

# 2020 Audit Oversight Report



Financial Supervisory Commission

JUNE 2021

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## 1. Introduction

### (1) The Purpose of Audit Oversight

Capital markets is an important channel for issuers to raise funds. Since investors do not participate in the daily operations of companies, they are not able to know the true operation of companies. As such, “information asymmetry” between managers and investors prevails in capital markets. To mitigate information asymmetry, issuers are required to regularly disclose financial and business information, i.e. financial reports, to investor. The verification of issuer's financial information relies on auditing conducted by a third party, which is the purpose of audit services.

The audit services provided by auditors is a crucial external monitoring mechanism and also the foundation of well-functioning capital markets. Since audit quality is relevant to the reliability of financial reports and possesses the characteristics of the public goods, audit regulators around the world have established supervisory mechanisms to oversight auditors and audit services they provide.

The Financial Supervisory Commission (FSC) is the audit regulator in Taiwan. The Securities and Futures Bureau under the FSC is responsible for the supervision, management, enactment of legislation, and policy planning and execution of the securities and futures market and industry. One of its important mandates is audit supervision, including supervising the enactment of generally accepted audit standards (SAS) in Taiwan, approval and registration of certified public accountant (CPA), inspection of audit firms, and CPA discipline as well.

### (2) International Audit Oversight Cooperation

With the flourish of globalization, multinational companies have been expanding their business globally so have the audit services, making it necessary and urgent for audit regulators to seek global cooperation. In light of this trend, the FSC actively participates in international audit supervision affairs. In addition to joining the International Forum of Independent Audit Regulators (IFIAR), the FSC also keep a close cooperative relationship with several globally audit regulators.

## 2020 Important Global Audit Oversight Events:

- ✓ Deeply Engaged in IFIAR Affairs
- ✓ Joined “25% reduction metric” initiative
- ✓ Conducted Joint inspections with the U.S. PCAOB

- **Deeply Engaged in IFIAR Affairs**

International Forum of Independent Audit Regulators (IFIAR) is the world's largest audit supervision organization. Since joining IFIAR in 2008, the FSC has been actively participating in IFIAR activities and held the 2015 IFIAR Plenary in Taipei. The FSC was elected as the IFIAR board member in 2019 for four year term. After joining the board, the FSC has been deeply engaged in discussions and decisions making in board meeting. Currently, there are 16 board members, including audit regulators from the United States, the United Kingdom, Japan, Germany, France and the FSC. The FSC is also a member of "Audit and Finance Committee (AFC)", which operates under the IFIAR board. The IFIAR currently has five working groups: Enforcement Working Group (EWG), Global Audit Quality Working Group (GAQWG), and Inspection Workshop Working Group (IWWG), Standards Coordination Working Group. Investor (SCWG) and Investor and Other Stakeholder Working Group (IOSWG). Besides, as a member of EWG, the FSC has been involved in numerous activities organized by EWG. Each year, the FSC sends staffs to attend Inspection Workshop to share and exchange their views on the latest developments of inspection.

- **Joined “25% Reduction Metric” Initiative**

To enhance global audit quality, the FSC joined "25% Reduction Metric" initiative proposed by GAQWG. The main purpose of the initiative is to urge the Global Public Policy Committee (GPPC) of Big Six, namely Deloitte Touche Tohmatsu, PricewaterhouseCoopers, KPMG, Ernst & Young, BDO and Grant Thornton to improve their audit quality through the collaboration of global audit regulators.

The GPPC agreed on the target—at least 25% reduction in the numbers of listed public interest entities (PIEs) engagements with one or more findings over four years (until 2023). The initiative aims to urge the GPPC to improve audit quality within the time frame through setting concrete targets and timetable. There are 25 IFIAR members participating in the initiative, including the United Kingdom, the U.S. and Japan. The 2019 IFIAR survey, which compiled inspection results reported by audit regulators around the

world before June 2019 (that is, the 2018 inspection results), will serve as a baseline for the initiative.

- **Conducted Joint Inspections with the U.S. PCAOB**

With the internationalization of capital markets, the need of large companies to raise funds overseas increase. The main overseas fundraising market for domestic companies is the United States. In response to this trend, the FSC has been working with the U.S. Public Company Accounting Oversight Board (PCAOB) since 2011 to conduct joint inspections and further their cooperation through sharing and exchanging inspection information, techniques and experiences.

## 2. Overview of the Audit Market

### (1) The Distribution of Size, Number, and Personnel of Audit firms

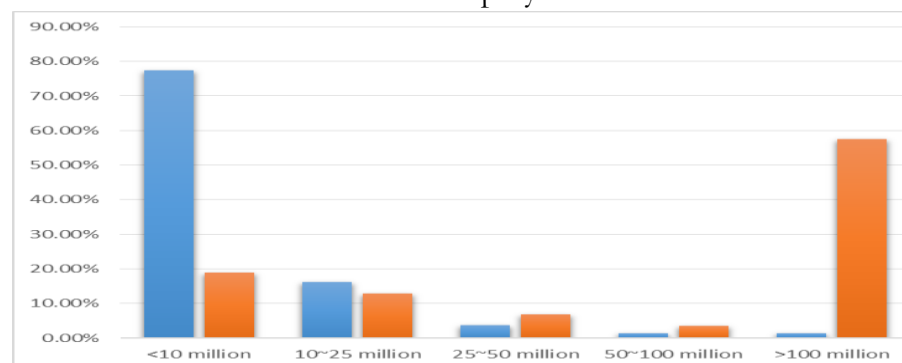
According to "2019 Audit firms Survey Report", based on a survey of 1,270 Audit firms in 2019, the scale and distribution of Audit firms' turnover from professional practice, and relevant information of employees are as follows:

The table below indicates there are 16 firms with the revenue of more than NT\$100 million in Taiwan. Although these firms account for merely 1.4% of total number, they hire 57.6% of employees in the audit market.

Table 2-1: Distribution of Audit firms by income vs. number of firms and employees

Income from professional practice	Number of audit firms	Number of employees
<10 million	883 (77.5%)	4,171 (19.0%)
10~25 million	184 (16.1%)	2,841 (12.9%)
25~50 million	42 (3.7%)	1,516 (6.9%)
50~100 million	15 (1.3%)	798 (3.6%)
>100 million	16 (1.4%)	12,642 (57.6%)
<b>Total</b>	<b>1,140 (100%)</b>	<b>21,968 (100%)</b>

Figure 2-1: Distribution of Audit Firms by Income Vs. Number of Audit Firms and Employees



## (2) Market Share

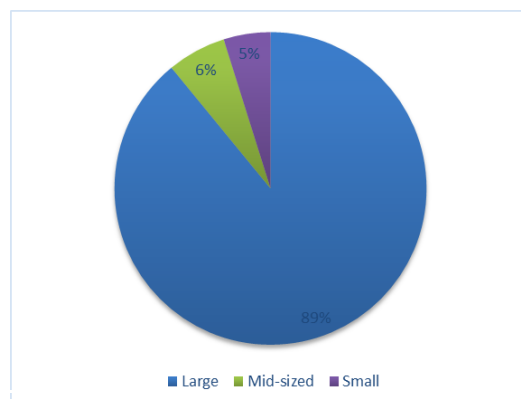
As of the end of 2020, the market share of audit firms engaged in the audit market for PIEs are shown in the table below. The market shares of large, medium and small Audit firms are 89%, 6% and 5% respectively.

Table 2-2: The market shares of Big Four in the PIEs segment

	TWSE listed	TPEX listed	Emerging stocks trading on TPEX	Other Public companies	Total
Large (Big Four)	91%	87%	96%	85%	89%
Mid-sized	6%	6%	3%	7%	6%
Small	3%	7%	1%	8%	5%
Total	100%	100%	100%	100%	100%

Large audit firms here refer to those auditing more than 100 PIEs, namely TWSE and TPEX listed, Emerging stocks trading on TPEX and public offering companies; medium-sized Audit firms refer to those auditing 10 to 100 PIEs; and small accounting firms refer to those auditing fewer than 10 PIEs. The four largest audit firms in Taiwan are: Deloitte Touche Tohmatsu, PricewaterhouseCoopers, KPMG and Ernst & Young. In terms of audit of PIEs, the market share of Big Four in Taiwan accounts for 89%; the market share of Big four in major capital markets are also high, such as 99% in the U.S. S&P 500 and 97% in the UK FTSE 350, indicating that the Big four market concentration is a worldwide phenomenon.

Figure 2-2: The Market Shares of Big Four in Auditing and Attesting of Pie





*Taiwan's audit market is highly concentrated  
in Big Four similar to other major capital  
markets.*



### 3. Audit Quality

Audit quality is the hallmark of a CPA's audit profession but it is not easily observable. Thus there is no universal meaning or definition of audit quality yet. This feature makes it difficult for the audit committee, investors or other stakeholders to evaluate the performance of auditors. In light of this, there is increased interests in measuring audit quality by Audit Quality Indicators (AQIs). AQIs is a portfolio of quantitative indicators of audit quality. Some countries, such as the U.S. and Canada have encouraged audit firms or audit committees to adopt AQIs; Taiwan has also planned to promote its own AQIs, scheduling to disclose them by the end of 2021.

A couple of factors could affect audit quality and they could be roughly divided into two categories: "Profession" and "Independence". "Profession" means that auditors should have a thorough understanding of audit standards and laws, quality control systems and client's industry. Besides, auditors should also possess professional judgment and knowledge. As for "Independence", it means that auditors conduct audit work independently no matter in form or in substance and issue unbiased opinions. To gain a better understanding of the audit quality in our jurisdiction, the FSC has collected information related to "profession" and "independence" since 2019. Big Four accounts for 90% of the market share of PIEs so they play a decisive role for Taiwan's audit quality. All things considered, the FSC has collected information to gauge reasonable ranges of various indicators for the purpose of supervision.

*Factors affecting audit quality: Profession and Independence.*  
*"Profession": Thorough understanding of professional standards and laws, Audit firm's quality control systems and client's industry and possessing professional judgment.*  
*"Independence": Conducting audit work independently no matter in form or in substance and issue unbiased opinions.*

- **Profession Indicators:** Proportion of managers, proportion of professional consultants, proportion of CPA's and manager's engaging hours to total audit hours, CPA's experience, proportion of audit engagement quality control review(EQCR) hours, and training hours.
- **Independence Indicators:** audit firm tenure and audit fees

Since there is no consensus on the definition of audit quality yet and no single indicator to fully capture an audit firm's audit quality, the interpretation of data should be done with particular caution. It is not appropriate to judge an audit firm's audit quality simply by a single indicator.

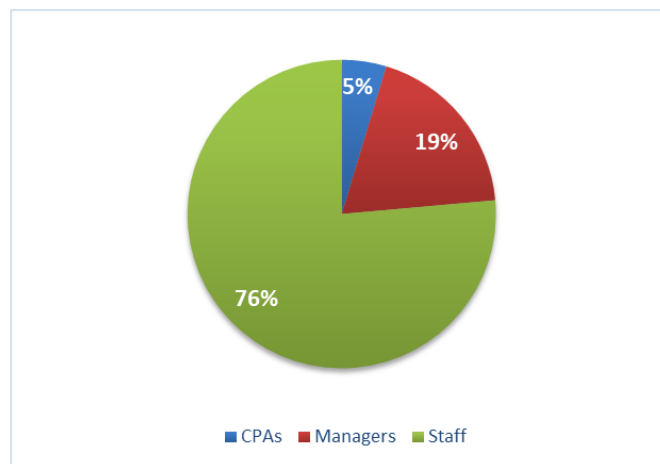
The audit quality related information of Taiwan's Big four is summarized as follows:

## Profession

### (1) Proportion of Managers

Employee's position in audit firms can be divided into three levels: CPAs (partners), managers and staff. The proportion of each in audit firms were 5%, 19% and 76% respectively, which forms the shape of a pyramid.

Figure 3-1: Composition of Employees in Big Four



Managers in audit firms usually have more than 5 years of audit experience. Considering that managers take on the majority of the

execution and monitoring of audit work and also hold the duty to coach new recruits, the quality and number of managers have a significant impact on audit quality. Therefore, the proportion of managers to auditors reflects audit quality to some extent. As can be seen from the figure below, the proportions of partners of Big Four are quiet similar and close to 5% while the proportions of managers fall between 11% and 23%. It is no small difference among Big four. The reasons for the diversity may lie in the different seniority or requirements for managers among Big Four, which makes it difficult to make meaningful inferences about audit quality simply based on this proportion.

Figure 3-2: Composition of Audit Employee in Big Four



## (2) Proportion of Professional Consultants

Professional consultants are in-house experts, who possess professional knowledge and provide support for auditors' work. The professional consultants include the experts in the knowledge management department or risk management department but do not include those from tax or other departments that are not directly related to auditing of financial reports, nor do personnel from general administration departments, such as human resources and information technology. Auditors may request audit support for various professional areas, such as asset evaluation, computer-assisted audit techniques or legal consultations. Therefore, the proportion of professional consultants reflects an audit firm's professional backup capacity, i.e. the higher the ratio is, the better

the audit quality is.

The table below shows the proportions of professional consultants of Big Four. On average, each professional consultant supports approximately 31 auditors.

Table 3-1: Proportion of Professional Consultants

	A	B	C	D	Average
Proportion of professional consultants	1/21	1/51	1/58	1/29	1/31

### (3) Proportion of CPAs and Managers Audit Hours to Total Audit Hours

Quality and audit hours of auditors are key factors affecting audit quality. It is difficult to have an objective metrics for quality of human resources so we take the proportion of senior-level auditors as an alternative measurement for audit quality. It is expected that the proportion of CPAs and managers audit hours to total audit hours is positively correlated to audit quality. As can be seen from the table below, CPAs and managers audit hours accounted for 13% of total audit hours.

Table 3-2: Proportion of CPAs and managers audit hours to total audit hours

	A	B	C	D	Average
Proportion of CPAs and managers audit hours to total audit hours	11%	12%	20%	11%	13%

### (4) CPA's Professional Experience

CPA's professional experience also affects audit quality. The table below shows CPA's professional experience based on seniority as a partner. On average, CPA's professional experience is 11 years; the differences of CPA's professional experience among Big Four are not significant.

Table 3-3: CPA’s Professional Experience (Years)

	A	B	C	D	Average
CPA’s professional experience (years)	11	11	13	9	11

### (5) Proportion of Audit Engagement Quality Control Review Hours to Audit Hours

According to Taiwan SAS No. 46, "Quality Control of Audit firms" (hereinafter referred to as "SAS No. 46"), auditors should implement quality control review before issuing audit reports for audit engagements of TWSE and TPEX listed companies. Audit engagement quality control review (EQCR) hours is expected to have a positive impact on audit quality. As a result, the proportion of EQCR hours to total audit hours reflects audit quality.

The table below shows the proportion of EQCR hours to total audit hours for the TWSE and TPEX listed company audit engagements audited by Big Four. The average ratio is close to 0.85% but there are significant differences among Big Four.

Table 3-4: Proportion of EQCR Hours to Total Audit Hours

	A	B	C	D	Average
Proportion of EQCR hours to total audit hours	0.83%	1.00%	0.97%	0.42%	0.85%

Although SAS No. 46 only prescribes audit firms should conduct quality control review in audit engagements of TWSE and TPEX listed companies, three of the Big Four have implemented quality control review for all audit engagements of PIEs, demonstrating these audit firms’ commitments to enhance their audit quality.

### (6) Professional Training Hours

Professional training is conducive to enhance the quality of auditors. According to Article 5 of “Regulations Governing CPA Continuing Professional Education”, a CPA engaged in auditing financial reports of PIEs should take no less than 40 hours in continuing professional education courses each year. The table below summarizes the audit personnel, including CPA’s, manager’s

**A CPA auditing and attesting financial reports of PIEs is required to take no less than 40 hours of continuing professional education courses each year.**

and staff's average professional training hours in 2020. Overall, the average is 87 hours per person, which is about twice the legal requirement for continuing professional education hours.

Table 3-5: Professional training hours

	A	B	C	D	Average
Average annual training hours of audit personnel	85	83	91	95	87

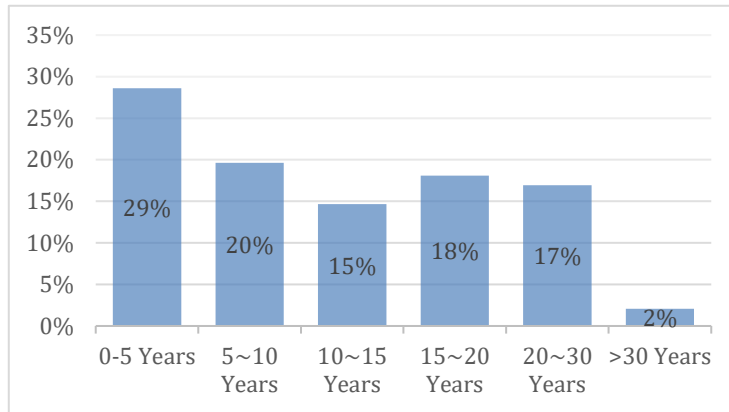
## Independence

- Audit Firm Tenure**

Familiarity with audit clients may affect auditors' independence. Familiarity with audit clients is often measured by CPAs tenure or audit firm tenure. Some countries have stipulated mandatory rotation of CPAs or audit firms. According to Article 68 of SAS No. 46, CPAs in charge of audit engagements of TWSE and TPEX listed companies should be rotated after a period of time (no more than 7 years) and could be reappointed only after a certain period of time (no shorter than 2 years). However, there is no mandatory rotation of audit firms in Taiwan yet.

The table below shows the audit firm tenure (cumulative audit years) of Big Four as of 2019. The audit firm tenure of more than 20 years is about 19%, indicating that around 20% of audit engagements are audited by the same Audit firm. The FSC will continue to monitor the impact of this situation on the independence of CPAs.

Figure 3-3: Overall tenure with Big Four



Furthermore, as seen from the table below, audit firm tenure are different among Big Four.

Table 3-6: Big Four Tenure

簽證年數	A	B	C	D
0-5 years	29%	30%	25%	29%
5~10 years	20%	22%	20%	11%
10~15 years	15%	18%	12%	11%
15~20 years	14%	15%	27%	25%
20~30 years	20%	13%	13%	23%
over 30 years	2%	2%	3%	1%

- **Audit fees**
  - **Audit Fee Growth Rate**

In practice, CPAs determine audit fees based on the nature of audited entities, such as complexity of their transactions, number of subsidiaries and audit risks of audited entities. Appropriate audit fees can maintain CPA's audit quality; whereas excessive or insufficient audit fees may have a negative impact on audit quality.

In terms of revenue, the growth rate of revenue of Big Four from audit of PIEs, tax compliance, other non-audit service and total income are 1.99%, -0.98%, 7.83% and 2.74%, respectively in 2019. Among them, the growth rate of revenue from audit of PIEs is 1.99%, a moderate growth rate without causing much concern on audit quality.

If we take Big Four individually, the growth rates of audit fee in 2019 range between 0.93% and 4.43% whereas the growth rate of non-audit fees range from -30.56% to 28.18%.

Table 3-7: Income growth rates from PIEs for Big Four in 2019

	A	B	C	D
Audit fee growth rate	0.93%	2.72%	0.95%	4.43%
Non-audit fee growth rate	3.66%	9.47%	28.18%	-30.56%
Total revenue growth rate	1.44%	3.86%	5.28%	-0.17%

*The growth rate of Big Four financial reports audit fees in 2019 was between 0.93% and 4.43%, rather moderate.*

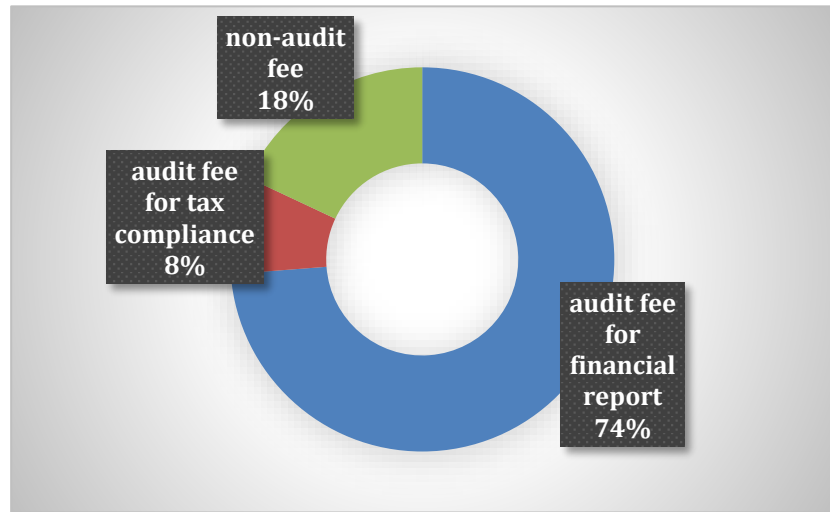
- **Fee composition-proportions of audit fees and non-audit fees**

CPA's independence in audit (or review) of financial reports is a key factor of audit quality. In addition to providing financial report audit services, CPAs also provides other non-audit services. As such, income can be divided into audit fees and non-audit fees. The amount and composition of fees may affect the independence of CPAs. If an audit firm receives a high proportion revenue out of non-audit fees from its audit client, it may affect CPA's independence in auditing of financial report.

The following demonstrates that, income from PIEs of Big Four amounted to NT\$ 8.2 billion, and could be divided into financial report audit fees, tax compliance audit fees and other non-audit fees, which contributed 75%, 9%, and 16% respectively. In Taiwan, non-audit fees of Big Four accounted for 16% of total income. Compared with the global proportion of 63%, the impact of non-audit fees on independence is less serious in Taiwan.



Figure 3-4: Proportions of income from PIEs of Big Four in 2019



*The proportion of non-audit fees of Big Four worldwide accounted for 63% while they contributed just 18% in Taiwan, showing that the effect of non-audit fees on independence is less of a concern in Taiwan.*

If we take Big Four individually, the proportions of non-audit fees differs. They fall on the range of 9% to 19%.

Table 3-8: Proportion of Big Four non-audit fees

	A	B	C	D	Average
Proportion of non-audit fees	19%	18%	19%	9%	18%

## Conclusion

- **Regarding the profession of Audit firms:**
  - At present, there is no universal criteria for quality control review hours ratio yet, making it difficult to judge an audit firm's quality by the proportion of review hours. Given the importance of quality control review for audit quality, the FSC will review the implementation of quality control review and change of the ratio closely during inspections.
  - As audit engagement quality control review (EQCR) is conducive to audit quality of audit firms, it is expected that EQCR is not limited to the audit engagements of TWSE and TPEX listed companies as mandated by GAAS No. 46 but further extended to emerging stocks trading on TPEX and other public offering companies.
- **Regarding the independence of audit firms:** In respect to the familiarity with audit clients, about 19% of Big Four's audit engagement tenure last more than 20 years. In Taiwan, there is only mandatory rotation rule for CPAs but not for audit firms currently. European Union has required audit firms tenure not exceed 20 years, which demonstrates the global concern toward this issue. The FSC will continue keeping a close eye on global development of this issue and evaluating on whether to amend domestic regulations.

**The FSC's audit oversight measures:**

- ✓ **supervision of stipulation of auditing standards**
- ✓ **accountant approval, registration and practice**
- ✓ **audit firm inspection**
- ✓ **CPA discipline**

## **4. Overview of Audit Oversight**

To ensure audit quality, the FSC takes several oversight measures such as oversight of the stipulation of auditing standards, approval and registration of CPA, audit firm inspection and CPA disciplines. Those measures are hereby enumerated as follows.

### **(1) Supervision of Stipulation of Auditing Standards**

In response to the internationalization of capital markets and to promote the quality of audit reports, the FSC has urged the Accounting Research and Development Foundation (ARDF) to adopt "converging" approach to align with International Standards on Auditing (ISAs) since 2008. The ARDF has issued or revised 30 auditing standards since 2008, including No. 73 "Using the Work of internal Auditors" and No. 74 "The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements" in 2020, and it plans to issue No.75 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment" in 2021.

Take the new audit report adopted internationally in recent years for example. The International Auditing and Assurance Standards Board (IAASB) released ISA 700 "The independent auditor's report on financial statement" on January 15, 2015 as well as ISA701 "Communicating Key Audit Matters in the independent auditor's report". Considering that the new audit report can effectively enhance the value and transparency of the audit report, these ISAs have been referred to formulate Taiwan's Auditing Standards No. 57 and No. 58. The FSC required CPAs to issue new audit reports for the TWSE / TPEX listed companies and financial institutions since 2016 annual financial reports. The implementation date is earlier than that of most EU countries and the United States. This demonstrates that Taiwan actively promotes the auditing standards to be in line with international standards.

### **(2) Approval, Registration and Practice of CPA**

- **Supervision Measures**
  - Registration of CPA and audit firms: According to Article 5, Articles 8 and 12 of CPA Law, national of the Republic of China who has passed the CPA

examination holds a CPA certificate, and possesses the qualifications of a CPA may practice as a CPA. A CPA certificate holder may practice nationwide as a CPA after he or she has established or joined a CPA firm, applied to the competent authority for practice registration, and joined the provincial or municipal CPA association where the head office (or branch) of his or her CPA firm is located. Provincial and municipal CPA associations shall submit the membership information of their members to the National Federation of Certified Public Accountants Associations of the R.O.C. (the "national federation") for registration and recordation.

- Audit Firms conducting business of auditing and attesting financial reports of public companies : The financial report of a public company shall be jointly audited and attested to by two or more CPAs of a joint CPA firm or incorporated CPA firm pursuant to Article 15 of the CPA Act. Before a joint or corporate accounting firm conducts financial report audits of public companies, it should obtain the approval from the FSC.

#### ● CPA Practice Status

As of the end of December 2020, the number of CPAs, firm organization type distribution, and the distribution of CPA's practice is as follows. Among them, 45% of those with CPA certificates have been registered as a practicing CPA, and 8% were approved to audit financial reports of public companies, respectively.

Table 4-1: CPA Practice Status

CPA Practice Status	Number	%
Approved to audit public companies	676	8%
Registered as practicing CPA	3,651	45%
Certificate holders without practice	4,458	55%
Certificate holders	8,109	100%

From the Table below, the proportion of CPA approved to

audit public companies in large audit firms is about 80%, whereas the proportion in small and medium-sized audit firms is about 11%. This shows that the audits of public companies are dominated by large audit firms. The small and medium-sized audit firms focus their business on the audit of non-public companies.

Table 4-2: Entity Type Attested by CPA

Registered as practicing CPA	Large*	Small and mid-sized
PIEs	325 (80%)	351 (11%)
Non-PIEs	79 (20%)	2,896 (89%)

\*: Large firms refer to Big Four: Deloitte, PwC, KPMG, and Ernst & Young.

According to article 15 of the CPA Act, audit firms are classified into 4 types: single-person, co-location, joint, and incorporate audit firms. From the Table below, single-person and joint CPA firms still dominate the market with 77.56% and 20.64% respectively.

Table 4-3: Types of CPA firms

single-person	Joint	co-location	in corporate	Total
1,638 (77.56%)	436 (20.64%)	37 (1.75%)	1 (0.05%)	2,112 (100%)

### (3) Audit Firm Inspection

- **The Purpose of Audit Firm Inspection**

The Article 19 of the CPA Act stipulates that to safeguard the interests of the general public and promote the public interests, the competent authority may dispatch personnel to inspect the operations and financial status of an audit firm that has been approved to provide attestation services to public companies. An audit firm shall not avoid, impede, or refuse to cooperate with such an inspection." The purpose of the inspection is to ensure high audit quality, enhance the internal quality control of audit firms, and reduce the potential risks of audit failure. Through the inspection

and promotion of high-quality auditing, the FSC aims to bolster public confidence in the audit opinions of accountants on financial reporting rather than to punish the inspected firms. If an auditor is found to have made material deficiencies or committed negligence in attestation on financial reports, or seriously violated Article 61 of the CPA Act to the extent of damaging the accountant's reputation, the FSC will refer the case to the CPA Discipline Committee for disciplinary actions.

- **Inspection Principle**

The FSC conducts the audit firm inspection with a risk-based approach. With regard to the deficiencies found in the review of quality control system or audit engagement, the FSC requires the inspected firm to take necessary remediation actions to improve their quality.

- **Focal Points of Inspections**

- **Quality control systems:** Inspectors review audit firm's policies, procedures, and audit engagements to assess whether the CPA firm's quality control system is conducted in accordance with the requirements of the Taiwan Statement of Auditing Standards No. 46 Quality Control for Firms ("SAS No. 46" hereafter). The key inspection focus of the quality control system covers: "Leadership's responsibility for quality control in the firm (Tone at the top)", "Independence", "Client acceptance and continuance", "Human Resources", "Engagement performance" and "Monitoring".
- **Reviews of Audit Engagement:** With reference to the inspection methods of foreign auditing and supervision authorities, the FSC has shifted from a comprehensive audit method to a "Key Audit Area" method since 2019. Based on audit risk level, common deficiencies at home and abroad or supervision needs, the FSC selects a couple of accounting items or audit procedures for in-depth inspection and expands the number of reviews of audit engagements. In 2020, four to eight audit engagements were selected for in-depth review for each CPA firm.

- **Inspection Methodology**

- **Quality Control Systems**

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

- **Reviews of Audit Engagement**

- Interview the audit engagement partners and managers to understand risk assessment, audit focus, and audit method.
- Review the working papers to examine whether the audit conforms to the Regulations Governing Auditing and Attestation of Financial Statements by CPAs ("Auditing Regulations " hereafter) and the Taiwan SAS.

## Key Findings for 2020 Inspection

The FSC's inspectors conducted on-site inspections of two large CPA firms and two middle-sized CPA firms in 2020. The inspection covers review of a firm's quality control system and audit engagements. The deficiencies are as follows:

- **Quality Control System**

- The inspectors identified 35 quality control system deficiencies in 2020, which increased compared to 3 deficiencies last year (2019).The reason for the increase is attributed to the firm scale difference. All inspected firms in 2019 were big firms while some of the inspected firms are middle-sized in 2020. The resources and employees of middle-sized firms are much less than the large ones; hence there were more deficiencies in 2020.Compared to the result of 2018, which middle-sized firm were inspected more than the Big Four, the number of deficiencies were

not significant.

Table 4-5: Deficiency of Quality Control System

	2020	2019	2018
Number of inspected firms	4	3	4
Number of inspection deficiencies	35 items	3 items	43 items
Average deficiencies per firm	8.75	1	11

- In 2020, after evaluating the design and implementation of the firm's quality control system, the FSC found the following deficiencies:
  - **Leadership's responsibility for quality control in the firm (Tone at the top)**
    - ✓ The quality control system of the firm stipulated that the head of each department are responsible for the quality control, which was not met the requirement of SAS No. 46. According to Article 10 of SAS No.46, the CEO or the management committee should in charge of the quality control system of the firm.
    - ✓ The staff of the firm was unfamiliar with the quality control policies, which indicated that the firm was fail to implement audit quality into firm culture.
  - **Independence**
    - ✓ The firm didn't stipulate the rotation of auditors responsible for the audit of financial statements of listed companies, nor did it stipulate the independence assessment procedures and post-check mechanism for non-audit service cases; the other firm were stipulated the rotation of auditors and managers, but it only monitored the rotation of auditors; new staffs didn't sign an independent statement in accordance with the firm's policy. which were not met the requirement of SAS No.



46(Article 16、67and 68)

- ✓ The firm didn't stipulate regulations regarding to confidentiality, which were not met the requirement of SAS No. 46(Article 15)
- ✓ Some audit engagements didn't obtain the independent statement of the internal experts participated in the audit work.

#### – **Client acceptance and continuance**

- ✓ Some risk assessment results for the clients didn't state the date of assessment, some items were not specify the assessment basis, and some risk assessment forms for the new clients were not specify the basis of the assessment conclusion, which were not met the requirement of SAS No. 46(Article 22 and 120).
- ✓ The firm didn't consider the risk differentiation and assign appropriate weights among the items in the risk assessment form, which may dilute the effect of the items with material risk, while some cases selected by the FSC were found didn't do the assessment appropriately.
- ✓ Some cases selected by the FSC were found didn't describe the rationality in the selection of peer companies in the client profile, some forms were incomplete, such as didn't update the industry information, didn't analyze the ratios listed in the form, or didn't give the result of evaluation after comparing with peers. In particular, one case was found that the professional competence of the reviewer in the form didn't match the reality.

#### – **Human Resources**

- ✓ The firm hired experienced personnel by projects (who were not employed by the firm) to assist the auditors in auditing public companies, which

violated Article 18 of the CPA law.

- ✓ The head of one branch works in headquarter in Taipei, which violated Article 16 of the CPA law.
- ✓ The firm didn't have policies about rewards and promotion and regulations about promoting partners, nor the standards about assessing the performance in all levels and link to the professional competence of personnel, which were not met the requirement of SAS No. 46(Article 11 、74and 77).
- ✓ The firm's regulation didn't specify the considerations or criteria of a new partner other than seniority, which were not met the requirement of Article 11 of SAS No. 46.
- ✓ The firm didn't have the procedures for their Human resources policies (such as hiring process, promotions, assessing performance, and rewards).
- ✓ The firm failed to implement its policy to reflect the responsibility of quality control in the performance assessment of partners, and failed to include the results of external reviews (such as sanctions or deficiencies inspected by the FSC) in the performance assessment.
- ✓ The firm didn't have policies to monitor the working hours of audit and EQCR for local and KY companies, to reasonably sure that the auditors and quality control reviewers have properly engaged with their work; Also, although the firm had linked the corrective order issued or deficiencies found by the FSC to the performance of the auditors, the weight distribution is not equivalent to the effect of the firm's internal review results.

#### — Engagement performance

- ✓ The firm failed to formulate the audit procedures for the audit plan and assertions made by the

management of the client, and failed to update the audit procedures with the new regulations and audit standards, which were not met the requirement of Article 82 of SAS No. 46.

- ✓ The quality control review of the engagement was performed by the auditor who has been suspended from audit services, which was not met the requirement of Article 95 of SAS No. 46.
- ✓ Auditors and reviewers didn't sign and mark the date in working papers in some engagements, which were not met the requirement of Article 10 of SAS No. 45; in some other cases, the EQC reviewer didn't fill in the review opinions, which was not comply with the firm's policies.
- ✓ The firm didn't have policies and procedures for filing, borrowing and storage period of working papers, and didn't monitor the number of files. Some working papers were modified after the filing date; the report date and the filing date of some engagement were incorrect; the method to control the access of electronic papers was inconsistent with the firm's policy, which were not met the requirement of SAS No. 46(Article 43、44 and 45).
- ✓ The firm didn't design and proper written the policies to prevent the working papers from being modified or lost due to unauthorized, which was not meet the requirements of the SAS No. 46(Articles 44 and 105).
- ✓ The working paper of an engagement was archived 212 days after the date of termination of engagement, which were not met the requirement of Article 36 of SAS No. 45.

– **Monitoring**

- ✓ The items in the quality control review form didn't contain "Human Resources", and was not filled

with relevant supporting information and basis for the review; in addition, the monitoring process for engagements didn't include to review the material audit procedures of the engagement, which were not met the requirement of SAS No. 46 (Article 46 and 112).

- ✓ The firm didn't communicate with the engagement auditors with the results of the monitoring and reported to the partners meeting, which were not comply with the firm's policies and SAS No. 46 (Article 49 and 52).
- ✓ The firm's policy stipulates the qualifications of the personnel responsible for monitoring, which was based on Article 116 of SAS No. 46 (for special considerations for smaller firms), and was not meet the requirements of Article 46 of SAS No. 46. In addition, the monitoring of engagements was responsible by the engagement EQC reviewer, which was incompliance which SAS.
- ✓ The firm didn't set the procedures for the audit of the quality control system of the firm, which was not met the requirement of Article 46 of SAS No.46.
- ✓ The firm didn't improve the deficiencies found by the FSC thorough previous inspection:
  - ✘ The admission of a new partner was submitted orally without an application form, which did not comply with the firm's policy. The firm had stated that it would immediately implement the policy and regulations, but it has not been improved yet.
  - ✘ The performance of partners was not submitted to the partner meeting for assessment in line with the firm's policy and was submitted to the department representative meeting instead. The FSC inspected the firm again in 2020 and found the performance of partners was still not

submitted to the partner meeting.

Table 4-6: Deficiencies of Audit Engagement

	2020	2019	2018
Number of Inspection Deficiencies	44 items	5 items	22 items
Number of Review of Audit Engagements	24	24	7
Average Number per Audit Engagement	1.83 items	0.2 items	3.1 items

### • Reviews of Audit Engagements

- The inspectors reviewed 24 audit engagements and identified 44 deficiencies. The total number of deficiencies was increased compared to 3 deficiencies last year (2019). The reason for the increase is attributed to the firm scale difference. Compared to the result of 2018, the average number of deficiencies per engagement was declined.
- The inspectors reviewed the audit engagements conducted by the inspected firms and found the following deficiencies:
  - **Materiality** : The process to assess the risk of material misstatement of financial report(including understanding, identification, assessment and the way to address it) made by the auditor were not recorded in the working paper, which was not meet with Article 10 and Article 25 of SAS No. 48.
  - **Tests of internal control**
    - ✓ The auditor didn't include all the top 10 new sales customers in the year as samples for test of internal control, which did not comply with the Article 20 of Auditing Regulations.
    - ✓ There were differences between the results of the test of internal control and the conclusions of auditor, which were not properly explained in the working paper, which did not comply with the

Article 20 of Auditing Regulations.

- **Cash and cash equivalents** : Client put its non-principal-guaranteed floating-income notes under” bank deposits”, and the auditor didn’t clarify whether the classification is appropriate, which did not comply with the Article 20 of Auditing Regulations.
- **Accounts Receivables**
  - ✓ The auditor didn’t verify that the client had include the forward-looking information during the expected credit impairment assessment of accounts receivables in accordance with IFRS 9, which did not meet the requirements of Article 20 of Auditing Regulations.
  - ✓ The auditor didn’t verify whether the material accounts receivable was made and collected from the same party; in addition, the auditor performed the post-term collection as the alternative procedure for the accounts receivables didn’t receive the confirmation, yet the recovery rate was low, which shows the audit evidence is insufficient, and didn’t comply with Article 20 of Auditing Regulations and SAS No.69.
  - ✓ The auditor failed to address the differences between the numbers on conformation and the book value, which did not comply with Article 13 of the Auditing Regulations and the SAS No. 69.
  - ✓ The auditor didn’t analyze the relation between the growth rate of accounts receivable and notes receivable and the growth rate of sales, which was not meet the requirements of Article 20 of Auditing Regulations.
- **Inventory**: The auditor didn’t perform the evaluation of the lower of the inventory cost and the net realizable value at the end of the period properly, which was not complied with Article 20 of the Auditing Regulations.
- **Property, Plant and Equipment (PP&E) and**

## Investment Property

- ✓ The company didn't classify properties as investment properties for those met the definition of investment properties under IAS No. 40, and the auditor was failed to verify whether the accounting treatment was appropriate, which was not complied with Article 20 of the Auditing Regulations.
- ✓ The auditor failed to verify whether the amount recoverable is appropriate for those machinery equipment showed the sign of impairment, in addition, the auditor didn't obtain supporting evidence during the impairment assessment of some properties, which did not comply with Article 20 of the Auditing Regulations.
- ✓ The auditor didn't verify if the company conducts impairment tests on goodwill every year, which has not complied with the Article 20 of the Auditing Regulations.

## — Key Audit Matters (KAMs)

- ✓ The auditor had identified major accounting or audit issues and determined KAMs, but the reasons for selecting some major accounting or audit issues as KAMs were not properly documented in the working paper, which violates the Articles 17 and 78 of SAS No. 58.
- ✓ The auditor didn't perform the procedures described in the audit report for KAMs, which did not comply with Article 23 of the Auditing Regulations.
- ✓ The communication between the auditors and management about KAMs and how auditor decided the matters of significant attention from communication with management and the reasons for selecting KAMs from the matters of significant attention were not properly

documented in the working paper, which violates Articles 8 of the SAS No. 58.

- **Using the work of management's expert:** The auditor used the work of management's experts as audit evidence, but fails to review the source of information, hypothesis or method used and its consistency, and tests whether the information provided to the experts by the company is appropriate; didn't consider the relevance and reliability of the evidence, which was not meet the requirements of Article 7 of SAS No. 53.
- **Documentation:**
  - ✓ The auditor failed to record the consideration factors that determine the materiality level in the working paper, which was not comply with Article 13 of SAS No. 51.
  - ✓ The tests for the inventory price was not completely filed in the paper and electronic working papers, which was not comply with Article 22 of the Audit Regulations.

- **The Follow-Up Procedures after Inspection**

The FSC will propose a draft of General Inspection Report within 1-2 months after on-site inspection. The inspected firms are required to provide written opinions on inspection deficiencies within 30 days, to submit a remediation plan to the FSC within 2 months and then to track the remediation progress. If the firms did not implement the remediation plan appropriately, or address deficiencies within the prescribed period by the FSC, the FSC may rescind or repeal approval of the inspected firms to conduct auditing and attesting businesses for public company financial reports under Article 10.1. (6) of the Regulations Governing Approval of Certified Public Accountants to Audit and Attest to the Financial Reports of Public Companies.

- **Communication between Management and Audit Committee and Auditors**

Management and audit committee of public companies are



responsible for preparation and fair presentation of financial statements. To ensure the high quality of financial statements, they should enhance communication with auditors by incorporating the common deficiencies listed in the Inspection Deficiencies Survey Report issued by IFIAR into their communication.

- **Summary of Deficiencies in Recent Years**

As of 2020, the FSC has completed 4 inspection cycles of the Big Four for a total of 44 on-site inspections. The overview of the deficiencies over the past 5 years (2016 to 2020) is summarized as follows:

- **Quality control System:** Major deficiencies from inspection of quality control systems over the five years 2016-2020 were related to Engagement performance, Human Resources, Monitoring, and Independence. Please refer to previous inspection reports for details.

Figure 4-1: Deficiencies of Quality Control System over past Five Years

	2016	2017	2018	2019	2020	Total
Leadership responsibility for quality control	1	0	1	0	2	4
Independence	2	1	5	0	5	13
Client acceptance and continuance	1	1	4	0	3	9
Human resources	5	0	11	0	11	27
Engagement Performance	9	5	17	3	9	43
Monitoring	6	0	5	0	5	16
Total	24	7	43	3	35	112

Note: The FSC had reclassified the categories of inspection deficiencies according to IFIAR’s classification since 2019, so the number might be different from that shown in the past inspection reports.

- **Review of Audit Engagement:** Major deficiencies from audit engagement reviews were Revenue Recognition, Materiality, tests of Internal Control, Documentation and KAMs over the 5 years 2016-2020. Please refer to previous

inspection reports for details.

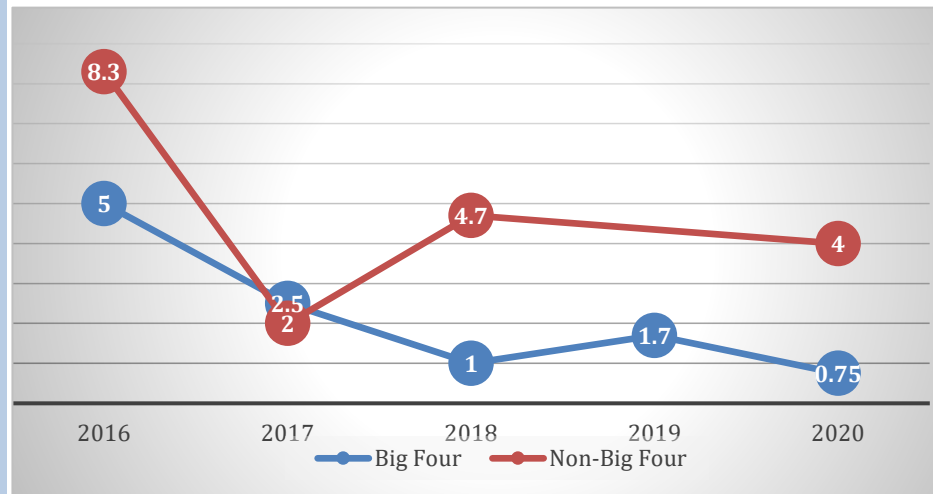
Figure 4-2: Deficiencies of Audit Engagements over the Past Five Years

	2016	2017	2018	2019	2020	Total
Group Audits	4	0	0	0	0	4
Internal Control Testing	7	0	0	0	3	10
Substantive Analytical Procedures	0	1	0	0	2	3
Fraud Procedures	2	0	1	0	0	3
Risk Assessment	4	0	0	0	0	4
Accounting estimates / fair value measurement	2	2	0	0	3	8
Revenue recognition	5	3	6	3	16	33
Inventory procedures	3	1	0	0	1	5
Related party transactions	2	0	1	0	0	3
Engagement review and management	1	0	3	0	0	4
Audit sampling	0	1	0	0	0	1
Key audit matters	0	0	3	2	8	13
Documentation	1	4	2	0	4	11
Materiality	8	2	4	0	3	17
Adequacy of financial statement presentation and disclosures	0	0	0	0	2	1
Use of experts	0	0	0	0	2	2
Loaning of Fund and Making Endorsements	2	0	1	0	0	3
Others	2	1	1	0	0	4
<b>Total</b>	<b>43</b>	<b>15</b>	<b>22</b>	<b>5</b>	<b>44</b>	<b>129</b>

● **Comparison of Big Four and Non-Big Four Deficiencies**

The following figure shows the deficiencies of Big Four and non-Big Four audit firms over the past 5 years. Except for 2017 and 2019(only Big Four were inspected), the average audit engagement deficiencies of the Big Four (total audit case deficiencies / number of audit cases with deficiencies) is lower due to the possession of greater resources.

Figure 4-3: Average audit engagement deficiencies of Big Four and Non-Big Four over the past five years



#### **(4) Disciplines and Sanctions of CPA**

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

- **CPA Discipline**

- **Disciplinary Procedures**

The CPA disciplinary in Taiwan is conducted by the CPA Discipline Committee pursuant to the Accounting Act. The CPA Discipline committee comprises members from industry, government, and academia. If an auditor is involved with activities specified in Article 61 of the CPA Act, the competent authority or National Federation of Certified Public Accountants Associations of the R.O.C. may file with the CPA Discipline Committee a petition for disciplinary action. According to Article 62 of the Accounting Act, auditor disciplinary actions include fines (NT\$ 120,000 - NT\$ 1.2 million), warnings, admonishment, a stop in business (2 months - 2 years), or delisting.

If an auditor subject to disciplinary proceedings does not accept the resolution of the CPA Discipline Committee, he or she may file with the CPA Discipline Rehearing Committee for a hearing. If the hearing applicant disagrees with the resolution, administrative litigation could be filed with the Taipei High Administrative Court. If the auditor who has been disciplined fails to apply for a review or file an administrative lawsuit within the deadline, the resolution confirmed. Once the resolution of the CPA Disciplinary Committee is confirmed, it will be published in the government bulletin and posted on the website.

- **Overview of CPA Disciplinary Actions**

The CPA disciplinary actions made by CPA Disciplinary Committee over past three years are 6, 7, and 8 respectively, and the number of auditors subject to disciplinary actions is 9, 15, and 18.

The information on CPA Disciplinary Committee’s resolution against auditors over past five years of, including the name of CPA, reasons, and disciplinary actions, is published on the FSC’s website. (<https://www.sfb.gov.tw/en/home.jsp?id=233&parentpath=0,117,228>)

Table 4-2 Recent CPA Disciplinary Actions

	2018	2019	2020
The number of resolutions made	6	7	8
The number of accountants subject to disciplinary actions	9	15	18

- **Sanctions against CPAs**
  - **Procedures for sanctions**

The disciplinary procedures for the CPA based on the CPA Act are punishments for CPA who violate laws and regulations or professional ethics and discipline when performing their business. In order to strengthen the supervision of public companies in Taiwan, the Article 37 of the Securities Exchange Law stipulates that auditors must obtain the approval from the FSC before auditing financial report of public companies; if a CPA has made serious mistake or omission in the attestation of the financial reports, the FSC may impose sanctions such as a warning, suspension from practicing any attestation under this Act in a period of two years, or voidance of his/her attestation permission, after considering the severity of the deficiencies. The scope of this sanction is limited to the attestation of the financial reports of public companies, which is narrower than the discipline procedures. It is mainly used for cases that involve wide public interests and need to take enforcement action immediately.

If an auditor subject to sanction proceedings does not accept the resolution made by the FSC, he or she shall file an administrative appeal in accordance with the “Administrative Appeal Act” and submit the administrative appeal to the Executive Yuan through the FSC. However, in accordance with Article 93 of the Administrative Appeal Act, the filing of an administrative appeal does not stop the execution of the original sanction, unless otherwise provided by other law.

- **Overview of sanctions under the Securities and Exchange Law**

Recently the majority of the cases were done through the disciplinary procedures; In 2020, there was one case of sanctions, and the number of CPA was 2. The information on sanctions against auditors, including the name of CPA, reasons, and types of sanctions, is published on the FSC's website. (<https://www.sfb.gov.tw/ch/home.jsp?id=940&parentpath=0%2C8%2C935>).

## **5. New Supervision measures implemented in 2020**

### **(1) Response to Covid-19**

The Covid-19 epidemic has spread rapidly around the world since the beginning of 2020, which changes the way to live and work for most people. Travels between nations has been restricted, and people have to work from home. Considering that the quality of audit engagement may be affected due to the lack of on-site procedures, some audit regulators among various jurisdictions have issued guidance to assist auditors in doing their work properly.

In response to the Covid-19, in early 2020 the FSC decided to adopt relief measures for auditors of listed companies who are not able to review documents or count inventory due to travel restrictions, the FSC has informed auditors of the listed companies to consider possible alternative audit procedures in auditing 2019 financial reports. Auditors should design and perform alternative audit procedures based on the situation of the client and results of risk assessments, and issue appropriate audit reports accordingly. In addition, auditors should consider the rationality of the amount of items at the beginning of 2020 which were audit under alternative procedures no later than reviewing the second quarter financial report of 2020.

Considering that the Covid-19 epidemic were still severe in the second half of 2020, the audit firms still have difficulties in sending staff overseas to perform audit work for 2020 financial reports, the FSC thus issued guidance for auditors to adopt remote mode in their audit work ,and remind auditors that they should still obtain sufficient understanding of the client, identify and assess the risk of material misstatement, and make good use of digital technology to assist in obtaining adequate audit procedures. The FSC also give examples of remote work mode, includes using video to check the original records and documents, or by e-mail, etc.

In addition, considering that international audit regulator had put great emphasis on the impact of the Covid-19 on the audit quality of audit firms, also the epidemic may affect the client to assess asset impairment and going concern assumptions, also the

audit firms need to promote procedures in group audit etc., the FSC will review quality control procedures of the firm to find out if the firm had adjusted policies in response to the epidemic, and will review audit engagements as well.

## **(2) Enhance supervisions on primary listing companies**

The primary listing companies refers to foreign companies that has come to Taiwan to apply for listing and whose stocks are not listed in other countries. Considering that the registration and operating locations of these companies are located in foreign countries, the audit risk is relatively high. In order to enhance the audit oversight of these companies, the FSC has released following measures:

- **Strengthen the audit quality of auditors:**
  - Published guidelines for confirmations: The FSC urged Taiwan Stock Exchange to formulate guidelines for auditors regarding to bank confirmations, and FSC also require auditors to promote audit procedures regarding to KAMs.
  - Strengthen the inspection of the audit firms: the FSC will increase the proportion of primary listed companies in audit engagement review, and will also put more emphasize on items with higher risk, such as KAMs, confirmations and sales.
- **Improve the quality of financial reports of primary listed companies:** The FSC will revise regulations to require that the second quarter financial report of primary listed companies should be audited instead of review starting from 2021.

## **(3) To promote the audit quality, the FSC has planned some measures which incorporated in the “Corporate Governance 3.0 - Sustainable Development Roadmap” (hereinafter referred to as CG 3.0) and Capital Market Roadmap.**

- **Implementation of AQIs**
  - Given the difficulty in observing audit quality, it is not easy



to evaluate. To strengthen the transparency of audit quality, through the gradual implantation of AQIs, expecting to encourage the audit committee of listed companies to use the AQI information provided by the CPA firms when evaluating the CPA firm.

- In order to improve the transparency of audit quality, the FSC has gradually promote Audit Quality Indicators (AQIs), which is expected to be decided and released at the end of 2021. The current planning principles for the indicators include relevance (all aspects of audit quality) Items that can truly reflect the overall audit quality), legibility (the interpretation is easy to not cause misunderstanding), cost-effectiveness (low search cost) and verifiability (for objective verification). The FSC will encourage the audit committee of listed companies to refer to the AQI information when selecting audit firms.
- **Establishing a differentiated oversight mechanism for audit firms:** In order to improve the efficiency of oversight on audit firms, the FSC will design oversight indicators on audit firms based on the deficiencies of past inspections and audit quality information of the firms, and establish a differentiated oversight mechanism for audit firms based on the principle of proportionality, to adjust the oversight intensity of individual firms accordingly, such as the frequency of firm inspections. The mechanism will be adopted in stages, initially with the Big Four audit firms on trial. After the formal introduction of this mechanism, in addition to helping to enhance the effectiveness of audit oversight in Taiwan, it can also strengthen the incentives for firms to promote audit quality.
- **Promote the transparency regarding to governance**

Since the European and American countries have required firms to publish their governance reports [or Transparency Report]. Taking the European Union as an example, the EU Audit Regulation 537/2014 not only requires firms engaged in statutory auditing business to announce their transparency reports, but also

stipulates that the key points of the report, which includes the firm's legal structure and ownership, governance structure, Quality control policies, independence policy, benchmark of remuneration, partner rotation policy, turnover rate of staffs, list of public companies audit by the firm in the previous year, revenue and other related information.

To strengthen the information disclosure of audit firms, the FSC will gather information such as the disclosures of the transparency report of audit firms, and formulate the regulations for firms to follow. Audit firms with a certain scale will have to disclose annual governance reports, while others could disclose the report voluntarily.

## 6. Conclusion

In 2020, the FSC's inspection continued to focus on key audit area and increase the number of review of audit engagements, and also increased the proportion of primary listing companies. In addition, in response to the announcement of five domestic systemically important banks (D-SIBs) in June 2019 by the FSC, the FSC had included D-SIBs in the sample of review of audit engagements from 2020 so as to expand inspection scope and to gain a better understanding of the audit quality of banking industry. Moving forward, the FSC will assess whether to include all financial institutions in review sample.

The Covid-19 epidemic has spread around the world since the beginning of 2020. The international community paid a great attention to the impact of the epidemic on the audit quality of firms. the FSC will review quality control procedures of the firm to find out if the firm had adjusted policies in response to the epidemic, and will review audit engagements as well in 2021; the FSC will announce Audit Quality Indicators (AQI) in the late 2021, to assist the audit committee of companies in the selection of audit firms, and to promote the publication of the annual governance report of the firm within 3 years, which will disclose the governance of the firm, audit quality and other relevant information.

Considering the importance of audit quality to capital markets, the FSC continues fulfilling its mandate to supervise the firms to enhance their audit quality. The FSC believes that auditors do not hold the sole responsibility to enhance the audit quality; the management and audit committees should also work together to fulfill their duty to enhance the audit quality and should further strengthen their communication with auditors. The FSC expects audit committee to incorporate this audit oversight report into their communication with auditors to ensure that auditors have properly perform relevant audit procedures so as to safeguard the rights of investors.