience of practicing CPAs, quality control CPAs, and senior audit personnel. The table below measures the years of service of CPAs and quality control CPAs from the time they became partners, and the years of audit experience of managerial-level and above personnel in the audit service department. On average, auditors of public companies in Taiwan have served as partner CPAs for 11-12 years, auditors performing EQCR have an average professional experience of 13 years, and managerial-level and above audit personnel (excluding CPAs) have an average professional experience of 11 years. The data also shows that the differences in professional experience among CPAs and managerial-level and above audit personnel across firms are not significant.

**Table 3-1-1: Average Professional Experience of CPAs in Big Four Accounting Firms**

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	11	11	12	10	11
2022	11	12	13	11	12
2021	12	12	13	11	12

**Table 3-1-2: Average Professional Experience of CPAs Conducting EQCR in Big Four Accounting Firms**

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	12	14	14	10	13
2022	11	14	15	11	13
2021	12	15	14	12	13

**Table 3-1-3: Average Professional Experience of Managerial-Level and Above Audit Personnel (Excluding CPAs) in Big Four Accounting Firms**

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	12	11	11	11	11
2022	12	12	10	11	11
2021	12	12	10	11	11

### 3. Professional Training Hours

Professional training helps enhance the quality of audit personnel. Therefore, under Article 5 of the Regulations Governing CPA Continuing Professional Education in Taiwan, CPAs who perform financial report attestation for public companies should have at least 40 hours of continuing education completed each year. As shown in the table below, in 2023, CPAs in the Big Four averaged 113 hours of professional training per person, an increase from 110 hours in the previous year. Managerial-level and above audit personnel averaged 96 hours of training per person in 2023, an increase from the 95 hours recorded in 2022.

**Table 3-1-4: Training Hours for CPAs**

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	103	111	115	141	113
2022	126	81	107	117	110
2021	101	87	102	63	93

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

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	81	97	106	106	96
2022	102	87	91	95	95
2021	100	83	84	79	89

### 4. Turnover Rate

Personnel at the managerial level and above in the audit department are usually responsible for the execution and control of key audit tasks, as well as mentoring newly hired audit personnel. Their quality and quantity have a significant impact on audit quality. Therefore, the turnover rate of these personnel can serve as an indicator of whether the firm can retain adequate senior personnel. The average turnover rate for managerial-level and above personnel (excluding CPAs) at the Big Four was 12% in 2023, slightly lower than the 13% recorded in 2022. Compared to 2021, the turnover rate shows a decreasing trend over the past two years.

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

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	11%	10%	13%	15%	12%
2022	8%	12%	17%	18%	13%
2021	11%	16%	17%	34%	17%



## 5. Professional Support

Professional consultant refers to individuals who possess professional knowledge in areas that support or assist audit work, such as personnel from knowledge management or risk management departments. However, this does not include personnel from departments unrelated to financial report audits, such as the tax department, or general administrative support personnel such as those in human resources and information technology. When CPAs perform financial report audits and attestations, 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 a sufficient number of professionals (excluding audit personnel) to support the audit team should help enhance the audit quality of financial reports.

The table below shows the number of audit personnel supported by each professional consultant in Big Four firms. On average, in 2023, each professional consultant needed to support 17 financial report audit personnel, compared to 18 and 19 financial report audit personnel per consultant in 2022 and 2021, respectively. This indicates a gradual increase in the level of professional support over the years.

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

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	20	28	14	9	17
2022	19	28	15	11	18
2021	21	32	14	10	19

## B. QUALITY CONTROL INDICATORS

Quality Control mainly measure the audit quality control capabilities of firms and CPAs. The related indicators include four indicators: CPA workload, audit effort, EQCR, and quality control support capability.

### 1. CPA Workload

The workload of CPAs is closely related to their audit quality control capabilities. An excessive workload may impact audit quality. At the firm level, when an accountant serves as the lead CPA for a large number of public companies or dedicates a high proportion of their available working hours to such engagements, there is a risk of excessive workload which could impact audit quality. However, at the engagement level, the audit work required can vary significantly due to differences in company size, audit risk, and complexity of public companies so the audit effort required by a CPA for each engagement may vary significantly. Therefore, it is not appropriate to assess a CPA's workload based on the number of public companies for which they serve as the lead. Instead, the proportion of available working hours dedicated to each engagement should also be considered.

As shown in the table below, in 2023, CPAs at the Big Four firms served as lead CPAs for an average of 7.1 public companies, which shows no significant difference compared to 7.2 companies in 2022 and 7.0 companies in 2021. Additionally, in 2023, the average proportion of available working hours dedicated by CPAs was 57%, falling between 60% in 2022 and 55% in 2021. This indicates that over the past three years, the proportion of time CPAs at Big Four firms spend on financial report audits, reviews, and other audit-related work has generally ranged between 55% and 60%, with no significant variations.

**Table 3-2-1: Number of Public Company Audit Clients per CPA**

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	6.7	8.1	7.2	6..3	7.1
2022	7	8.5	6.9	6.1	7.2
2021	6.9	8.3	6.4	6.1	7

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

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	66%	52%	55%	46%	57%
2022	65%	56%	56%	56%	60%
2021	57%	55%	60%	35%	55%

## 2. Audit Team Involvement

The competence of personnel and audit hours are key factors that affect audit quality. Since competence of personnel is difficult to measure objectively, the composition of senior audit personnel at firms is used as an alternative measure. If the proportion of audit hours contributed by CPAs and managerial-level and above personnel to total audit hours is high, then it should have a positive impact on audit quality. As shown in the table below, the proportion of audit hours contributed by CPAs and managerial-level personnel was 19% in 2021 and 22% in 2022, and further increased to 23% in 2023, indicating that the proportion of audit effort contributed by senior professional staff has continued to increase over the past two years.

**Table 3-2-3: Proportion of Audit Hours Contributed by CPAs and Managerial-Level Personnel**

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	27%	17%	23%	20%	23%
2022	28%	16%	24%	17%	22%
2021	19%	15%	25%	18%	19%

## 3. Proportion of Hours Spent on Engagement Quality Review

According to TWSQM1 Quality Management for Firms, engagement quality reviews should be performed for: audits of financial statements of listed companies, engagements required by law or regulation to undergo a quality review, and engagements that the firm determines should be reviewed based on quality risk considerations. These reviews must be completed before the report date. The hours invested in Engagement Quality Review (EQR) should have a positive impact on audit quality. Therefore, the proportion of hours spent on quality review relative to the total audit hours can appropriately reflect the audit quality.

The table below shows the proportion of engagement quality review hours to total audit hours for listed companies performed by the Big Four in accordance with TWSQM 1. Overall, in 2023, the proportion of engagement quality review hours to total audit hours was approximately 1.29%, which is comparable to 2022, and both years showed improvement over 2021. Furthermore, the Big Four firms also perform engagement quality reviews on audit engagements of public companies, demonstrating their commitment to enhancing audit quality.

**Table 3-2-4: Proportion of Hours Spent on Engagement Quality Review**

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	1.5%	1.0%	1.3%	1.4%	1.29%
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

One of the key focus areas in the firm's quality control assessment is whether it has sufficient quality control personnel to support the audit team. A higher proportion of full-time equivalent (FTE) personnel dedicated to quality control in a firm can reasonably be expected to have a positive impact on audit quality.

As shown in the table below, in 2023, the average proportion of full-time equivalent quality control personnel to total audit personnel in the audit service departments of the Big Four was 3.5%, showing an increase from 3.2% in 2022 and 3.0% in 2021. This indicates a trend of firms dedicating more personnel to quality control in their audit service departments.

**Table 3-2-5: Proportion of Quality Control Personnel Supporting the Audit**

Year	Firm A	Firm B	Firm C	Firm D	Average
2023	4.2%	3.2%	3.3%	2.9%	3.5%
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" indicator measures whether firms and CPAs maintain substantive and formal autonomy when performing audit work, ensuring impartiality when expressing their opinions. The relevant indicators include two items: the proportion of non-audit service (NAS) fees and the level of client familiarity.

### 1. Non- Audit Service (NAS) Fees

Whether the CPA can maintain an objective and independent stance while conducting financial statement audits or reviews is a key factor affecting 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 auditing and attesting to financial reports. Therefore, Regulation (EU) No 537/2014 stipulates that the non-audit fees paid by the financial reporting clients and its affiliated group to the firm and its affiliated businesses in the current year shall not exceed 70% of the average audit fees over the past three years. Overall, in 2023, the average ratio of non-audit fees to total fees for audit engagements across the Big Four in Taiwan ranged between 16% and 26%, with an average of 22% among the four firms. There was little change between 2023 and 2022, and compared to international standards, there were no significant excessive circumstances. This indicates that non-audit service fees do not significantly impact audit independence.

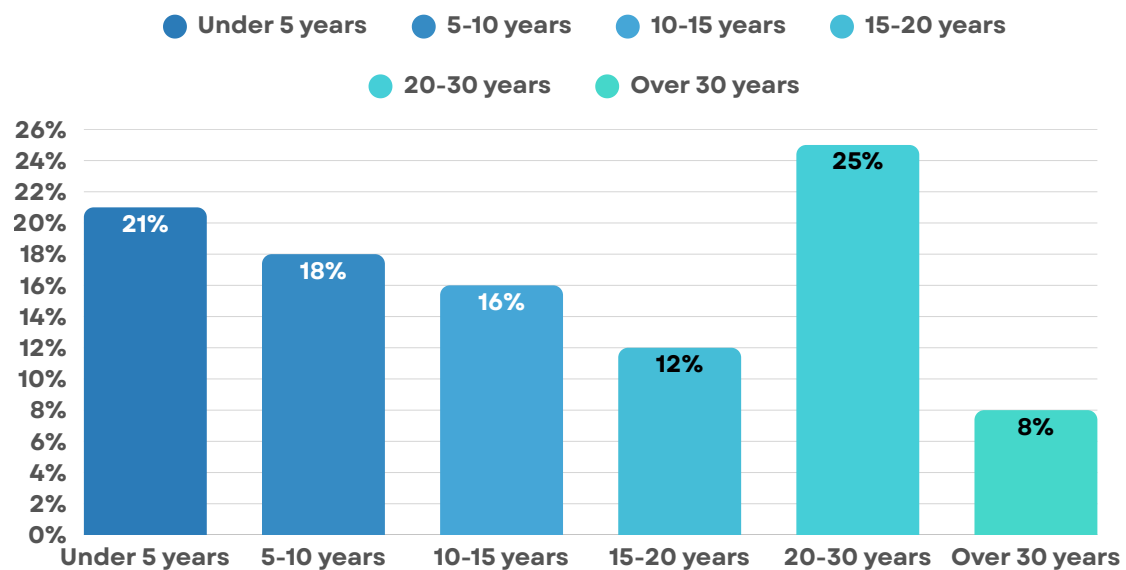
**Table 3-3-1: Proportion of Public Expenses for Non-Audit Services (NAS) by the Big Four**

Year	Firm A	Firm B	Firm C	Firm D	Average
<b>2023</b>	22%	25%	26%	16%	22%
<b>2022</b>	22%	24%	27%	17%	22%
<b>2021</b>	29%	26%	32%	22%	27%

Note: Non-Audit Services' public expenses refer to expenses other than audit service expenses, which mainly includes expenses charged for providing tax attestation, consulting, and other services.

### 2. Client Familiarity

The degree of familiarity of audit personnel with the same audit client may affect the independence in performing audit engagements. The degree of familiarity with an audit client can be measured by the cumulative number of audit years by the same CPA or the same accounting firm for the same audit client. Therefore, many countries have rotation regulations for CPAs or firms based on the number of years an engagement is held. According to the Statement of Professional Ethics No. 14, for the attestation engagements of TWSE/TPEX-Listed companies, emerging stock companies, and financial institutions, the lead signing CPA should rotate after a certain period (not exceeding seven years). However, there are currently no rotation requirements for accounting firms in Taiwan.

**Chart 3-2: Overall Attestation Years of the Big 4**

The chart above shows the cumulative number of audit years for financial audit and attestation clients of the Big Four as of 2023. Notably, about 33% of these engagements have lasted over 20 years, indicating that roughly 30% of the cases have been audited by the same firm over a long period. The FSC will continue to monitor the impact of this situation on CPAs' independence. The table below indicates that there are still differences in client engagement tenures among the various accounting firms.

**Table 3-3-2: Statistics on the Number of Years of Attestation Engagements at the Big Four**

Years of Engagement	Firm A	Firm B	Firm C	Firm D
Under 5 years	15%	22%	26%	31%
5-10 years	20%	20%	15%	15%
10-15 years	17%	19%	14%	11%
15-20 years	13%	14%	10%	7%
20-30 years	23%	19%	30%	29%
Over 30 years	12%	6%	5%	7%

## D. OVERSIGHT INDICATORS

Oversight indicators measure the deficiencies found by the regulatory authority during their oversight of firms and CPAs. These indicators reflect the actual audit quality exhibited by firms and CPAs, and thus serve as a reference for evaluating audit quality. This indicator includes two components: deficiencies and sanctions identified in external inspection (such as disciplinary actions against CPAs and sanctions under Article 37 of the SEA), and the number of improvement requests issued by the regulatory authority.



## 1. External Inspection Deficiencies and Sanctions

The maintenance of audit quality relies not only on the self-discipline of CPAs and firm management but also partly on external oversight. Therefore, audit regulatory authorities in various countries have established supervisory measures such as firm inspections, disciplinary actions, and sanctions for CPAs. Table 3-4-1 summarizes the deficiencies found in accounting firm inspections conducted by the FSC or the U.S. 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 of the Big Four and Number of Disciplinary Cases Against CPAs**

		2024	2023	2022
FSC Firm Inspections	Number of Quality Control Deficiencies	0	1	2
	Average Number of Deficiencies per Audit Engagement	0.56	0.83	0.48
Disciplinary Actions Taken Against CPAs	Number of Disciplinary Cases Against CPAs and Number of Cases Sanctioned Under Article 37 of the SEA	2	0	3
U.S. PCAOB Firm Inspections	Average Number of Deficiencies per Audit Engagement	0.33 (Note)	0	0

Note: According to the inspection report released by PCAOB in 2025.

## 2. Improvement Notices Issued by the Regulatory Authority

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 CPAs or accounting firms requesting further improvements. As a result, the Proportion of Deficiency Improvement Letters Issued by the Regulatory Authority serves as a crucial external oversight indicator. This proportion 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. Based on the compilation of improvement notices issued by regulatory authorities to the Big Four accounting firms over the past three years, the average rate of improvement notices issued by regulatory authorities in 2024 was 0.10%, compared to 0.60% in 2022. This demonstrates a year-on-year decline since 2022, indicating that, based solely on this indicator, the audit quality of the Big Four for financial reports of listed companies has been improving year by year.

Year	Firm A	Firm B	Firm C	Firm D	Average
2024	0.17%	0.23%	0.00%	0.00%	0.10%
2023	0.30%	0.00%	0.52%	0.00%	0.21%
2022	1.00%	0.00%	0.80%	0.58%	0.60%

## E. CONCLUSION

### 1. Regarding Professionalism of Accounting Firms

- a. The supervisory-level personnel (including CPAs and personnel at managerial-level and above) at the Big Four account for approximately 17% of total firm personnel (compared to 18% in the previous year), while general audit personnel account for 83% (compared to 82% in the previous year). The personnel structure remains similar to the previous year, with each supervisory-level staff member overseeing approximately four audit personnel. The turnover rate for managerial-level and above audit personnel has gradually decreased from 17% in 2021 to 12% in 2023, indicating improved stability in senior professional staffing across firms over the past three years. Additionally, in 2023, the average tenure of lead signing CPA for audits of public companies was 11 years, slightly lower than the average of 12 years in the previous two years. This indicates that each firm's professional personnel have remained stable and that their promotion mechanisms seem to be functioning steadily.
- b. Regarding professional training and support from professional consultation staff, in 2023, CPAs at the Big Four averaged 113 hours of professional training per person, while managerial-level and above audit personnel (excluding CPAs) received 96 hours of training, both showing slight increases from the previous year. Over the past two years since 2021, the Big Four have demonstrated strengthened professional training for senior-level personnel. Additionally, each professional consultation staff member supported approximately 19, 18, and 17 financial report audit personnel, respectively. This indicates that firms are gradually strengthening the provision of professional consultation resources.

### 2. Regarding Quality Control of Accounting Firms

- a. An excessive workload for CPAs may compromise audit quality. The number of public companies for which a CPA serves as the lead CPA reflects the number of significant audit engagements they are responsible for. Moreover, considering the proportion of a CPA's available working hours dedicated to audit engagements provides a more comprehensive understanding of their workload. In 2023, CPAs at the Big Four accounting firms served as lead CPAs for an average of approximately 7.1 public companies, falling between 7.0 companies in 2021 and 7.2 companies in 2022. Additionally, the average proportion of available working hours invested by CPAs was 57%, falling between 55% in 2021 and 60% (2022). Overall, there has been no significant difference in the audit workload of CPAs at the Big Four over the past three years.
- b. The audit effort invested by audit personnel is a key factor that affects audit quality, with the involvement of CPAs and senior personnel being particularly critical. The higher the proportion of audit hours invested by senior personnel relative to total audit hours, the greater positive impact it should have on audit quality. In 2023, the proportion of hours invested in financial report audits by CPAs and managerial level personnel at the Big Four was 23%, demonstrating a continued increase from 19% in 2021 and 22% in 2022, indicating increased involvement of senior audit personnel in audit engagements over the past two years.
- c. The hours invested by engagement quality control reviewers in financial report reviews should have a positive impact on improving audit quality. The proportion of engagement quality control review hours to total audit hours was 1.29% in both 2023 and 2022, showing an increase from 1.26% in 2021.

### 3. Regarding Independence of Accounting Firms

- a. Regarding client familiarity, about 33% of clients handled by the Big Four have been with them for more than 20 years. Currently, Taiwan only has rotation regulations for CPAs, there are no related rules for firm rotations. 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 accounting firms attest to the same client for a maximum of ten years in principle. Similarly, Germany's recent auditing oversight reform limits the period during which firms may provide attestation services to the same client to ten years. In response, the FSC has advised audit committees, through its guidance on interpreting AQIs, to carefully consider the potential negative impact of prolonged client familiarity. When the cumulative attestation engagement period is relatively long (e.g., 10 to 14 years), a comprehensive assessment of whether the potential negative impact is likely to outweigh the positive impact should be conducted. 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 stipulates that non-audit fees paid by financial report attestation clients and their groups to accounting firms and their affiliated businesses in the current year should not exceed 70% of the average audit fees over the past three years. Taiwan currently has no restrictions on the proportion of non-audit fees. The Big Four firms' non-audit service (NAS) fees account for an average of 16% to 26% of total fees, indicating that the impact of non-audit service fees on independence is likely not significant. Additionally, in the AQI guidelines, the FSC has reminded audit committees that when non-audit service fees for individual audit cases exceed 40% to 45% of total fees, they should strengthen their understanding of whether the nature of non-audit services provided by firms might affect audit independence, or if there are other circumstances affecting CPA independence.

### 4. Regarding Monitoring

The maintenance of audit quality relies not only on the self-discipline of CPAs and firm management but also partly on external oversight. Therefore, audit regulatory authorities in various countries have established supervisory measures such as firm inspections, disciplinary actions, and sanctions for CPAs. The average improvement notice rates from regulatory authorities were 0.60%, 0.21%, and 0.10% in 2022, 2023, and 2024, respectively. This demonstrates a year-over-year decrease, indicating that the audit quality of the Big Four for the financial reports of public companies has improved.

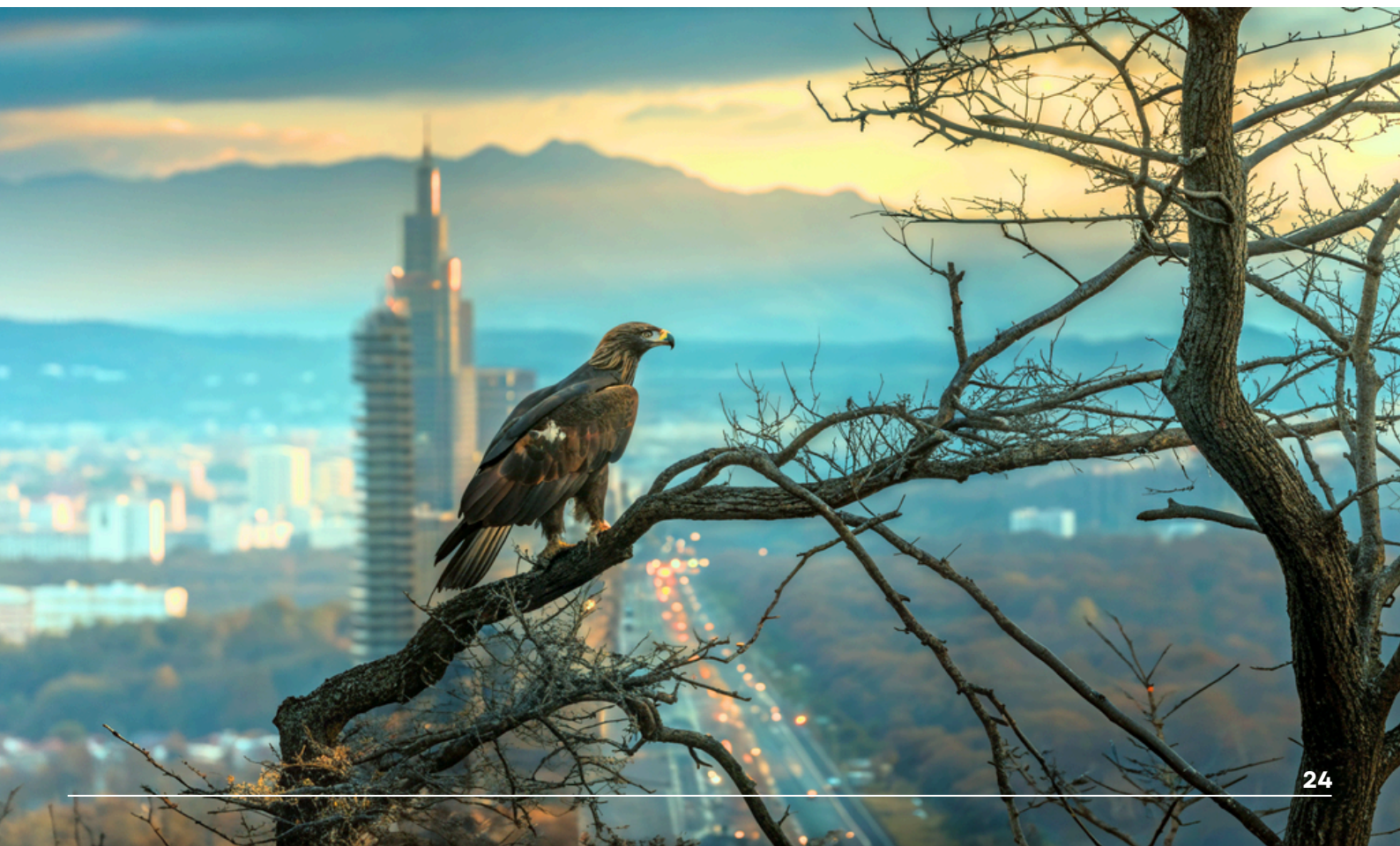


# IV.

## ACCOUNTING FIRM INSPECTIONS

### A. PURPOSE OF ACCOUNTING FIRM INSPECTIONS

According to Article 19 of the CPA Act, in order to protect public interests and promote social welfare, the regulatory authority may dispatch personnel to inspect the operations and operations-related financial matters of accounting firms approved to conduct attestation services for public companies. Accounting firms shall not avoid, impede, or refuse to cooperate with such an inspection. The FSC conducts inspections to enhance audit quality, strengthen firms' quality management systems, and prevent potential risks of audit failure. Through the inspection mechanism's oversight function, we aim to improve audit quality thereby increasing public confidence in CPAs' audits. The primary goal is not to impose sanctions. However, if during the inspection process any errors or omissions are identified during the audit and attestation of financial reports, or if there are serious violations as stipulated in Article 61 of the CPA Act that could damage the CPA's reputation, the FSC will report the matter to the CPA Discipline Committee for appropriate disciplinary action to maintain the integrity of the profession.



## B. ACCOUNTING FIRM INSPECTION METHODS

The FSC adopts a Risk-Based Approach for inspections of firms, considering factors such as risk assessments of individual firms and CPAs, specific industries, or high-risk audit cases. For deficiencies found in the quality control system and case 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 in June 2019 recognizing five banks as Domestic Systemically Important Banks (D-SIBs) in Taiwan, starting from 2020, D-SIBs have been included in audit engagement review samples to expand the scope of inspections and understand the audit quality of the banking sector.

### 1. Quality Management System

Based on the requirements of TWSQM 1, evaluate the overall quality of the firm's audit work execution and understand and assess the firm's quality management system, which includes eight aspects:

- (1) Firm Risk Assessment Procedures;
- (2) Governance and Leadership;
- (3) Relevant Professional Ethics Standards;
- (4) Acceptance and Continuance of Client Relationship and Engagement;
- (5) Engagement Performance;
- (6) Resources;
- (7) Information and Communication; and
- (8) The Monitoring and Remediation Process.

Inspection methods are as follows:

- a. Through interviews and reviews of relevant written documents, gain an understanding of the policies and procedures of the firm's quality management system.
- b. Evaluate the design of the internal quality management system of the audited firm.
- c. Perform appropriate tests to assess whether the quality management system is effectively implemented.

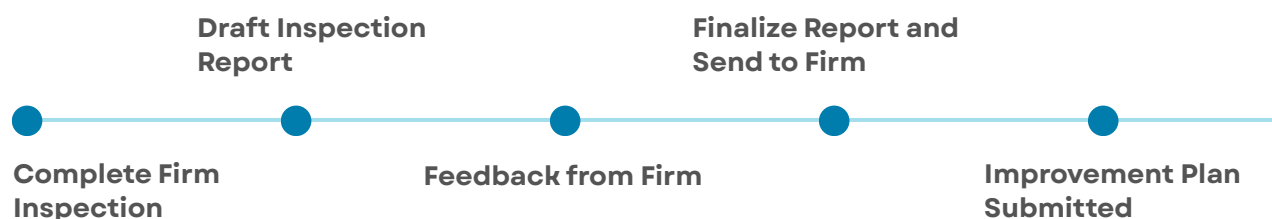
### 2. Audit Engagement Reviews

With reference to the inspection methods of foreign audit oversight authorities, since 2019, the review of audit cases has adopted a "core inspection items" approach. Based on audit risk levels, common domestic and international deficiencies, or oversight requirements, the FSC selects several accounting items or audit procedures for in-depth inspections and expands the number of audit quality review cases. For the Big Four, an average of four to eight audit engagements are chosen for in-depth audits, while for non-Big Four firms, an average of two to four 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, key audit matters, and audit methods of the case.
- 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 (Audit Regulations) and auditing standards.

## C. FOLLOW-UP PROCEDURES AFTER INSPECTION RESULTS

The FSC adopts a Risk-Based Approach in conducting firm inspections. The inspection results do not represent all engagements performed during the period or all firms inspected. The inspection results do not represent certification of the firm's quality management system and of the audit engagements reviewed. If other deficiencies are found in these audit engagements by the FSC or other regulatory authorities in the future, they should still be handled in accordance with the law. The procedures following the completion of the inspection are as follows:



After completing the firm inspection, the FSC will compile the inspection results within one to two months and prepare a draft inspection report. The inspected firm will be requested to provide a written response within 30 days. After considering the firm's comments, the FSC will issue the final inspection report to the firm. The inspected accounting firm should, within two months of receiving the report, submit an improvement plan to the FSC addressing the inspection comments and deficiencies identified. If the inspected firm fails to properly implement the improvement plan, or after being given a deadline for improvement still fails to make the improvements within the prescribed period, and the circumstances are serious, the FSC may, 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, revoke or terminate the firm's approval to conduct audit and attestation services for public companies.



### **Communication Between Management, Audit Committees, and CPAs**

*A company's management and audit committee 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 matters for communication with CPAs to ensure they properly perform the relevant audit work.*



D. 2024 ACCOUNTING FIRM INSPECTION RESULTS

In 2024, the FSC's inspection team conducted firm inspections. Taking into account 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 management systems and a review of audit engagements. The overall inspection results are as follows:

1. Quality Management System Deficiencies

In 2024, a total of nine deficiencies were identified in quality management systems, showing a significant decrease compared to the 20 deficiencies found in firms inspected in the previous year (2023). The average number of deficiencies also decreased from 6.3 items in 2023 to 3.0 items, mainly due to the large difference in the number of deficiencies identified in the medium-sized firms inspected in the two periods.

Table 4-1: Comparison of Quality Control Review Deficiencies

Year	2024	2023	2022	2021	2020
Number of Inspected Firms	3	3	3	4	4
Number of Deficiencies Found	9	20	18	62	35
Average Number of Deficiencies per Firm	3	6.3	6	15.5	8.8

After understanding and evaluating the design and implementation of the firms' quality management system, the inspection team identified the following quality management deficiencies:

Firm Risk Assessment Procedures

In 2023, the firms' quality management system was not revised in a timely manner in accordance with the schedules specified in TWSQM 1 and TWSQM 2.

Relevant Professional Ethics Standards (Including Independence)

- The firms' independence policy compliance and review procedures did not classify emerging stock market companies as public interest entity engagements.
- The personnel performing inventory count at some of the observed inspected companies did not sign the auditor independence declaration form.

Engagement Performance

- The firms had not established procedures for working paper confidentiality, nor had they set relevant regulations for managing unauthorized modification, loss or damage of working papers, or for regulations on working paper borrowing periods and follow-up mechanisms.
- Failed to effectively design and implement controls over the confidentiality and access management of electronic working paper files.



Resources
<ul style="list-style-type: none"><li>The allocation of audit engagements for financial statement audits was conducted without convening a partners' meeting as required by the firms' policies.</li></ul>

Information and Communication
<ul style="list-style-type: none"><li>The firms' established quality management systems did not include measures to address situations required by securities-related regulations, such as communicating specific matters to the companies' governance body, or reporting to the appropriate authorities when the firms become aware that the client has not complied with laws and regulations.</li><li>The audit procedures applicable in 2023 were not updated in a timely manner to align with the latest auditing standards, failing to comply with the relevant requirements of the firms' quality management system.</li></ul>

The Monitoring and Remediation Process
<ul style="list-style-type: none"><li>The selected cases for the annual oversight procedures were all non-public companies, which did not comply with the firms' policies requiring that public companies should constitute a certain percentage of the sample size.</li></ul>

2. Deficiencies in the Review of Audit Engagements

In 2024, 20 audit engagements were selected for review. The inspection identified a total of 15 audit deficiencies, a decrease from the 19 deficiencies identified in the previous period. The average number of deficiencies per audit engagement also decreased from 1.2 in 2023 to 0.75 in 2024. The inspected firms in both periods consisted of two large firms and one medium-sized firm, indicating that CPAs are conducting audit work with greater prudence.

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

Year	2024	2023	2022	2021	2020
Number of Deficiencies Identified During Inspection	15	19	23	31	44
Number of Audit Engagements Sampled	20	16	21	12	24
Average Number of Deficiencies per Audit Engagement	0.75	1.2	1.1	2.58	1.83

Substantive Analytical Procedures
<ul style="list-style-type: none"><li>The reasons for discrepancies between certain account types and interest rates noted in bank confirmations have not been identified.</li><li>There were no executed audit procedures documented in the working papers to verify whether the major accounts receivable collected mid-year corresponded to the sales recipient.</li></ul>

### Accounting Estimates/Fair Value Measurement

- There was no documentation verifying whether companies had incorporated "forward-looking information" into the expected credit loss assessment of accounts receivable in accordance with IFRS 9.
- When performing the expected credit loss assessment for accounts receivable, outdated forward-looking factors were used for the assessment, and the assessment conclusions were not updated.
- There was no assessment conclusion documented in the working papers regarding whether there were potential impairment indicators for property, plant, and equipment in accordance with IAS 36 requirements.

### Documentation Deficiencies

- The working papers for the investment confirmation schedule of financial assets did not document the status of outstanding confirmations. Although the relevant confirmation numbers were indexed, no evidence was noted to indicate that the received confirmations had been verified.

### Inventory Audit

- The auditor did not perform the relevant audit procedures to confirm whether companies' inventory valuation policy complied with IAS 2 requirements.
- The reason for inventory being held on behalf of companies by sales customers was not understood before sending confirmations of inventory quantities to them.

### Key Audit Matters (KAMs)

- During the completion stage of the audit, the auditors' communication letter with the governing body revealed that there were instances where company directors did not affix dates, signed after the report date, or did not sign at all.
- The description of revenue recognition timing in the key audit matters section of the auditor's report was inconsistent with the documentation in the working papers.
- The auditor's report listed inventory valuation as a key audit matter, however, there was no documentation of related valuation audit procedures in the working papers.

### Internal Control Testing

- The newly added top 10 customers of the companies were not included in the internal control audit sample for operating revenue test.
- Auditors did not confirm whether the list of top 10 suppliers was updated.

### Other

- Although the accounting firm has adopted an electronic working paper policy, some audit working papers were still filed in hard copy and were not incorporated into the electronic working paper system.

## E. SUMMARY OF RECENT FIRM INSPECTION DEFICIENCIES AND COMMON DEFICIENCIES IN RECENT YEARS

### 1. Quality Management System Deficiencies

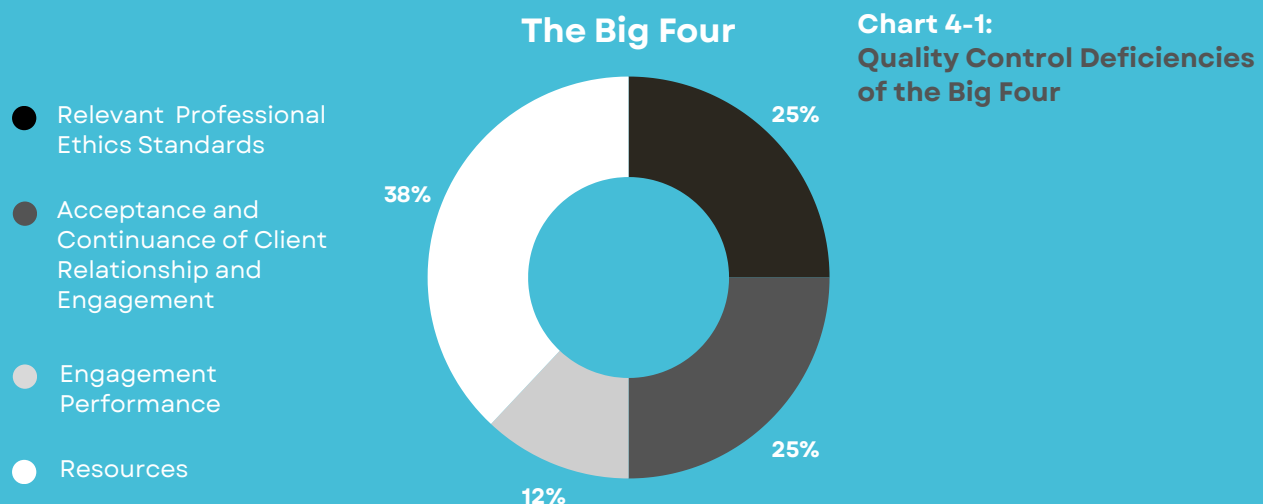
As of 2024, the FSC has completed five inspection cycles of the Big Four, covering a total of 57 firm inspections (including large, medium, and small firms). Statistics summarizing the quality management system deficiencies identified in firm inspections in Taiwan over the past five years (2020-2024) are as follows:

**Table 4-3: Quality Management System Audit Deficiencies in the Last Five Years**

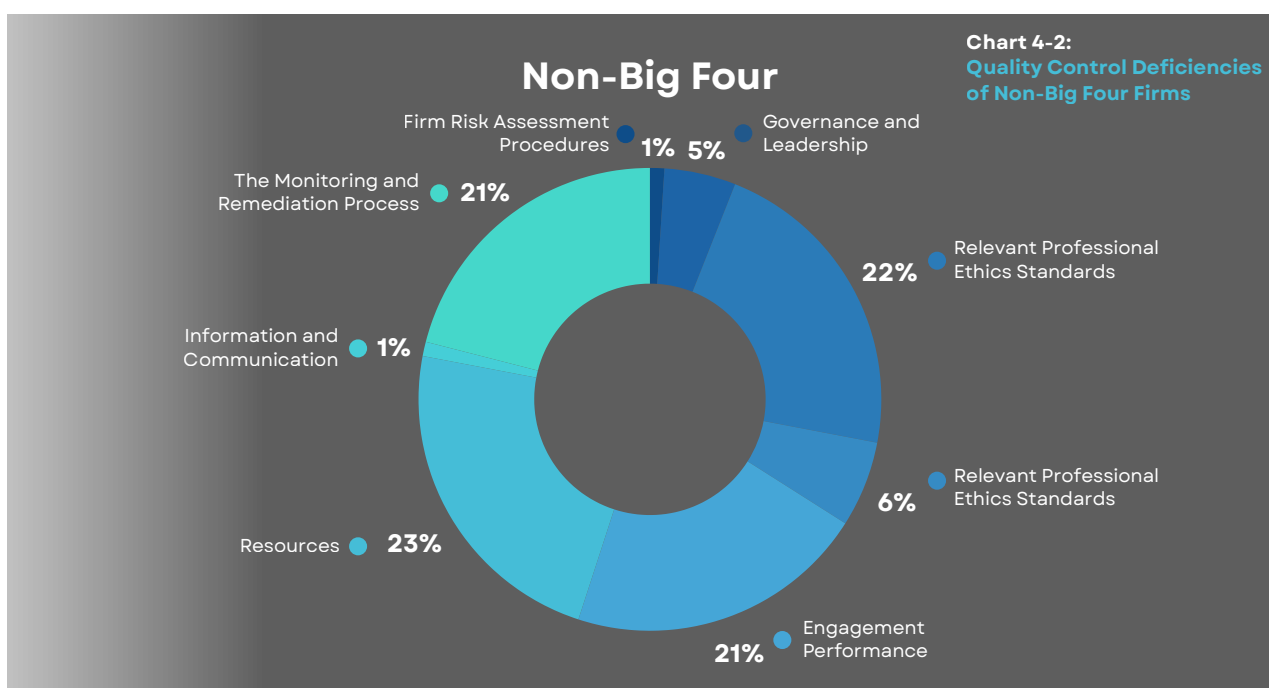
Year	2020	2021	2022	2023	2024	Total
Firm Risk Assessment Procedures	0	0	0	0	1	1
Governance and Leadership	2	3	2	0	0	7
Relevant Professional Ethics Standards	5	15	4	5	2	31
Acceptance and Continuance of Client Relationship and Engagement	3	5	1	1	0	10
Engagement Performance	8	12	3	4	2	29
Resources	11	11	4	5	2	33
Information and Communication	0	0	0	0	1	1
The Monitoring and Remediation Process	5	13	4	5	1	28
Total	34	59	18	20	9	140

If the above deficiencies were summarized by firm size, it can be seen that the deficiencies identified in the Big Four over the years are relatively concentrated, while those in non-Big Four firms are more dispersed. A further analysis of the deficiencies identified in both groups is provided below:

**a. The Big Four:** Quality management deficiencies in the past five years are as follows: "Resources", "Relevant Professional Ethics Standards", "Acceptance and Continuance of Client Relationship and Engagement" and "Engagement Performance."



- i. **Resources:** Partner performance evaluations were not appropriately linked to audit quality, and there was ineffective control over the use of the latest version of guidance in audit engagements.
  - ii. **Relevant Professional Ethics Standards:** The firms engaged experts in audit work but did not obtain independence declarations from these experts, and did not conduct independence checks for audit personnel below managerial level.
  - iii. **Acceptance and Continuance of Client Relationship and Engagement:** Some policies still referenced outdated auditing standards, or there were inconsistencies in continuation requirements across different policies; when evaluating client acceptance, the listed industry information did not explain the rationale for selecting peer companies or had incomplete evaluation content.
  - iv. **Engagement Performance:** During engagement acceptance, the quality reviewer only signed and did not provide review comments.
- b. Non-Big Four:** The main deficiencies were primarily found in "Resources", "Relevant Professional Ethics Standards", "Engagement Performance" and "The Monitoring and Remediation Process". The main types are summarized as follows:



- i. **Resources:** The main deficiencies included partner performance evaluations or partner promotion criteria not being appropriately linked to audit quality, incomplete evaluation standards for partnership advancement, public company financial report audit cases being noticeably concentrated under the same lead signing CPA, lack of mechanisms to monitor personnel training hours, and some personnel had insufficient training hours that did not meet the regulatory requirements.
- ii. **Relevant Professional Ethics Standards:** The main deficiencies included failure to update internal policies in accordance with the latest ethical requirements, failure to establish or implement independence control mechanisms (such as only checking audit personnel at the managerial-level or above, or no policies established regarding the sampling frequency and sampling proportion), failure to clearly define independence review procedures and measures for non-audit services, and failure to establish or effectively control CPA rotation or not establishing rotation mechanisms for senior personnel (such as associate directors).



- iii. **Engagement Performance:** Issues included lead signing CPAs not signing dates on audit planning working papers, not establishing qualification standards for personnel performing engagement quality reviews, or engagement quality reviews were conducted by unqualified personnel, or specific criteria for selecting engagements were not defined; working papers lacking evidence of review by the engagement quality reviewer, unsigned review dates, and incomplete working paper regulations or management (such as not specifying working paper filing deadlines or retention periods, working papers not filed within deadlines, working paper modification records dated after filing date, electronic files of sensitive case working papers not being encrypted, and lack of controls to prevent unauthorized changes or loss of working papers).
- iv. **The Monitoring and Remediation Process:** The main deficiencies included follow-up assessment case selection criteria not considering specific case risks and past assessment results, follow-up assessment personnel qualifications not complying with firm policies, CPAs from the same business division evaluating each other which could affect assessment objectivity, unclear case selection criteria or failure to select public company cases for assessment according to firm policies, failure to take appropriate remedial measures for assessment deficiencies, incomplete supporting documentation for evaluation items; and failure to establish policies regarding assessor qualifications, inspection cycles, and improvement tracking. Additionally, there are issues such as the absence of clearly established complaint and communication channels, and failure to properly document matters following investigations.

## 2. Deficiencies in the Review of Audit Engagements

As of the end of 2024, the FSC has completed five inspection cycles of the Big Four, with a total of 57 accounting firm inspections. According to statistics from the past five years (2020-2024), deficiencies identified in audit engagements during inspections of accounting firms in Taiwan were mainly related to areas such as Accounting Estimates/Fair Value Measurement, Substantive Analytical Procedures, Key Audit Matters, and Documentation Deficiencies.

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

Year	2020	2021	2022	2023	2024	Total
Accounting Estimates/Fair Value Measurement	15	6	5	2	4	32
Substantive Analytical Procedures	6	8	3	4	2	23
Key Audit Matters (KAMs)	8	4	4	4	3	23
Documentation Deficiencies	1	4	3	4	1	13
Materiality	3	3	5	1	0	12
Internal Control Testing	3	3	0	1	2	9
Financial Statement Presentation and Disclosure	2	0	1	2	0	5
Inventory Audit	1	2	0	0	2	5
Others	0	1	1	0	1	3
Risk Assessment	3	0	0	0	0	3
Use of Management Expert's Work	2	0	0	0	0	2
Case Supervision and Management	0	0	1	0	0	1
Lendings and Endorsements/Guarantees	0	0	0	1	0	1
<b>Total</b>	<b>44</b>	<b>31</b>	<b>23</b>	<b>19</b>	<b>15</b>	<b>132</b>

Lendings and Endorsements/Guarantees

● Big Four    ● Non-Big Four

Case Supervision and Management

Use of Management Expert's Work

Risk Assessment

Other

Inventory Audit

Financial Statement Presentation and Disclosure

Internal Control Testing

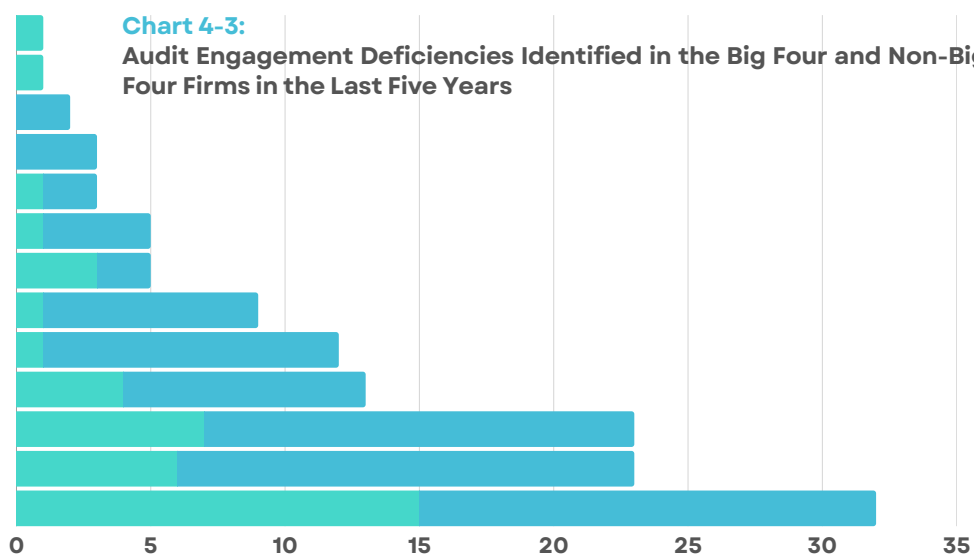
Materiality

Documentation Deficiencies

Key Audit Matters (KAMs)

Substantive Analytical Procedures

Accounting Estimates/Fair Value Measurement

**Chart 4-3:**
**Audit Engagement Deficiencies Identified in the Big Four and Non-Big Four Firms in the Last Five Years**


The chart above shows the audit engagement review deficiencies in the Big Four and non-Big Four firms over the past five years. Overall, the Big Four have fewer audit engagement deficiencies due to having more audit resources. The following are examples of common deficiencies found in items with a higher number of deficiencies:

- a. Accounting Estimates/Fair Value Measurement:** The main deficiencies included CPA' insufficient understanding of the audited companies' allowance for losses policies, specifically whether these policies had considered expected credit losses in accordance with IFRS 9 requirements (such as incorporating forward-looking information into expected credit loss assessment of accounts receivable and updating such forward-looking information). Other deficiencies included cases where the CPAs identified potentially impaired assets but failed to verify the appropriateness of estimated recoverable amounts, along with failures in verifying or effectively evaluating whether the audited companies' assets (such as financial assets, property, plant and equipment, right-of-use assets and investment properties, goodwill, etc.) showed signs of potential impairment, or whether related decommissioning costs needed to be estimated.
- b. Substantive Analytical Procedures:** The main deficiencies were related to accounts receivable confirmations, such as not performing appropriate audit procedures to verify the reliability of replies, not maintaining confirmation reply trails, not obtaining bank confirmation replies and failing to perform appropriate confirmation follow-up procedures or alternative audit procedures, not investigating the reasons for discrepancies in accounts receivable confirmation replies, and not verifying whether the collection parties matched the sales recipients. Further deficiencies included failing to perform comparative analyses of the growth rates of accounts receivable and notes receivable in relation to the growth rate of revenue, as required by the Audit Regulations.
- c. Key Audit Matters:** The main deficiencies included insufficient evidence in working papers showing that the auditor had communicated with appropriate governance units before issuing the audit report, no documentation of communications with governance units to determine conclusions on matters of significant attention, and no documentation of the process and reasons for determining whether matters of significant attention should be designated as key audit matters. Additionally, smaller firms had deficiencies in execution such as inconsistencies between revenue recognition timing descriptions in working papers and key audit matter explanations in audit reports, auditors not discussing key audit matters with governance units, and not performing audits according to procedures addressing key audit matters.
- d. Documentation Deficiencies:** The main deficiencies identified were CPAs' failure to record the factors considered in determining the levels of materiality (including overall materiality, performance materiality, and the clearly trivial threshold); failure to include the evidence supporting the execution of accounts receivable confirmation procedures in the working papers, and inadequate documentation of the understanding obtained of the audited company, its environment and the related conclusions. Further deficiencies included incompleteness of working papers such as the absence of signing dates on the audit plan and failure to file the audit team's independence declarations together with the audit documentation.

Based on observations of audit case inspection deficiencies over the past five years, the number of audit case deficiencies in 2020, 2021, 2022, 2023, and 2024 were 44, 31, 23, 19, and 15 items, respectively, demonstrating a year-by-year decrease. Among these, deficiencies in "Accounting Estimates/Fair Value Measurement" have gradually decreased since 2021 (previous deficiencies were mainly related to not considering expected credit losses as required by IFRS 9). Additionally, deficiencies in "Key Audit Matters" decreased from eight items in 2020 to three items in 2024, while deficiencies in "Substantive Analytical Procedures" also decreased from eight items in 2021 to two items in 2024. Overall, this indicates that firms have likely made improvements addressing the common deficiencies identified in the FSC's inspections in previous years.

# V.

## DISCIPLINE AND SANCTIONS OF CPAs

Improving the audit quality of CPAs requires not only self-discipline among practitioners, but also appropriate oversight by the regulatory authority. For CPAs who do not comply with relevant regulations and whose violations are serious, imposing appropriate disciplinary actions can serve as a warning to the sanctioned CPAs and also remind the entire accounting industry to exercise greater professional care in auditing engagements to reduce the risk of audit failure.

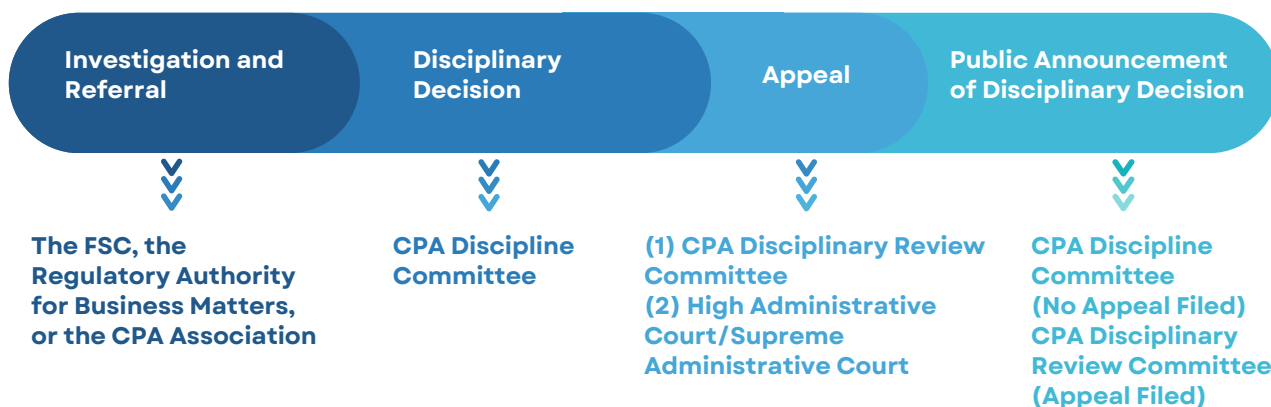
### A. DISCIPLINARY PROCEDURES

Disciplinary action against CPAs in Taiwan is carried out by the CPA Discipline Committee pursuant to the CPA Act. The committee is composed of members from industry, government, and academia. If a CPA is involved in any of the circumstances listed in Article 61 of the CPA Act, the regulatory authority overseeing the matter or the National Federation of CPA Associations of the R.O.C. may request the CPA Discipline Committee to impose disciplinary measures. 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, suspensions of practice (two months to two years), or expulsions.





CPAs dissatisfied with the Discipline Committee's decisions may file an appeal with 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 file for review or file an administrative lawsuit within the prescribed period. Once the decision is finalized, the CPA Discipline Review Committee will publish the decision in the government bulletin and announce it on its website.



## B. DISCIPLINARY ACTIONS IN RECENT YEARS

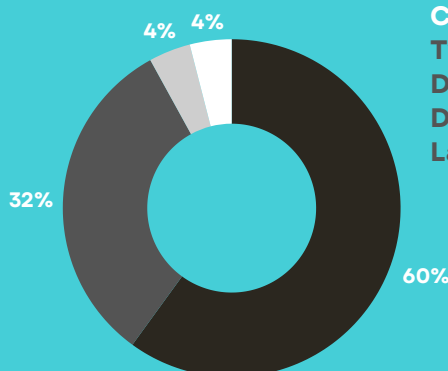
Over the past three years, there have been five confirmed disciplinary cases resolved by the CPA Discipline Committee per year. The number of CPAs sanctioned in 2022, 2023, and 2024 was ten, nine, and nine, respectively.

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

Year	2022	2023	2024
<b>Number of Cases</b>	5	5	5
<b>Number of CPAs</b>	10	9	9

In addition, the disciplinary actions taken against CPAs over the past five years (2020-2024), including the names of the disciplined CPAs, reasons for disciplinary actions, and the outcomes, have been announced on the FSC's official website. The following is an analysis of the results and circumstances of deficiencies for disciplinary cases in the last five years:

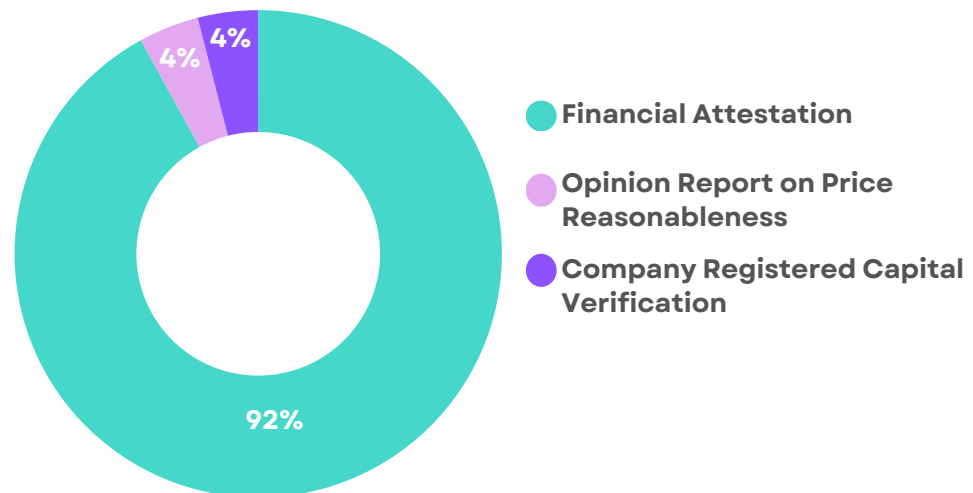
- Fines
- Suspensions
- Warnings
- Reprimands



**Chart 5-1: Types of Sanctions in Finalized Disciplinary Cases by the CPA Discipline Committee in the Last Five Years**

Based on the chart above, among the disciplinary cases in the past five years, 60% of the disciplinary actions were fines, followed by suspension of practice (the longest suspension period was nine months), which accounted for 32%. Among the cases involving fines, 47% were fined the maximum amount of NT\$1.2 million.

**Chart 5-2: Types of Sanctions in Finalized Disciplinary Cases by the CPA Discipline Committee in the Last Five Years**



Furthermore, based on the nature of the disciplinary cases, 92% of the cases involved financial report attestation engagements, and 4% each involved independent expert opinions on price reasonableness and capital verification.

## C. PROVISIONS ON SANCTIONS UNDER THE SECURITIES AND EXCHANGE ACT

The aforementioned disciplinary provisions for CPAs established under the CPA Act are penalties for CPAs who violate relevant laws and regulations or who breach professional ethics and discipline when performing their duties. To strengthen the management of public companies, Article 37 of the SEA stipulates that CPAs who perform financial report attestation for public companies must be approved by the regulatory authority. If errors or omissions occur the FSC may, depending on the severity of the circumstances, issue a warning, suspend the approval to conduct attestations for up to two years, or revoking such appeal. The scope of business affected by this disposition is limited to the audit and attestation of financial reports for public companies. This restriction is narrower than the aforementioned disciplinary actions and is mainly applied in practice to 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 appeal does not suspend the execution of the original decision. Therefore, a CPA who has been sanctioned under the SEA must still comply with the original disciplinary action, even if an administrative appeal is filed pursuant to the relevant provisions or a subsequent administrative litigation is initiated.

# VI.

## SUPERVISION MEASURES IMPLEMENTED IN RECENT YEARS





## **A. PROMOTE ACCOUNTING FIRMS TO PROVIDE AQIS, PREPARE AND PUBLISH TRANSPARENCY REPORTS, AND INCORPORATE AQI INFORMATION INTO DIFFERENTIATED OVERSIGHT MECHANISMS FOR ACCOUNTING FIRMS**

### **1. Audit Quality Indicators:**

In August 2021, the FSC issued the Audit Quality Indicators (AQI) Disclosure Framework and Template and related guidelines. Starting from the audit and attestation engagements for the 2023 financial reports of public companies, the Big Four have provided AQI information to assist companies and audit committees in selecting CPAs, enabling more effective and objective assessments of the accounting firms' and audit teams' capabilities and commitment to enhancing audit quality. The FSC has also published the latest AQI information of accounting firms in the Audit Quality section of the SFB website to help listed companies compare and reference when interpreting AQI information.

### **2. Transparency Report:**

At the end of December 2021, the FSC issued the Principles for Preparing Transparency Reports by Accounting Firms as the basis for accounting firms to prepare transparency reports. The report content mainly includes information about the firm's overview and legal structure, governance structure and management information, risk management and quality control systems, audit quality-related indicators, and financial and business information. The Big Four firms have been regularly publishing transparency reports since 2023, with the aim of promoting healthy competition among firms through enhanced transparency of accounting firms, thereby improving domestic audit quality.

### **3. Design a Tiered Accounting Firm Management System and a Differentiated Oversight Mechanism**

Starting from the 2024 inspections of firms, the FSC has adopted preliminary firm classification standards based on their degree of impact on public interest (e.g., number of public companies audited). Additionally, by referencing AQIs from supervision and quality control perspectives, the FSC will strengthen audits and increase inspection frequency for firms that deviate from their peer group averages, demonstrate overall poor audit quality, or frequently experience audit failures.

In the future, the FSC will, based on the publication and effectiveness of AQI and transparency reports by Big Four firms, in due course evaluate the feasibility of adoption by small and medium-sized firms.





## **B. CONTINUOUSLY ENHANCE THE QUALITY OF SUSTAINABILITY INFORMATION AND ASSESS ALIGNMENT WITH INTERNATIONAL FRAMEWORKS**

### **1. Assurance of Greenhouse Gas Inventories and Sustainability Indicators Should Be Conducted by Qualified CPAs or Assurance Providers**

Currently, according to the Regulations Governing the Preparation and Filing of Sustainability Reports by Listed Companies, listed companies meeting specific criteria must disclose sustainability information such as greenhouse gas inventory and industry-specific sustainability indicators. Such disclosures are subject to assurance (verification) by CPAs (or assurance providers). Additionally, since 2023, the TWSE and TPEX have instated the Directions for the Implementation of Assurance Institutions for the Sustainability Report of TWSE/TPEX-Listed Companies, which stipulates that CPAs performing assurance on greenhouse gas inventory and industry-specific sustainability indicators must meet specific qualification requirements and pursue continuous professional development to improve the quality of sustainability information. CPAs should follow TWSAE3000 - Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and TWSAE3410 - Assurance Engagements on Greenhouse Gas Statements as the basis for issuing assurance reports on sustainability information and greenhouse gas statements.

The International Auditing and Assurance Standards Board (IAASB) issued the International Standard on Sustainability Assurance (ISSA 5000) in November 2024, which will be implemented starting December 15, 2026. The FSC will evaluate the adoption of ISSA 5000 in due course and, in line with international trends, will study and consider adjusting Taiwan's sustainability information assurance system and related supporting measures.

### **2. Accounting Firm Inspections Including Assessment of Climate-Related Risks on Financial Reporting**

In 2020, the International Accounting Standards Board (IASB) issued educational materials reminding companies to strengthen their assessment and disclosure of climate-related risks and their impact on financial reporting. When inspecting firms, in addition to examining the implementation of quality management and auditing standards, the FSC also reviews whether firms have relevant internal experts and resources to assist audit teams in planning or executing climate-related audits. The FSC also examines whether their audit procedures incorporate considerations of climate change risks on financial reports, including significant judgments and assumptions related to climate, sources of estimation uncertainty, and assets or liabilities whose carrying amounts at the balance sheet date could result in significant adjustments in the next fiscal year. Additionally, the FSC reviews whether climate risks have material impacts on asset impairment, changes in useful life and residual value, inventory valuation, provisions, and expected credit losses on loans and financial assets.

# VII.

## CONCLUSION

The FSC has released AQIs and related guidelines in Taiwan to help companies' audit committees more carefully evaluate the selection of firms and CPAs. It also encourages firms to publish transparency reports to disclose relevant governance and audit quality information, thereby increasing firms' governance transparency. Some AQI indicators have also been incorporated into the FSC's differentiated supervision of firms as aids.

After reviewing the AQI information of the Big Four firms for 2023, compared to the previous two years, the professional workforce has become more stable and investment in quality control has increased. Furthermore, the FSC's sample inspections of large and medium-sized firms in 2024 revealed fewer deficiencies compared to previous years, indicating that overall audit quality continues to improve. Given the importance of reliable audits to the capital markets, the FSC will continue to carry out its oversight duties and supervision of accounting firms in order to strengthen audit quality. Maintaining and improving audit quality is not solely the responsibility of CPAs; company management and audit committees should likewise work together to enhance audit quality. Management and audit committees should reinforce communication with CPAs. The FSC maintains its practice of incorporating the deficiencies summarized in this auditing oversight report in communication matters with CPAs, thus ensuring they are able to properly perform relevant audit work, improve audit quality, thereby safeguarding the interests of the investing public.

