



金融監督管理委員會
Financial Supervisory Commission

2013 CPA Firms Inspection

General Inspection Report

Financial Supervisory Commission, Taiwan

May 2014

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

I. Introduction

Article 19 of the Certified Public Accountant (CPA) Act provides as follows: "In order to safeguard the interests of the general public and promote the good of society, the competent authority may dispatch personnel to inspect the operations and 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." In 2013, the Financial Supervisory Commission (FSC) conducted inspections on three CPA firms. The purpose of the inspection was 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 is aiming to raise public confidence in the audit opinions of accountants and financial reporting, and it has no punitive intent.

II. Domestic CPAs and CPA Firms:

- (I) As of the end of April 2014, there were 1,863 CPA firms, including 1,446 sole practitioner CPA firms, 368 joint CPA firms, and 49 co-located CPA firms (approximately 78%, 20%, and 2% of all firms, respectively).
- (II) As of the end of April 2014, there were 6,511 licensed CPAs, of whom 3,518 were registered with a CPA association in Taiwan. Among registered CPAs, 736 were authorized to audit public company financial statements.

III. Inspection Principle, Focal Points, and Methodology

- (I) **Inspection Principle:** The FSC carries out audit firm inspection on 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 the deficiencies found during the inspection. The FSC also provides recommendations for audit firms to improve their internal quality control system to comply with regulations and generally accepted auditing standards (GAAS) with the aim of enhancing audit quality.
- (II) **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:

- (1) Leadership responsibility for quality control within the firm (Tone at the top)
- (2) Independence
- (3) Client acceptance and continuance (risk management mechanism)
- (4) Human resources (partner evaluation, compensation, admission, assignment of engagement team, and continuing professional training)
- (5) Engagement performance (engagement quality control review, consultation, and disagreement)
- (6) Monitoring (the firm's internal inspection program, communications, corrective actions, and follow-ups on identified deficiencies)

2. Review of Individual Audit Engagements:

- (1) Inspection focus and selection of audit engagements are planned annually with a risk-based approach.
- (2) Audit engagements are selected considering public interest, materiality, and other risk factors by the FSC without influence from or limitation by the inspected firm.

(III) Inspection Methodology

1. Review of Quality Control System

- (1) Understand the CPA firm's quality control policies and procedures through interviews and related documents.
- (2) Evaluate the design of the inspected CPA firm's internal quality control system.

- (3) Conduct appropriate compliance tests to assess the effectiveness of the quality control system.

2. Review of Individual Audit Engagements

- (1) Interview the engagement partner and the engagement team manager to understand the risk assessment, audit focus, and audit method.
- (2) 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.
- (3) Assess the effectiveness of the firm's quality control system through the findings of the individual audit engagement review.

IV. Limitations of the Inspection Results:

- (I) 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.
- (II) 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.

V. Inspection Findings:

(I) Review of Individual Audit Engagements:

1. Auditor failed to regularly evaluate whether the audited entity has substantive control over its invested companies included in the consolidated financial statements, as required under Article 20, subparagraph 8.6 of the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants".
2. In cases where the auditor used the audit work of others, the auditor failed to obtain the memorandum of audit strategy, conclusion of audit and the letter of subsequent event, etc. In addition, auditor did not document alternative audit procedures in working papers. Thus,

the firm violated Taiwan SAS No.15 "Using the Work of Another Auditor".

3. The working papers did not state the appropriateness of the subject of confirmation, nor adequately document the audit trail, as required under Article 29 and 33 of Taiwan SAS No.38, and Article 20 of the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants".
4. Auditor failed to perform alternative audit procedures when accounts receivable confirmations were not replied, nor did the amount and object of voucher match with those in the subsidiary ledger of accounts receivable when performing an aged analysis of accounts receivable with the aim to verify the authenticity and correctness of the accounts receivable account balances; thus, the auditor violated Article 30 of Taiwan SAS No.38, and Article 20, subparagraph 3.7 of the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants".

(II) **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. **Human resources:** The firm did not establish policies and procedures with regard to director election, nomination and admission of new partners, performance evaluation and earnings distribution of partners, and partnership contracts, as required under Article 8 and 74 of SAS No.46.
2. **Engagement Performance**
 - (1) The firm did not establish the information management system to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of electronic engagement documentation, as required under Article 44 of SAS No.46.
 - (2) The firm did not have the criteria for the eligibility of engagement quality control reviewers with respect to different types of engagement, and failed to establish policies and procedures to maintain the objectivity of the engagement quality control reviewer, as required under Article 95 and 97 of SAS No.46.

- (3) According to Article 32 of SAS No.46, engagements of listed company financial statements should be reviewed by the engagement quality control reviewer. It is found that the audit firm had criteria in selecting the audits of financial statements of listed entities to conduct the engagement quality control review.
- (4) The firm failed to document the questions and conclusions of the consultations, or to follow up whether important consultations have been notified to auditing personnel within the firm, as required under Article 89 of SAS No. 46.
- (5) The firm did not have clear deadline for the auditor to file the completed working papers of the engagement as required under Article 43, 102, and 103 of SAS No. 46.
- (6) The firm did not have policies or procedures regarding the confidentiality of working papers, nor related norms, policies and control processes with respect to the changing of working papers without authorization, loss or damage, as required under Article 44, 104 and 105 of SAS No.46.
- (7) The firm did not have policies or procedures to regulate the ownership, retrieval duration, overdue reminding mechanism, or whether retrieval involves execution work efficiency and independence, as required under Article 110 and 111 of SAS No. 46.

3. Documentation of the Quality Control System

- (1) The firm failed to integrate the quality control documents or sheets with the procedures of internal risk control and quality control system, did not include such procedures in the quality control manual, or did not design suitably or update related documents, as required under Article 8 and 57 of SAS No.46.
- (2) The firm did not have policies regarding the retention period for conducting internal quality control review, as required under Article 58 of SAS No.46.

4. **Ethical Requirements:** The firm failed to establish policies to govern the rotation of managerial level and senior auditors, as required under

Articles 20 of SAS No. 46.

5. **Acceptance and continuance of client relationships and specific engagements:** The firm failed to establish policies to assess if there were conflicts of interest among firm branches when accepting a new engagement, as required under Article 23 of SAS No. 46.
6. **Monitoring:** The CPA performing EQC reviews were involved in follow-up monitoring of the engagements, violating the Article 46 of SAS No.46.

VI. This general inspection report is a summary of the major findings observed from FSC's inspection conducted in 2013. By releasing the deficiencies, the FSC expects audit firms to undertake necessary measures to improve engagement audit quality and to comply with related regulations and the GAAS. It is also expected that audit firms will continue initiatively reviewing their audit practices to ensure high quality audits, with the aim of increasing the trust of investors in audit quality and to bolster 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.