2022

2021 Audit Oversight Report

Financial Supervisory Commission

JULY 2022

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1.Overview of Audit Oversight

The Financial Supervisory Commission (FSC) is the audit regulator in Taiwan, which established on 1st July, 2004. 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 audit standards (SAS) in Taiwan, approval, and registration of certified public accountant (CPA), inspection of audit firms, and CPA discipline as well.

The FSC's audit oversight measures

Supervision of stipulation of auditing standards	Approval and Registration of CPA	Audit Firm inspection	CPA Discipline
The FSC urged the ARDF to stipulate audit standards with reference to ISAs	The registration and practice of CPAs, and approval for CPAs to provide attestation services to financial reports of public companies	Conducting Firm inspections every year	Enforcement actions against CPA who breaches CPA law or the securities and exchange law

(1) Audit Oversight in 2021

- **Supervision of stipulation of auditing standards**： The FSC has urged the Accounting Research and Development Foundation (hereinafter referred as ARDF) to adopt "converging" approach to align with International Standards on Auditing (ISAs) since 2008. The ARDF has issued SAS No.75(now as TWSA 315) "Identifying and assessing the risks of material misstatement through understanding the entity and its environment" in 2021.

- **Approval, Registration and Practice of CPAs**： As of the end of December 2021, there are 3,754 people registered as CPA and 2,170 firms registered as audit firms, and 699 people (18.6%) and 60 firms (2.8%) were approved to audit financial reports of public companies among them.

- **Audit Firm Inspection：** The FSC conducted the audit firm inspection since 2009.The inspection covers review of firm's quality control system and audit engagements. In 2021, the FSC inspected four middle-sized audit firms, the finding details are in Chapter 4. CPA Firm Inspection-3. Key Findings for 2021 Inspection.

- **CPA Discipline** ：The CPA disciplinary actions made by CPA Disciplinary Committee has made 5 disciplinary actions in 2021, and the number of CPAs subject to disciplinary actions is 9. In 2021, there are 2 disciplinary actions becomes final, the number of CPA subject to the final disciplinary actions is 4.

(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.

- **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.

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

The following analysis of audit industry in Taiwan is based on "2020 Audit industry Survey Report" which had been released in December 2021,and relevant statistics of the FSC. It gives an overview of the audit industry by analyzing the number of auditors, status of audit firms, the scale and distribution of audit firms' turnover from professional practice, and an analysis of the audit market of public companies from the perspectives of market share. In addition, it also contains descriptions regarding to challenges that this industry faced in recent years.

(1) An Overview of the Audit Market

- **CPA Practice status**：Table 2-1 shows the number of CPAs, firm organization type distribution, and the distribution of CPA's practice in recent 3 years (2019-2021). Among them, 45% of those with CPA certificates have been registered as a practicing CPA, and 8%-9% were approved to audit financial reports of public companies, respectively.

Table 2-1：CPA Practice status in recent 3 years

CPA Practice status[1]	2019		2020		2021	
	Number	%	Number	%	Number	%
Approved to audit public companies	703	9%	676	8%	699	8%
Registered as practicing CPA	3,548	45%	3,651	45%	3,754	45%
Certificate holders without practice	4,315	55%	4,458	55%	4,581	55%
Certificate holders	7,863	100%	8,109	100%	8,335	100%

- **CPA Firms types**：Table 2-2 shows the numbers and market share of four different types of CPA Firms (single-person, joint, co-location and in-corporate) in Taiwan in recent 3 years. The number of CPA Firm increased from 2,048 firms at the end of 2019 to 2,170 firms at the end of 2021, which

[1] 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. 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 CPA firm conducts financial report audits of public companies, it should obtain the approval from the FSC.

shows a 6% increase dominated by the increase of single-person firms. It shows that single-person and joint CPA firms still dominate the market with 77% and 21% respectively.

Table 2-2 ： number and % of CPA Firms by types						
CPA Firm types[2]	2019		2020		2021	
	Number	%	Number	%	Number	%
Single person	1,578	77%	1,638	77%	1,683	77%
Joint	437	21%	436	21%	449	21%
Co-location	33	2%	37	2%	37	2%
In corporate	-	-	1	-	1	-
Total	2,048	100%	2,112	100%	2,170	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)

- **Business scale ：** The table below indicates there are 15 firms with the revenue of more than NT$100 million in Taiwan. Although these firms account for merely 1.3% of total number, they hire 58% of employees in the audit market, and their income from professional practice account 73.5% of total income from the professional practice in 2021.

Table 2-3 ： Distribution of Audit firms by income, number of firms and employees						
Income from professional practice	Audit firms		Employees		Total income from professional practice in 2021	
	number	ratio	number	ratio	number (100 million dollars)	ratio
<10 million	879	76%	4,019	18%	29	9%
10~25million	196	17%	2,891	13%	30	9%
25~50 million	47	4%	1,600	7%	17	5%
50 ~100 million	18	2%	980	4%	12	4%
>100 million	**15**	**1%**	**12,885**	**58%**	**244**	**73%**
Total	1,155	100%	22,375	100%	332	100%

(2) Audit Market of public companies

According to the CPA Law, 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

[2] According to article 15 of the CPA Act, CPA firms are classified into 4 types: single-person, co-location, joint, and incorporate CPA firms.

corporate CPA firm conducts financial report audits of public companies, it should obtain the approval from the FSC. As the end of 2021,the number of CPAs and CPA firms approved to conducts financial report audits of public companies are 699and 60 respectively, and the number and market value or capital amount of public companies are as follows(in NTD)：

CPAs and Firms approved to conduct financial report audits of public companies

699 CPAs **60 CPA Firms**

Number and Scale of Public Companies (as of 2021.12.31)

1,747 listed companies	**747 Emerging stocks and public issuance**
MV 62.641 trillion dollars	**Capital amount 1.4576 trillion dollars**

As of the end of 2021, there are 2,494 public companies in Taiwan, while their financial statements were audited by 60 audit firms, and the market share of Big Four 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.

Table 2-4：The market share of audit firms in PIEs

	TWSE listed	TPEx listed	Emerging stocks trading on TPEx	Other Public companies	Total
Large (Big Four)	90%	87%	96%	84%	89%
Mid-sized	6%	6%	3%	7%	6%
Small	4%	7%	1%	9%	5%

Large CPA 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 CPA firms refer to those auditing 10 to 100 PIEs; and small CPA firms refer to those auditing fewer than 10 PIEs. The four largest CPA firms in Taiwan are: Deloitte Touche Tohmatsu, PricewaterhouseCoopers, KPMG and Ernst & Young.

(3) Emerging challenges faced by the audit industry in Taiwan

In addition to fierce competition, the audit industry also faced new challenges due to changes of external economic environment.

- **Emerging issues raised:**
  - **Increased audit cost：** Due to the change of audit environment or supervision requirement (such as the dual-attestation requirement has raised the difficulties in rotation operations ; the time pressure of audit work increased due to the deadline or public companies to release the financial reporting has be advanced), while the audit fee doesn't increase respectively.
  - **High turnover rate：** The turnover rate of this industry has increased, also due to long working hours and the disproportionate remuneration, which makes it more difficult to recruit talents, and has impacted the human resource of firms.
- **Firm's responses to the challenges and recent development：**
  - **Reduce the turnover rate of personnel and attract outstanding talents:** including adopting flexible working mode (the hybrid office mode combining physical and remote work will become the norm), increasing salary or enhancing employee benefits, modifying promotion policies to accelerate promotion, enhancing recruitment plans (such as cooperating with colleges for internship programs or sharing practical experience thorough colleges classes) and other measures.
  - **Using technology to enhance efficiency and provide differentiated services:** including the application of digital tools, such as robotic process automation (RPA) and analytical process automation (APA), confirmation systems, etc.
  - **Training or recruiting professionals in response to the sharp increase in demand for sustainable reporting and assurance services:** such as expanding services related to sustainability or environmental, social, and governance (ESG)-related assurance and consulting services.

3. Audit Quality Information

Audit quality is the hallmark of a CPA's audit profession, 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. To enhance the audit quality of financial reporting, the FSC released "the AQIs Disclosure Framework", which provides a comprehensive and comparable set of quantitative audit quality indicators. The AQIs have 13 indicators, which cover five scopes－profession, independence, quality control, monitor and innovation. They serve as a useful toolkit to assist companies and audit committees (ACs) in assessing the quality of audit firms and auditors more effectively and objectively and will bring the audit quality and corporate governance to a new level. Besides, to improve the consistency and comparability of the AQI among firms, the FSC released "the AQI Disclosure Template", which specifies the content and form of AQIs. The template also provides industries average and range data with some AQIs such as audit input and external inspection for companies to make comparisons so as to gain further insight on the dynamics of audit quality of firms and to detect the difference among them.

The FSC promotes the AQI initiative by a two-stage approach, at stage one, listed companies would get AQI information from statutory auditors for reference starting from the time of appointing statutory auditors for the audit of 2023 financial reporting.

In the early stage, this initiative will apply to Big Four. The FSC has reached a consensus with the Big Four that they will voluntarily provide the AQI information to listed companies' audit committees for reference annually. The FSC encourages listed companies to make a thorough assessment on their annual CPA appointment based on the AQI information and to have sufficient discussion with current or potential CPAs. Stage two, from 2023 the FSC will review the result of the implementation for the Big Four and listed companies to look into the possibility of extending application to non-Big Four and other public companies.

As for the audit committee, the FSC released guidance in June 29th 2022, to assist audit committee to interpretate the AQI information; the FSC also released guidance for Audit firms to follow, which contained definitions and numerator and denominator for calculation, to ensure the consistencies and comparability among firms. The indicators for each scope are as follows.

- **Profession**： audit experience, training hours, attrition rate, profession support.
- **Quality control**： Workload, involvement, engagement quality control review (EQCR), quality supporting.
- **Independence**：Non-Audit Service (NAS), Familiarity.
- **Monitoring**：External Inspection Results and Enforcement, Number of Official Improvement Letters Issued by Authority.
- **Innovation**：Innovative Planning or initiatives.

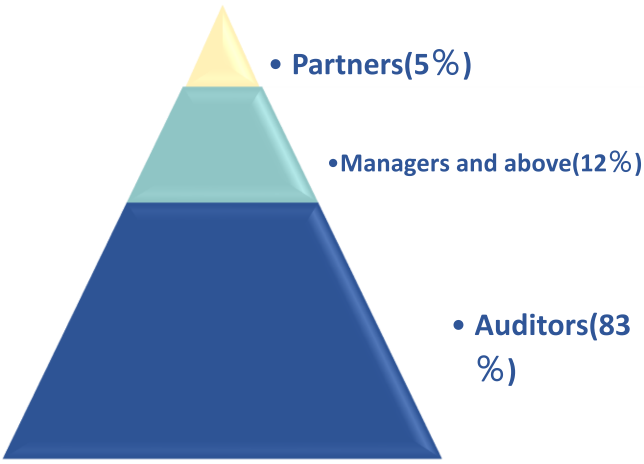
It should be noticed that, since there is no consensus on the definition of audit quality yet and no single indicator to fully capture an audit firm's audit quality, the interpretation of data should be done with caution. It is not appropriate to judge an audit firm's audit quality simply by a single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

(1) Profession

• Proportion of Managers

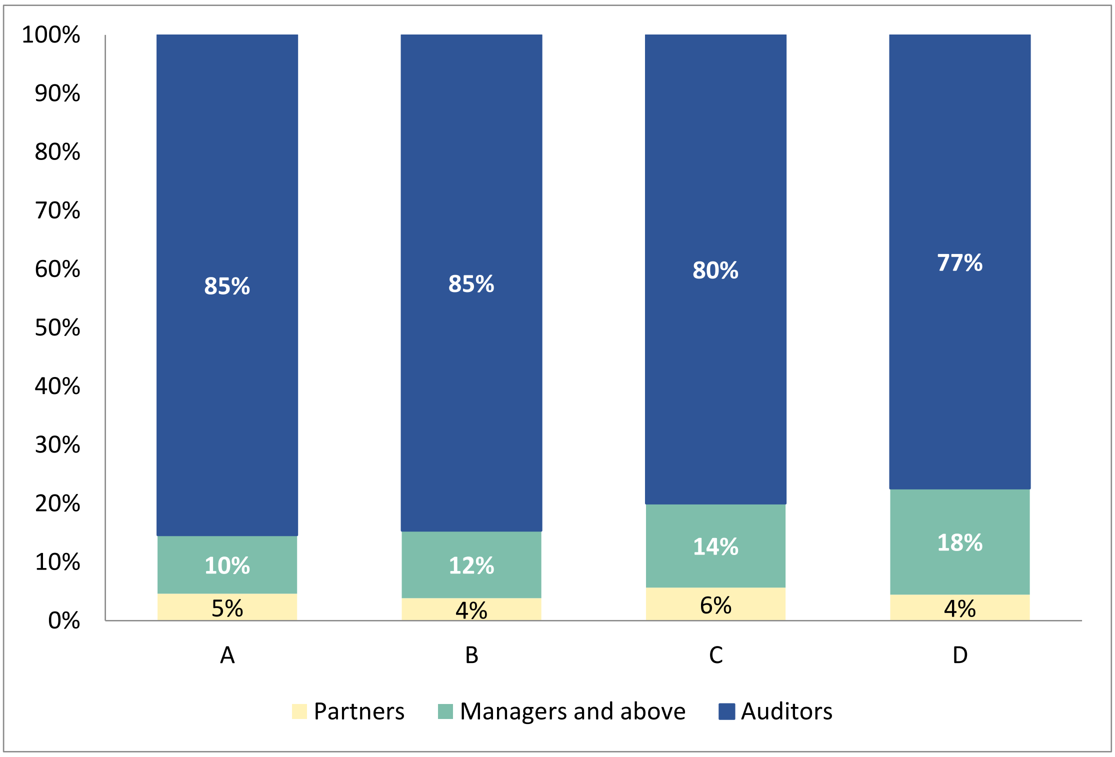
In audit firms, the position for employees can be divided into three levels: CPAs (partners), managers and auditors. According to the information given by the Big Four, the proportion of each in audit firms were 5%, 12% and 83% respectively, which forms the shape of a pyramid.

Managers in audit firms usually have more than 5 years of audit experience. Considering that managers take on most of the execution and monitoring of audit work and 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 quite similar and close to 5% while the proportions of managers fall between 10% and 18%. It is not a 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 1: Composition of Audit Employee in Big Four



- **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 3-1-1 ︰ Audit Experience of Partners (Years)

	A	B	C	D	Average
2020	11	11	13	10	11
2019	11	11	13	9	11

- **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 and staff's average professional training hours in 2020. Overall, the average is 86 hours per person, which was over twice the legal requirement for continuing professional education hours and was similar with 2019.

Table 3-1-2 ： Training Hours of Partners

	A	B	C	D	Average
2020	72	94	87	109	86
2019	85	83	91	95	87

- **Attrition Rate**

Since that managers usually take on most of the execution and monitoring of audit work and hold the duty to coach new recruits, the quality and number of managers have a significant impact on audit quality, therefore, the attrition rate of managers could be an indicator to show whether an audit firm has maintained sufficient senior human resources. According to the Big Four, the average attrition rate of managers and the above(excluded CPAs) in 2020 was 11.7%。

Table 3-1-3 ： Attrition Rate of managers or above of the Big Four in 2020

A	B	C	D	Average
12.7%	10.5%	14.6%	8.9%	11.7%

- **Professional support**

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, in 2020 each professional consultant supports approximately 25 auditors which shows a slight increased from 2019.

Table 3-1-4 ： No. of auditors supported / per Expert					
	A	B	C	D	Average
2020	14	52	51	39	25
2019	21	51	58	29	31

(2) Quality control

- **CPA Workload**

The workload of CPAs is highly related to their ability to control audit quality. If CPAs are overloaded, the audit quality may be affected. At the firm level, if CPAs have been assigned as engagement partner for too many public companies, or devoted a large proportion of working hours in auditing public companies, their workload may be too high, which may affect the quality of the audit; as for the engagement level, due to the differences of size, audit risks and complexity between public companies, it is not appropriate to assess their workload based on the number of public companies solely, and should also consider the proportion of audit hours to total work hours.

As for 2020, the average number of public companies assigned to each CPA was around 7, and the average ratio of audit hours to total work hours was 52%. (See Table 3-2-1 and Table 3-2-2)

Table 3-2-1 ： No.of PIEs audited by Partner as EP				
A	B	C	D	Average
7.5	8.6	6	5.6	6.9

Table 3-2-2 ： % of Devoted Time per Partner				
A	B	C	D	Average
71%	52%	59%	28%	52%

- **Involvement**

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 16% of total audit hours, which increased from 13% in 2019.

Table 3-2-3 : % of Partners or Managers audit hours to total audit hours

	A	B	C	D	Average
2020	12%	19%	23%	11%	16%
2019	11%	12%	20%	11%	13%

- **Engagement quality control review**

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 public interest entities. 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 3-2-4: % of EQCR hours to total audit hours

	A	B	C	D	Average
2020	0.95%	0.70%	1.16%	0.42%	0.85%
2019	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.

(3) Independence

Independence indicators reflect whether CPAs could maintain their independence and disclose fair opinion. It contains 2 indicators, including proportion of non-audit service and familiarity.

- **Non-audit service fees (NAS 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 provide 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.

In Taiwan, non-audit service fees of Big Four accounted for 22% of total income. Compared with the global proportion of 63%, the impact of non-audit fees on independence is less serious in Taiwan.

Table 3-3-1：% of Big Four NAS fees to total audit service fees in 2020

A	B	C	D	Average
20%	26%	26%	14%	22%

Note: Audit fees refer to the fees paid to the firm for audit or review of financial statements. All other fees paid to the firm and its affiliated entities are categorized as NAS fees.

- **Familiarity**

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 (no more than 7 years) and could be reappointed only after a certain period (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 2020. The audit firm tenure of more than 20 years is about 27%, indicating that around 30% 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. Furthermore, as seen from the table below, the tenure between the Big Four were different.

Table 3-3-2：Big Four tenure				
tenure	A	B	C	D
Less than 5 Years	22%	26%	23%	25%
5~10 Years	21%	23%	18%	16%
10~15 Years	17%	19%	16%	10%
15~20 Years	12%	11%	17%	14%
20~30 Years	25%	16%	22%	32%
More than 30 Years	3%	4%	4%	4%

(4) Monitoring

Indicators in the monitoring scope are to assess the deficiencies found by the authorities, which is also important when evaluating audit quality. There are two indicators in this scope, including external inspection results and enforcement (under the CPA Act or the Securities and Exchange Act), and the number of notices issued by the authorities.

- **External Inspection results and Enforcement**

In addition to self-discipline of auditors, the maintenance of audit quality also depends on external supervision. Audit regulators around the globe have set up supervisory measures such as firm inspection and enforcement for CPA or firms. The following summarizes the number of deficiencies found in the inspections of the Big Four by the FSC or the US PCAOB in the past three years (revealed in intervals), and the number sanctioned cases under the CPA Act or the Securities Exchange Act.

Table 3-4-1：No. of deficiencies inspected by the FSC or PCAOB in recent 3 years			
FSC Firm Inspection	2020	2019	2018
Deficiencies regarding to Quality Control	1~4	0~1	2
Deficiencies regarding to engagements	0.3~1	0~0.13	0.5
PCAOB Firm Inspection	2020	2019	2018
Deficiencies regarding to engagements in average	0~1.3	0	0
Enforcement	2020	2019	2018
Cases have been sanctioned under CPA Act or the Securities and Exchange Act	4	8	1

Note: the Big Four have not been inspected by the FSC and PCAOB in 2021, and only one Big

Four were inspected in 2018.

• **Official Improvement Letters (OILs) Issued by Authority :**The ratio of improvement letters issued to the total engagements of listed companies been audited or reviewed is also an important indicator. Besides the FSC, Taiwan stock exchange (TWSE) and Taipei exchange (TPEx) are also the regulator of listed companies, and they will also review the financial reports of listed companies as one of their supervisory measures. After summarizing the ratio has declined year by year, which shows that the audit quality may be promoted.

Table 3-4-2 : No. of OILs from Authority to Firm per Engagement

Year	A	B	C	D	Average
2021	0.00%	0.00%	0.00%	0.59%	0.15%
2020	0.48%	0.00%	0.00%	1.20%	0.42%
2019	0.48%	0.26%	0.00%	1.20%	0.49%

(5) Conclusion

- **Regarding to Profession**

  - The ratio of managers (and the above) and CPA of the Big Four accounts for about 17% of the total manpower of the firm, and staffs account for 83%. On average, each manager (and above) and CPA must supervise 5 staffs; The average number of years for the CPA assigned as engagement auditor of public companies is 11 years, which is the same as 2019, indicating that the promotion mechanism of each firm should be stable.

  - Regarding to professional training and professional consultants, the average professional training hours per person of the Big Four in 2020 was 86 hours, which is not much different from 87 hours in 2019; in addition, each professional consultant need to support about 25 auditors in average in 2019, a slight increase from 31 in 2018, which shows that the firm continues to enhance the manpower of professional consulting.

- **Regarding to Quality Control**

  - In 2020, the average number of public companies assigned to each CPA in Big Four was about 7, and the average of available working hours accounted for 52%, which shows that the workload of the CPA in Big Four should not affect the audit quality.

- The input of auditors is an important factor affecting audit quality, among which the input of CPA and senior managers is particularly critical. The larger proportion of input by the senior in audit hours to the overall auditing hours should have a positive impact on audit quality. In 2020, CPAs and managers of the Big Four spent an average of 16% of the time spent on financial report review, which increased from 13% in 2019.
- The audit hours spent by engagement quality control reviewer should have a positive impact on audit quality. In 2020, the proportion of engagement quality control reviewer hours to the total number of audits was about 0.85% on average, which was equivalent to 2019.

- **Regarding to Independence**

- For the familiarity issue, the current regulations regarding to rotation only applies to individual CPAs, there is no relevant regulation for firm rotation. In 2020, there are about 27% of public companies in Big Four that have stayed in the same firm for more than 20 years. Considering that the European Union (REGULATION (EU) No 537/2014) has required firms should not provide attestation service for the same client visa period more than 10 years, and the audit regulator in Germany also made similar regulation, which shows that this issue has drawn the attention of international organizations. The FSC has reminded audit committee in the guidance to interpret AQI to pay attention to the potential negative impact of familiarity on audit quality, especially when the tenure is longer than 10 years, and should evaluate whether the potential negative impact outweighs the possibility of positive impact. The FSC will continue to pay close attention to international trends and assess whether to modify related regulations.
- For non-audit service fees (NAS), according to EU regulations, NAS paid by audit client and their affiliated groups to the firm, and it's affiliated in the current year shall not exceed 70% of the average audit fee in the past three years. There are no specific limitation regarding to the ratio of NAS to total fee, and since the NAS of the Big Four account for an average of 14% to 26% of the total public fees, the impact of NAS on independence should be

insignificant. The FSC also reminded the audit committee in the AQI guidance that when the proportion of NAS exceeded 45% of total fee, the committee should assess the nature of non-audit services provided to client and whether it will affect the independency of CPAs.

- **Regarding to Monitoring**

  - In addition to self-discipline of auditors, the maintenance of audit quality also depends on external supervision. Audit regulators around the globe have set up supervisory measures such as firm inspection and enforcement for CPA or firms. After summarizing the number of deficiencies found in the inspections of the Big Four by the FSC or the US PCAOB in the past three years, and the number the ratio has declined year by year. (From 0.49% to 0.15%)

4. Audit Firm Inspection

(1) The purpose of Audit Firm Inspection

The Article 19 of the CPA Act stipulates that to safeguard the interests of the 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. Though 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.

(2) Inspection Principle and focal points of inspections

The FSC conducts the audit firm inspection with a risk-based approach. Regarding 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.

- **Quality control system**：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 SAS No. 46. 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". The inspection methodology are as follows:

— 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**： 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 2021, 2 to 4 audit engagements were selected for in-depth review for each CPA firm. The inspection methodology are as follows:
  - 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.

(3) 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 Survey Report issued by IFIAR into their communication.

(4) Key Findings for 2021 Inspection

The FSC's inspectors conducted on-site inspections of 4 middle-sized CPA firms in 2021. 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 62 quality control system deficiencies in 2021, which increased compared to 35 deficiencies last year (2020). The reason for the increase is attributed to the firm scale difference. All inspected firms in 2021 were middle-sized firms while some of the inspected firms were Big Four in 2020. The resources and employees of middle-sized firms are much less than the large ones; hence there were more deficiencies in 2021.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 4-1：Deficiencies of Quality Control System

	2021	2020	2019	2018
Number of inspected firms	4	4	3	4
Number of inspection deficiencies	62 items	35 items	3 items	43 items
Average deficiencies per firm	15.5	8.75	1	11

In 2021, 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)

- Some forms related to quality control used by branches were different in format or content, indicated that it might be difficult for the firm to maintain consistency in audit quality among branches.
- One branch of the firm assigned an auditor who has no experience in engagement quality control to take in charge of the operation of the quality control, which was not met with the firm's policy.
- The director of the firm did not chair the partner meeting, and there were auditor that had never attended the partner meeting.

Independence

- The firm did not stipulate policies or procedures to review the independence of auditors for non-audit services and was found that the firm provided attestation service for capital increase of a non-public offering companies, which its shareholders and director were related to the firm's auditor, however the auditor did not take action to reduce the impact on independence; one subsidiary of the client had capital raising, but the opinion on the reasonableness of the price of equity was issued by another auditor in the same firm, and the auditor did not take action to reduce the impact of self-assessment.
- The firm has mechanism to check the independence of auditors and staffs, however it has not specified the frequency of inspections and the ratio of inspections for each level of personnel or failed to obtain the complete information for inspections.
- The firm obtained the statement of independence from the auditors yearly but failed to obtain the same statement from other personnel who already works in the firm.
- The firm's policy did not stipulate the engagement quality control reviewer to sign the "Independence Statement" when performing audit work.
- The Independent statement signed by auditors and staffs included they didn't be offered gifts or gifts of significant value (the value of gifts does not exceed the general social etiquette) from audit clients or their management but failed to specify the definition of general social etiquette.
- The firm failed to monitor the rotation of auditors of listed companies or failed to establish mechanism to ensure that the firm carried out the rotation of senior managers in accordance with its regulations.
- The firm failed to specify the rotation period for auditors, engagement quality control reviewers and senior staffs of listed companies, other public companies, and private companies, and failed to specify the qualifications of senior staff.

Client acceptance and continuance

- The firm failed to stipulate policies or procedures for client acceptance and continuance or the policies was incomplete, or failed to obtain relevant information before accepting the case.
- Some audit engagements of the firm failed to follow its policy to review the continuing cases.
- For engagement where the firm voluntarily terminates, the auditors failed to follow firm's policies to complete the plan for termination, communicate with the client's appropriate management level, and document the relevant matters, conclusions, and the basis for reaching the conclusion properly.

Human Resources

- The firm failed to stipulate policies to ensure that personnel at all levels have completed the sufficient education and training hours, or the content of the training courses didn't include relevant laws and regulations such as accounting, auditing standard, which would help improving the professional knowledge and ability of audit team members.
- The firm failed to set proper weight for the performance evaluation indicators of the partners, and the connection with audit quality was not clear; the policies regarding to compensation and bonus were failed to include audit quality as factors that should be considered; there was no documentation of the process of communication and explanations to partners after reviewing their performance.
- The firm failed to monitor the workload of the engagement partner and could not ensure they had appropriate time to perform their work, or the firm only estimated the expected working hours of each auditor for the current year, which made the firm unable to monitor the workload accurately.

Engagement performance

- The firm's policies and procedures regarding to engagement performance were just referred to the Auditing Standards and failed to formulate procedures and related forms based on the regulation.
- The engagement quality control reviewer only recorded items that need to

be adjusted after the review in one of the forms regarding to audit fee collection, it was unable to ensure the auditor had reviewed the working paper of the major judgments and conclusions.

- The firm failed to stipulate qualifications of engagement quality control reviewer, or the qualifications set in the firm policies were inconsistent with the provisions of the Auditing Standards, or the firm failed to follow its policy to keep the records of the partner meeting designating engagement quality control reviewers.
- The firm failed to follow its policy that the engagement quality control reviewer shall not review the same audit engagement for more than five years.
- The firm failed to stipulate the selection criteria for quality control review of audit and non-audit engagements of public and private companies' audits and other service cases.
- The firm failed to follow its policy regarding to documentation. For those were not classified as high-risk audits, the firm only uploads electronic working papers to the public disk slot, and the hardcopy working papers were not scanned and backed up.
- Some audit teams failed to follow the firm's policies to provide a statement when borrowing audit working papers.
- The firm failed to formulate procedures to protect the completeness of working paper and prevent them from being alteration, or loss, or did not approve by the appropriate level when they are borrowed; the content of hardcopy working papers were inconsistent with the scanned file.
- The firm used cloud services to store electronic working paper , but failed to formulate relevant information security procedures.

Monitoring

- The firm failed to formulate policies and procedures for the qualifications of monitoring personnel, inspection cycle, communication regarding to the inspection results, and monitoring the improvement.
- The firm failed to follow its policy to appoint personnel as the head of quality control of the firm through their partners and senior management meeting.
- The firm did not refer to the result of inspections performed or the risk of

specific risks for some engagements when selecting engagements, and failed to follow its policies which stipulated that the firm should inspect at least one engagement for every engagement auditor.

- The firm failed to document the follow-up for previous inspection when monitoring on firm's quality control system and engagements.
- The firm failed to stipulate the retention period for quality control policies and procedures.
- The firm failed to follow its policy to include the work of monitoring into the performance assessment for monitoring personnel, and only included the result of inspection as part of performance assessment for auditor been inspected.
- The firm failed to follow the Auditing Standards to establish a clear communication channel for complaints and accusations and let the staffs to raise their doubts without worrying about consequences.

Reviews of Audit Engagements

Considered that the Audit firms inspected in 2021 were all middle-sized firms, the inspectors reviewed 12 audit engagements which was less than last year and identified 31 deficiencies. Although the total number of deficiencies was declined from last year (there were 44 deficiencies in 2020), the average number per audit engagement was increased. 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.

Table 4-3 ： Deficiencies of Audit Engagements

	2021	2020	2019	2018
Number of Deficiencies inspected	31 items	44 items	5 items	22 items
Number of audit engagement reviewed	12	24	24	7
Average number per audit engagement	2.58items	1.83items	0.2 items	3.1 items

Substantive Analytical Procedures

- For the audit client with ineffective control environment, failed to carry out the detailed test on transactions to obtain sufficient audit evidence for the statement of sales revenue made by the client.
- Failed to follow" Regulation Governing Auditing and Attestation of financial statements by Certificated Public Accountants" to check the receivable notes held by banks with the bank collection certificate.
- Failed to obtain confirmation from banks and failed to perform alternative procedures.
- The auditor used instant messenger to communicate with audit client to find out the reason for those confirmation received with different amount from client's book, which the auditor failed to include in the working paper and failed to perform relevant procedures to verify the rationality of the explanation from audit client.
- The auditor failed to find out the reason and rationality for those confirmation that were not completed or could not be traced, or the documentation regarding to confirmation was incomplete.

Accounting estimates / Fair value measurement

- The auditor failed to verify whether the audit client included forward-looking information in the assessment of expected credit impairment of accounts receivable in accordance with IFRS9.
- The auditor failed to perform relevant procedures which the audit client measured its unlisted stock investment based on its net value of previous year.
- The auditor failed to verify whether there is any sign of possible impairment of the right-of-use assets of audit client and whether the related decommissioning costs need to be estimated.

Documentation

- The auditor failed to record the consideration and evaluation of setting the overall materiality threshold, or the reason for changing the materiality amount in the working paper.
- The auditors failed to record their understanding of the audit client and its

environment and relevant conclusion after in the working papers.

- The assignment record of the audit team in the working paper did not include the ability and experience of personnel, which made it difficult to ensure that the firm has considered their professional ability when assigning audit team personnel.
- The audit plan was signed without dated, which failed to prove that the audit plan was finished before performing the audit in accordance with the Auditing Standards.

Key Audit Matters (KAMs)

- The auditor failed to record the communication with management and the process of determine the KAMs in the working paper in accordance with the Auditing Standards.
- The auditor failed to properly record the reasons of some major accounting and audit issues were not included in KAMs.
- The auditor identified KAMs that were not included in the matters of significant attention. high-level concerns.

Tests of internal control

- The auditor did not perform tests regarding to control operations of order processing and credit management when performing the test of control of sales revenue and accounts receivable cycle, excluding. In addition, the auditor failed to include all the new top ten sales customers as sample for internal control test and audit samples, which did not meet the requirements of the verification rules, which was not met with the Auditing Regulation.
- The auditor failed to find out if there are connection between the new top ten sales customers and new top ten suppliers and to review if there are any abnormal transactions, which was not meet with the Auditing Regulation.

Inventory

- The auditor failed to find out that some inventories were not measured based on the lower of cost or net realizable value and failed to document the process regarding to assess the rationality of inventory valuation policies.
- The auditor failed to obtain sufficient evidence for the net present value of

some construction lands, which only be evaluated based on the trend of assessed present value.

Materiality

According to the regulations of the firm, the determination of the materiality is based on 3%-10% of the pre-tax net profit (loss) or 0.5%-2% of the total assets. The auditor used the upper limit (2%of total assets) as materiality of the engagement without explanation the reasons and rationality.

Adequacy of financial statement presentation and disclosures

The auditor failed to verify whether notes receivable and accounts receivable of related parties have exceeded the normal credit period and should be transferred to other receivables, which was not met with the Auditing Regulations.

Other

Some personnel of the audit team failed to sigh the independence statement in accordance with the firm's quality control policies and procedures.

(5) Summary of Deficiencies in Recent Years

- **Quality control system**

As of 2021, the FSC has completed 4 inspection cycles of the Big Four for a total of 48 on-site inspections. The overview of the deficiencies over the past 5 years (2017 to 2021) is summarized as follows:

Table 4-2 ： Deficiencies of Quality Control System over past Five Years

	2017	2018	2019	2020	2021	Total
Leadership responsibility for quality control	0	1	0	2	3	6
Independence	1	5	0	5	17	28
Client acceptance and continuance	1	4	0	3	5	13
Human resources	0	11	0	11	10	32
Engagement Performance	5	17	3	9	14	48
Monitoring	0	5	0	5	13	23
Total	7	43	3	35	62	150

Figure 2：Proportion of quality control deficiencies of Big Four and Non-Big Four over the past five years

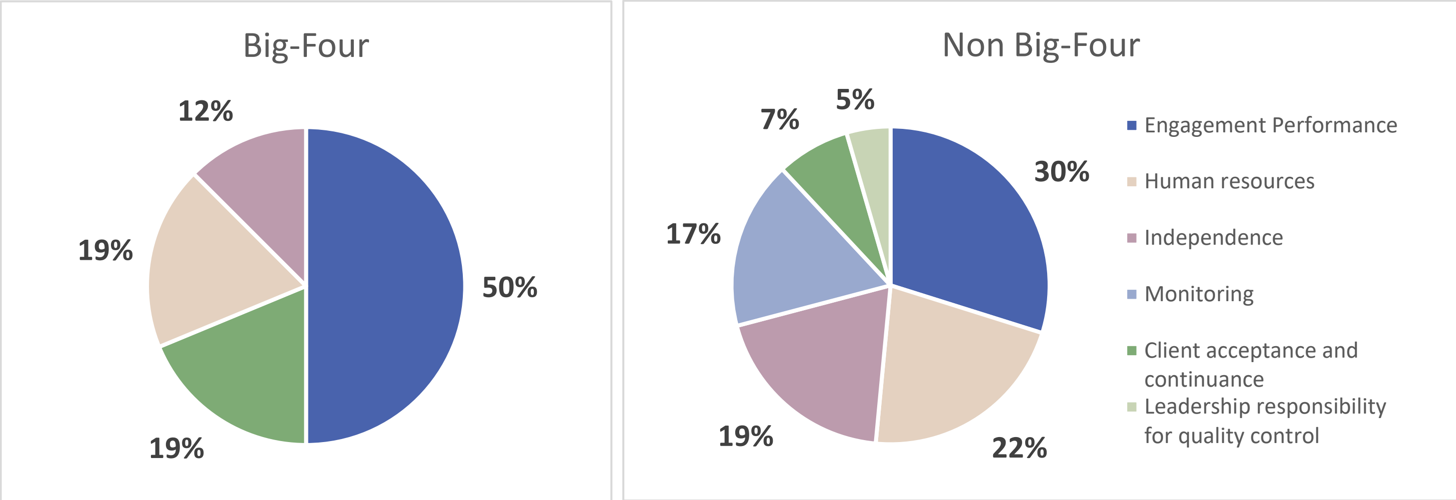


Figure 2 shows that there are some differences in the proportion of quality control deficiencies of Big Four and non-Big Four firms, which described as follows:

★ **Big Four：**Half of the deficiencies in the past five years are related to the "**Engagement Performance**", mostly related to the completeness and management of documentation, such as the inconsistency between the electronic working papers and the hard copy ones, incomplete or overdue filing, etc.; the deficiencies in "**Client Acceptance and Continuance**" are mainly related to accept the appointment of audit clients before completing the risk assessment process or signing the letter of appointment; deficiencies in "**Human Resources**" are mainly related to lack of connections between partner performance evaluation and audit quality.

★ **Non Big Four：**

➢ **Engagement Performance：**Failed to formulate audit procedures for all items need to be audited, failed to define the scope of quality control review for engagements, failed to define the qualification of EQCR or the quality control review was performed by unqualified personnel, or the procedures regarding to documentation was incomplete. (Such as the firm failed to formulate procedures to prevent working papers from unauthorized modification, failed to archive working papers within the time limit given by firm's procedures, the date of working paper modification records was after later the archived date.)

- **Human Resource：** Failed to set proper connections between performance evaluation of partners and audit quality, lack of connections between partner performance evaluation and audit quality.
- **Independence：** Failed to stipulate policies or procedures to review the independence of auditors for non-audit services, failed to establish mechanism to monitor independence of partners and staffs, failed to obtain the independence statement of internal experts involved in audit engagements, Failed to establish mechanism or monitor the rotation of auditors or senior staffs.

- **Review of Audit Engagements**

As of 2021, the FSC has completed 4 inspection cycles of the Big Four for a total of 48 on-site inspections. The overview of the deficiencies over the past 5 years (2017 to 2021) is summarized as follows (See Table 4-4). Major deficiencies from audit engagement reviews were Accounting estimates / fair value measurement, KAMs, Documentation and Substantive Analytical Procedures from 2017 to 2021.

Table 4-4：Deficiencies of Audit Engagements over the past five years						
	2017	2018	2019	2020	2021	Total
Substantive Analytical Procedures	4	0	0	2	7	13
Accounting estimates / fair value measurement	2	0	0	15	6	23
Documentation	4	2	0	4	6	16
Key Audit Matters	0	3	2	8	4	17
Internal Control	0	0	0	3	3	6
Inventory	1	0	0	1	2	4
Materiality	2	4	0	0	1	7
Adequacy of financial statement presentation and disclosure	0	0	0	2	1	3
others	1	1	0	0	1	3
Revenue Recognition	0	6	3	4	0	13
Group Audit	0	0	0	0	0	0
Fraud Procedures	0	1	0	0	0	1
Risk Assessment	0	0	0	3	0	3
Related party transactions	0	1	0	0	0	1
Engagement Review and Management	0	3	0	0	0	3
Audit Sampling	1	0	0	0	0	1
Use of Experts	0	0	0	2	0	2
Failure to review the company's fund loan and guarantee situation	0	1	0	0	0	1
Total	15	22	5	44	31	117

Note：Deficiencies before 2019 were reclassified in accordance with IFIAR, which might differ from previous reports.

Figure 3：Deficiencies of audit engagements in the past five years-Big Four versus Non Big-Four

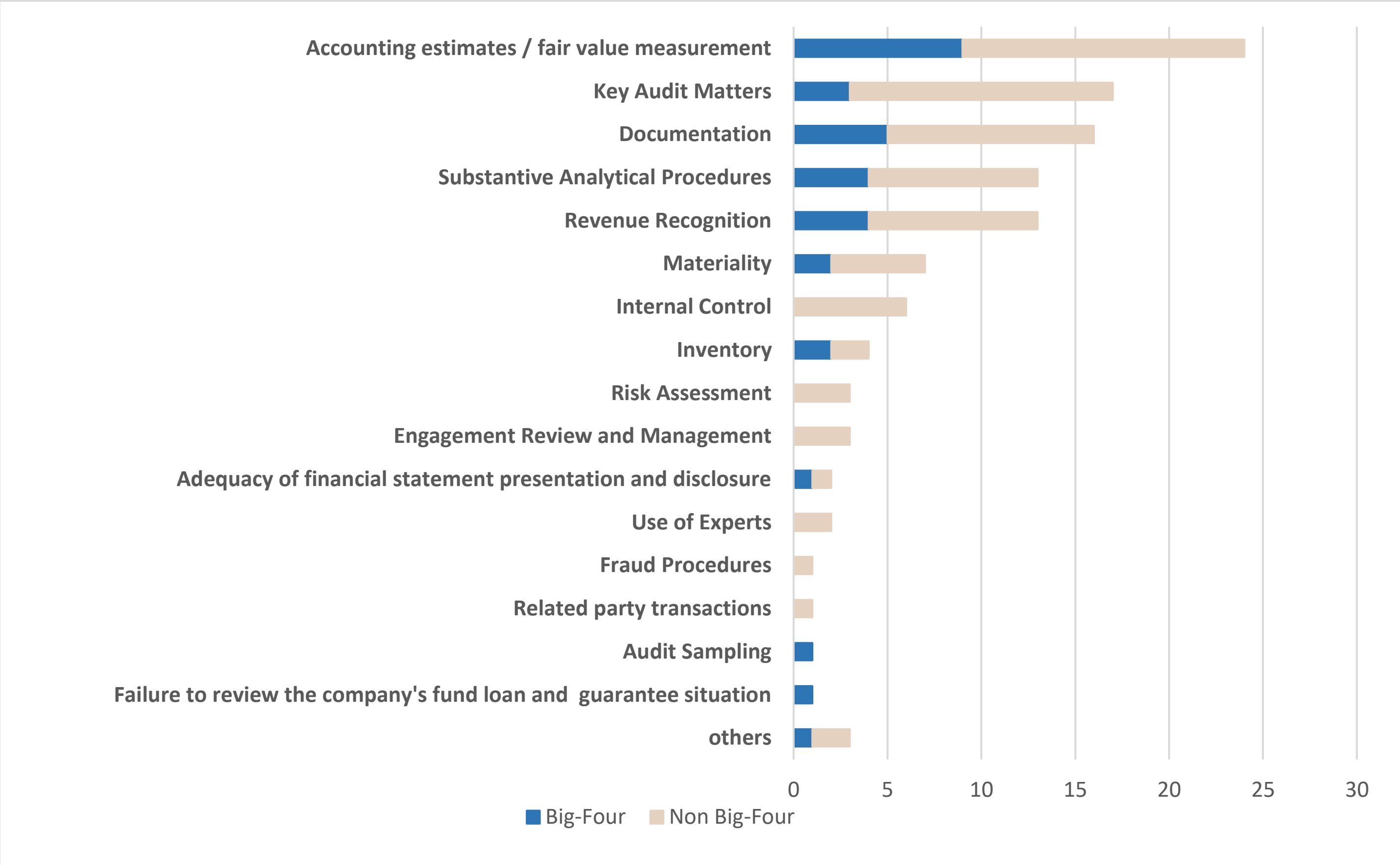


Figure 3 shows the deficiencies of audit engagements of the Big-Four and Non-Big Four in recent five years. Overall, the number of deficiencies of the Big-Four is relatively less then non Big-Four, for they have more sufficient resources. Common deficiencies described as follows：

★ **Accounting estimates/fair value measurements**：Failed to verify whether the audited company's has considered expected credit losses in accordance with IFRS9 regulations (such as incorporating forward-looking information into the assessment of expected credit impairment of accounts receivable) when estimating allowance loss provision policy, or failed to assess whether the assets of the audited company (such as financial assets, plant and equipment, right-of-use assets and investment real estate, goodwill, etc.) shows signs of impairment or whether related decommissioning costs need to be estimated.

★ **Key Audit Matters**：Failed to preserve evidence to show that the CPA has communicated with the governance unit to reach the conclusion of the matter needed to be concentrated, or the process and reason for whether the matter s need concentrated are identified as key audit matters; For small or mid-sized firms, the auditor failed to discuss the key audit matters with governance unit or failed to implement the audit procedures for key audit matters and other implementation deficiencies.

★ **Revenue Recognition**： Failed to verify whether the payer is same with the person who placed the order or failed to perform alterative procedures to gather sufficient audit evidence for those have not responded to the confirmation letter, or failed to record in the working paper the reasons for didn't inventory notes receivable in the working papers.

★ **Documentation**： Failed to record the considerations regarding to the determination of materiality in the working paper, failed to record the understanding and conclusion regarding to audited company and its environment in the working paper, failed to document the price test of inventory, or other deficiencies regarding to the completeness of working paper. (Such as failed to sign the date of audit plan being made, failed to file the independence statement of all audit team members)

★ **Substantive Analytical Procedures**： Most of deficiencies are related to confirmation of accounts receivable, such as failed to obtain a reply of bank confirmation and failed to implement the alternative procedures to follow-up, failed to review the reasons for the inconsistency of the confirmation of accounts receivable with book value. For small and medium-sized firms, there are deficiencies regarding to failed to analysis the growth rate of accounts receivable and sales according to the Rule.

In addition, according to the latest inspection results of the FSC during 2021 , there were no findings in "recognition of revenue", and the number of findings in "accounting estimates/fair value measurement" also decreased (the deficiencies in this item in the past were mainly due to non-compliance with IFRS9 regulations Considering the expected credit loss, no such findings was found during the inspection in 2021), shows that the firm should have improved the common deficiencies found in previous inspections; as for 2021, the number of deficiencies in "substantive analytical procedures" was relatively high , which mainly related to the deficiencies related to letter confirmation. The FSC will continue to monitor whether the firm has improved when conducting firm inspections in the future.

5. 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.

(1) 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.

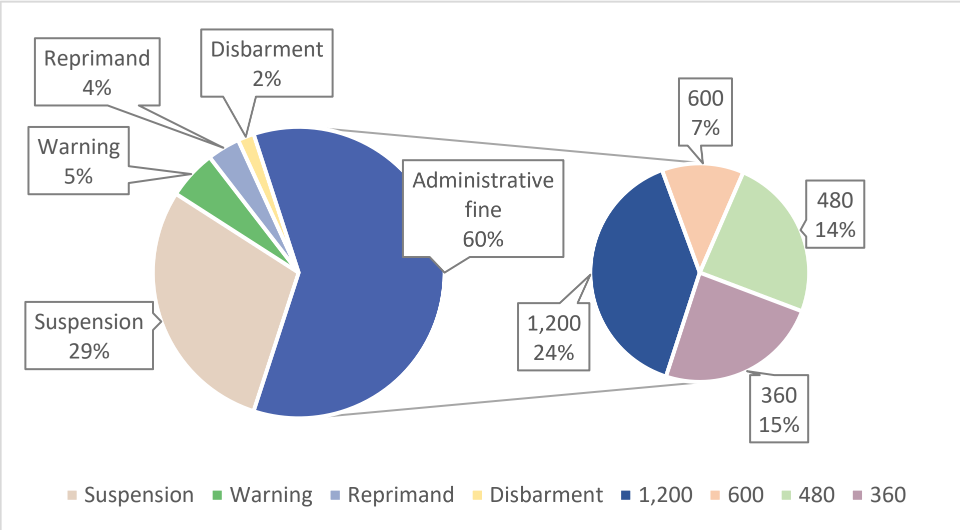
(2) Disciplinary actions in recent years

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

Table 5-1 : Disciplinary actions in recent 3 years	2019	2020	2021
The number of resolutions made	7	8	5
The number of auditors subject to disciplinary actions	15	18	9

The information regarding to CPA Disciplinary Committee's resolution against auditors over past five years is published on the FSC's website, including the name of CPA, reasons, and disciplinary actions.

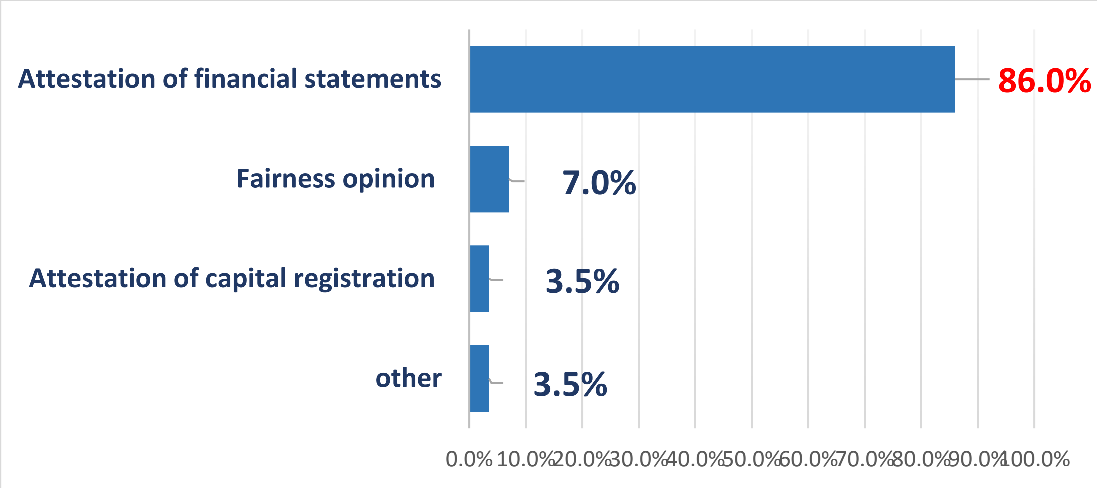
Figure 4 : Proportion of Final result of Enforcement in recent five years



Note: The amount of administrative fine is in thousands of NT dollars

Figure 4 shows that during the past five years, 60% of the sanctions were administrative fine, followed by suspension of business (the longest suspension period was 9 months) which accounted for 29%. In addition, in terms of the cases where administrative fines were imposed, 40% of the cases were fined for the maximum amount, which is 1.2 million NT dollars.

Figure 5：Sanctioned cases in recent five years



In the past five years, 86% of sanctioned cases were attestation of financial statements, 7% were issuing fairness opinion regarding the price of stock or assets to be transaction, and the remaining 3.5% cases were attestation of capital registration and others.

(3) Sanctions against CPAs

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.

(4) Sanctions under the Securities and Exchange Law in recent years

Recently most 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/en/home.jsp?id=233&websitelink=artwebsite.jsp&parentpath=0,117,228)

6. Supervision measures implemented in 2021

(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 results of risk assessments, and issue appropriate audit reports accordingly. In addition, auditors should consider the rationality of the number 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 in foreign countries, the audit risk is relatively high. To enhance the audit oversight of these companies, the FSC has released following measures:

- **Strengthen the audit quality of CPAs：**
  - 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) Implementation of AQIs

Auditing services are the basis for the smooth operation of the capital market. However, there is no consensus on the definition of audit quality. Since audit quality is not easy to observe and there is no consistent definition for it, it is difficult for companies, investors, and related stakeholders to evaluate the effectiveness of audit work and quality. In view of this, some audit regulators such as Singapore and South Africa have adopted Audit Quality Indicators (AQI) to measure audit quality. AQI can promote the cooperation between auditors and audit committee and managements of companies and let companies to have a better understanding of audit quality, and then encouraging auditors to promote audit quality.

To enhance the audit quality, the FSC released “the AQIs disclosure framework” on August 19, 2010, which provided a set of complete and comparable quantitative indicators to measure audit quality. At the end of June 2011, it released two guidance for auditors and audit committee respectively, to help audit firms to prepare their AQIs, and help the audit committee to interpret the AQIs, and encourages the Big Four to provide AQI information from 2023, to assist companies and audit committees to be more effective and objective when selecting auditors.

(4) Promote the transparency of audit firms

Some countries in Europe and America 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 policies, remuneration framework, rotation policies, turnover rate, list of public companies audited 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.

In order to let the public to have a better understanding of the operation management, governance and internal control system of audit firms, the FSC published “Principles for the Preparation of Transparency Reports for Audit Firms" on December 30, 2011, as a guideline for audit firms to prepare transparency reports, and encourage the Big Four to publish transparency reports on their website since 2023, to promote the transparency of audit firms, and to boost healthy competition among firms, thereby improving audit quality.

7. Conclusion

In 2020, the FSC's inspection continued to focus on key audit area and increase the number of reviews 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 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 to safeguard the rights of investors.