



金融監督管理委員會
Financial Supervisory Commission

2017 CPA Firm Inspection

General Inspection Report

Financial Supervisory Commission, Taiwan

July 2018

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

I. Introduction

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

II. Domestic CPAs and CPA Firms:

- (I) As of the end of Dec. 2017, the number of CPAs and the distribution of the types of CPA firms and practicing CPAs were as follows:

Status of CPAs	Num.	%
Have applied to conduct auditing and attesting business for public company financial reports	732	9.85
Have applied to the competent authority for practice registration	3,396	45.69
Hold CPA certificate but do not practice as a CPA	4,036	54.31
Hold CPA certificate	7,432	100

Single-person CPA firm		Joint CPA firm		Co-location CPA firm		Total
Num.	%	Num.	%	Num.	%	
1,515	77%	411	21%	46	2%	1,972

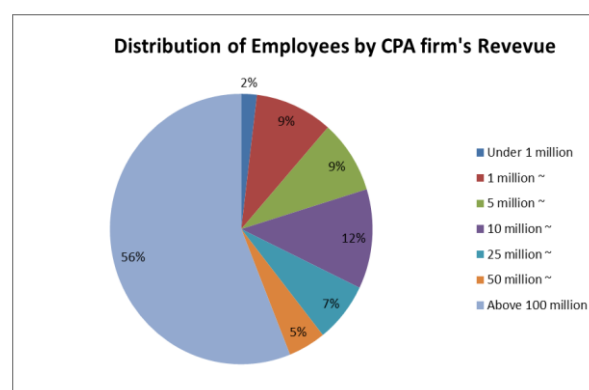
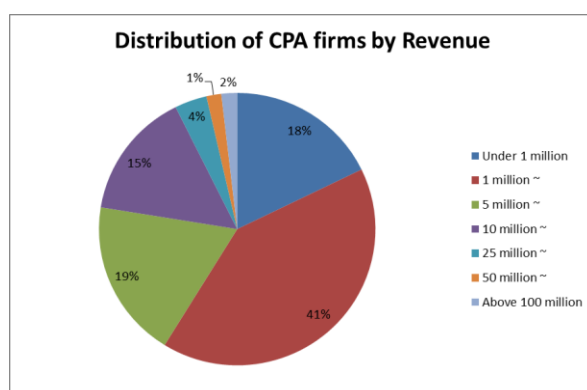
CPAs that have applied to the competent authority for practice registration	Big Four* audit firms	Mid-tier audit firms
Have applied to conduct auditing and attesting business for public company financial reports	331	401
Have not applied to conduct auditing and attesting business for public company financial reports	37	2,627

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

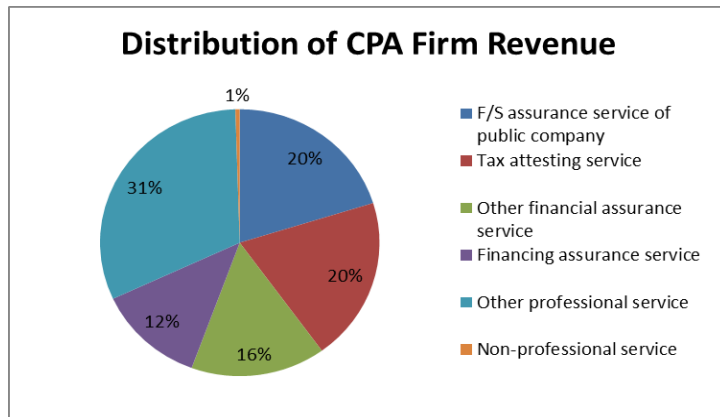
(II) According to the latest Annual Survey of the Accounting Profession of Taiwan, the figures for the revenue of the 1,050 surveyed CPA firms and number of employees at the end of 2017 were:

1. The scale of CPA firm revenue:

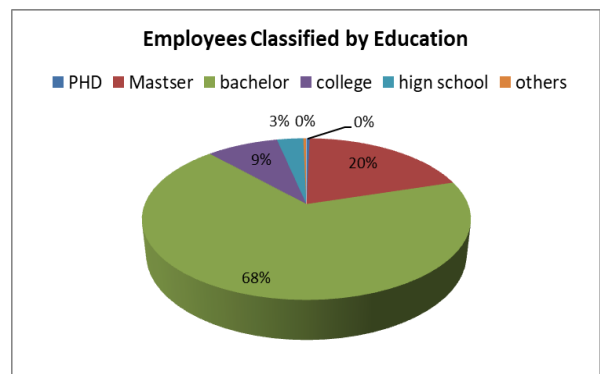
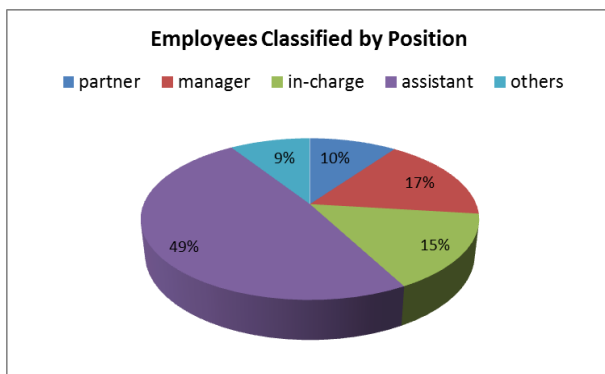
Revenue range	Num. of CPA firms		Num. of employees		2016 Revenue	
	Firm Num.	%	Employee Num.	%	Revenue (thousand)	%
Total	1,050	100.0	20,819	100.0	28,923,971	100.0
Under 1 million	182	17.3	329	1.6	79,382	0.3
1 million ~	430	41.0	1,955	9.3	1,189,051	4.1
5 million ~	208	19.8	1,907	9.2	1,471,517	5.1
10 million ~	157	15.0	2,431	11.7	2,335,132	8.1
25 million ~	38	3.6	1,494	7.2	1,331,234	4.6
50 million ~	18	1.7	950	4.6	1,110,686	3.8
Above 100 million	17	1.6	11,753	56.4	21,406,969	74.0



2. The type of CPA firm revenue: According to the Annual Survey of the Accounting Profession, the major part of firm revenue is professional service revenue in 2016(99.5%), and non-professional service is only 0.5%. Of professional service revenue, the financial report assurance service for public companies, the tax attesting service, other financial assurance service, financing assurance service and other professional service account for 20.2%, 19.8%, 15.6%, 12.5%, and 31.4% , respectively.



3. The composition of employees: There were 20,819 employees in the 1,050 CPA firms surveyed. The employees classified by position were assistants, managers, in-charge, partners, and others (49%, 17%, 15%, 10% and 9%, respectively). In addition, the employees classified by educational level were mainly bachelor’s, master’s, and college level (68%, 20%, and 9%, respectively).



III. Inspection Findings:

(I) Inspection Principle, Focal Points, and Methodology

1. Inspection Principle: The FSC carries out audit firm inspection with a risk-based approach in terms of inspected firm and audit engagement

selection. Through reviewing the work performed by auditors, the FSC requires that audit firms take necessary remedial measures to address any deficiencies found during the inspection. The FSC also provides recommendations for audit firms to improve their internal quality control system to better comply with regulations and generally accepted auditing standards (GAAS) with the aim of enhancing audit quality.

2. Focal Points of Inspections:

(1) Review of Quality Control System: Inspectors review firm policies, procedures, and audit engagements to assess whether the audit firm's quality control system is carried out in accordance with the requirements of the Taiwan Statement of Auditing Standards No. 46 "Quality Control for Firms" ("SAS No. 46" hereafter). The specific areas of the quality control system that inspection procedures address include the following:

- A. Leadership responsibility for quality control within the firm (Tone at the top)
- B. Independence
- C. Client acceptance and continuance (risk management mechanism)
- D. Human resources (partner evaluation, compensation, admission, assignment of engagement team, and continuing professional training)
- E. Engagement performance (engagement quality control review, consultation, and disagreement)
- F. Monitoring (the firm's internal inspection program, communications, corrective actions, and follow-up of on identified deficiencies)

(2) Review of individual audit engagements:

- A. Inspection focus and selection of audit engagements are planned annually with a risk-based approach.

- B. Audit engagements are selected considering public interest, materiality and other risk factors by the FSC without influence from or limitation by the inspected firm.

3. Inspection Methodology

(1) Review of Quality Control System

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

(2) Review of individual audit engagements

- A. Interview the engagement partner and the engagement team manager to understand risk assessment, audit focus, and audit method.
- B. Review the working papers to examine whether the audit is in conformity with the "Regulations Governing Auditing and Attestation of Financial Statements by CPAs" and the Taiwan SAS.
- C. Assess the effectiveness of the firm's quality control system through the findings of the individual audit engagement review.

(3) AML internal control procedures: On June 28, 2017, CPAs became subject to the Money Laundering Control Act. To assess CPA firms' level of compliance with the Money Laundering Control Act, the FSC included "internal control procedures for prevention of money laundering" in the key areas of inspection focus in 2017.

- A. Obtain AML/CFT internal control policies and procedures to assess a firm's level of compliance with the Regulations Governing Anti-Money Laundering for Certified Public Accountants and the Directions Governing Anti-Money

Laundrying for Certified Public Accountants.

- B. Assess the effectiveness of firm's AML/CFT internal control system through individual engagement review.

(II) Limitations of the Inspection Results:

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

(III) Inspection Findings in 2017:

In 2017, the Financial Supervisory Commission (FSC) conducted inspections of four CPA firms. The findings were:

1. Review of Individual Audit Engagements:

- (1) The auditor did not obtain sufficient appropriate audit evidence to access financial assets for possible impairment, as required under Article 20, subparagraph 1.2.G of the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" (referred to as "the Regulations" hereinafter)
- (2) The auditor failed to maintain a record of A/R counting to prove appropriate auditing procedures were performed and to support the audit conclusion, as required under Article 20, subparagraph 1.3.H of the Regulations.
- (3) The auditor applied analytical procedure for depreciation expense with incorrect data, thus rendering the analytical procedure ineffective, a failure to comply with Article 5 of SAS No.50.
- (4) Performance of accounts receivable confirmation

- A. It was found that a return confirmation was sent to the issuer's subsidiary rather than to auditors, a failure to comply with Article 29 of SAS No.38.
 - B. It was found that a return confirmation did not match the amount owned. However, the auditor failed to perform reconciliation and to look into the cause of disagreement, as required by Article 35 of SAS No.38.
- (5) The auditor failed to effectively implement the procedures for a proper cut-off of operating overheads, thereby violating Article 20, subparagraph 1.5.G of the Regulations.
- (6) It was found that the dates to perform the test for inventory aging and test of details for revenue were later than audit report date. The auditor failed to review the appropriateness of audit scope, as required under Article 12 of SAS No.51.
- (7) The working papers did not contain the following audit procedures as required under Article 22 of the Regulations:
- A. The factors taken in account to determine materiality for financial statements as a whole.
 - B. The factors taken into account to determine the discount rate used to value goodwill.
 - C. The conclusion of physical inventory audit.
 - D. The declaration of independence and the document of observing physical inventory did not complete the assembly of final files.

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

(1) Ethical Requirements

The auditors failed to sign the auditor's independence declaration, as required by the firm's independent evaluation policy.

(2) Client acceptance and continuance

The firm did not finish the evaluation procedures before deciding whether to accept an engagement with a new client as required under the independent evaluation procedures of the firm.

(3) Engagement Performance

A. The engagement quality control reviewer signed the audit working papers without dating them, so it could not be ascertained that the report was reviewed before the report date, as required under Article 40 of SAS No.46.

B. The firm failed to maintain the integrity of working papers

i. A failure to file working papers: The auditor did not file the audit check list with signatures by CPAs and engagement manager on it in the working papers

ii. Inconsistency between e-working papers and printed working papers: it was found that electronic working papers for revenue were not consistent with the printed ones; the procedure of goodwill impairment test was filed only in printed working papers but not in electronic ones.

C. The firm failed to reply the consultation cases to meet the deadline set up by firm's procedures.

D. The auditor lost part of the mid-term working papers and did not follow the firm's procedures to deal with it.

3. AML examination

(1) Internal control procedures

A. The applicable transactions of AML Internal control procedures did not comply with Article 5, subparagraph 3.3 and 3.5 of the Money Laundering Control Act.

B. The firm did not adopt policies and procedures for the preservation period of transaction records, or the start date

of the initial charge period. Thus, the firm did not comply with Article 7, subparagraph 2 and Article 8, subparagraph 2 of the Money Laundering Control Act.

- C. The firm did not establish policies and procedures for identifying the agent when the CPA is hired by an agent that represents the client. This was a violation of Article 4, subparagraph 4 of the Regulations Governing Anti-Money Laundering for Certified Public Accountants.
- D. The firm failed to establish policies and procedures regarding type of suspicious transactions. This was a violation of Article 7 of the Regulations Governing Anti-Money Laundering for Certified Public Accountants.
- E. The firm did not adopt policies and procedures for the enhanced monitoring control for which a CPA is engaged and for which a report has been filed of suspected money laundering transactions. Accordingly, the firm failed to comply with Article 3 of the Directions Governing Anti-Money Laundering for Certified Public Accountants.

(2) Review of individual engagements

- A. In evaluating the AML risk of engagement, the auditor only ticked the degree of risk but did not document the procedure of risk assessment, as required under Article 4, subparagraph 2 of the Regulations Governing Anti-Money Laundering for Certified Public Accountants.
- B. In the engagement in which the client was a juristic person, the auditor failed to file the articles of incorporation in the working papers. Thus, the auditor violated Article 4, subparagraphs 3 of the Regulations Governing Anti-Money Laundering for Certified Public Accountants.

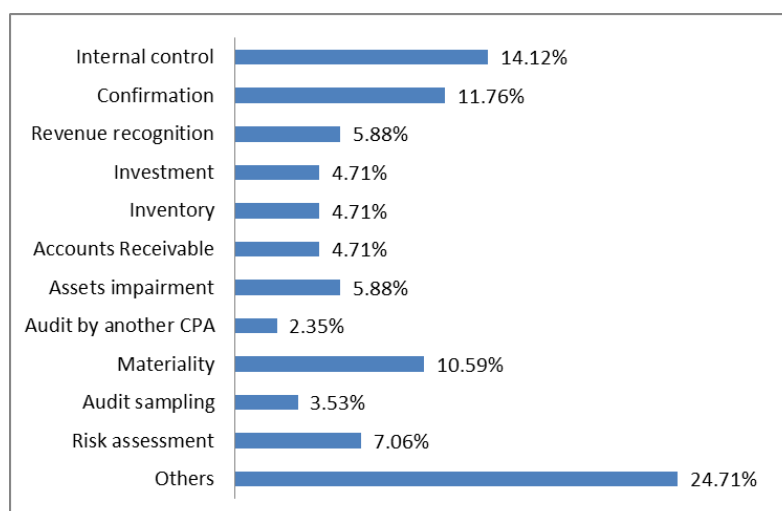
(IV) Analysis of review findings 2013-2017

The FSC commenced the audit firm inspection activities starting in 2009. In 2011, the FSC entered into a Cooperative Arrangement with the Public Company Accounting Oversight Board (PCAOB) of the United States and has

conducted joint inspection on local firms since then. The FSC has successfully performed the cycle of inspections on all big-four audit firms three times and 19 medium/small size audit firms up to 2017. To assure the audit firms' capability in auditing IFRSs financial reports, the FSC undertook the IFRSs thematic inspection of 54 medium/small audit firms during 2011 and 2012. The analysis of inspection findings 2013-2017 is as below:

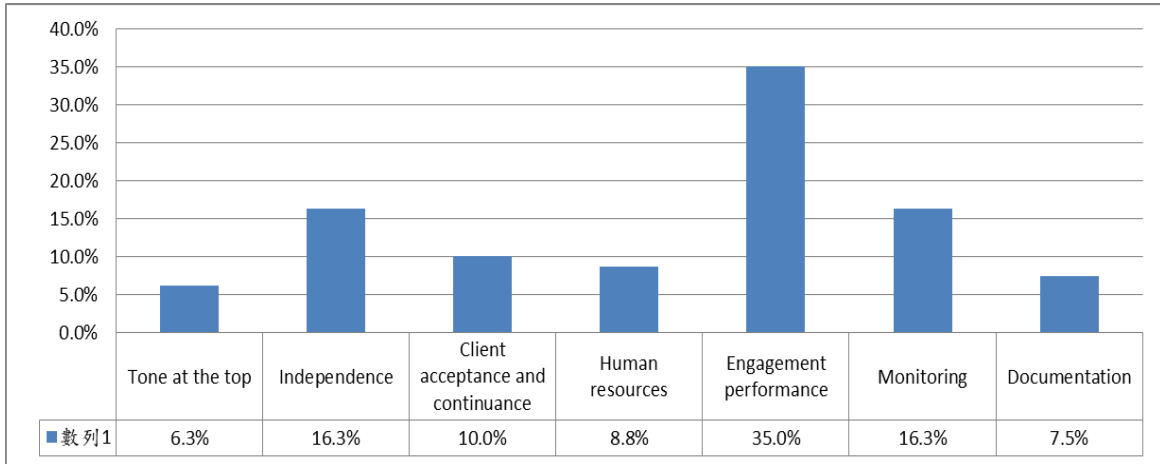
1. File Review Findings

Internal control	Confirmation	Revenue recognition	Investment	Inventory	Accounts Receivable	Assets impairment	Audit by another CPA	Materiality	Audit sampling	Risk assessment	Others
12	10	5	4	4	4	5	2	9	3	6	21



2. Firm Review Findings

	Tone at the Top	Independence	Client Acceptance and Continuance	Human Resources	Engagement Performance	Monitoring	Documentation	Total
Findings	5	13	8	7	28	13	6	80
%	6.25%	16.25%	10.0%	8.75%	35%	16.25%	7.5%	100%



IV. Conclusion

This general inspection report is a summary of the major findings observed from the FSC's inspections conducted in 2017 and the inspection findings 2013-2017. By publication of the deficiencies, the FSC hopes audit firms will undertake necessary remedial measures to improve engagement audit quality and to comply with related regulations and the GAAS. It is also expected that audit firms will continue to initiatively review their audit practices to ensure high quality audits, with the aim of increasing the trust of investors in audit quality and bolstering the transparency of capital markets.

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

internationalized environment for the financial industry, strengthen safeguards for consumers and investors and help the financial industry achieve sustainable development.