LEGAL LIABILITIES OF AUDITORS IN THAILAND

BY

MS. PRACHOOMPORN KIJPALAKORN

AN INDEPENDENT STUDY SUBMITTED IN
PARTIAL FULFILLMENT OF THE REQUIREMENT
FOR THE DEGREE OF MASTER OF ARTS
(BUSINESS LAW)

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Independent Research Title		Legal Liabilities of Auditor in Thailand
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Faculty of Law, Assumption University approves this Independent Study as the partial fulfillment of the requirement for the Degree of Master of Arts.

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ABSTRACT

This independent research aims to investigate the laws and regulations of auditors' legal liabilities. The study also focused on how to regulate an auditor performing audit in good faith under the laws or regulations.

The aspects of understanding consist of roles and duties of an auditor, types of auditor's liability, and the existing laws of Thailand used to control the auditor However, the points of concern are those laws used to enforce the auditor in case of misconducts. For better understanding of the laws and regulations dealing with the auditor, the study of international laws is crucial.

A research analysis reveals that the laws and regulations in effect at present can not deter the auditor from engaging in misconducts as a result of law punishment, no rules force auditors to perform audit, and weakened accounting standards. In order to hold audits to the international standards, Thailand has enacted the Auditor Act of B.E. 2505, which authorizes to the Audit Committee keep licensed auditors under certain rules and regulations. However, the Committee is only able to punish the auditors' wrongdoing by mere license suspension or revocation, but can not impose criminal punishment. As a professional, an auditor must be independent, just, honest, capable, and be able to work under the accounting standards, although actual performance may be affected by another factor, i.e the payment by the client. If the auditor cannot perform an audit independently of client's demands, it is likely that the audit will not

follow auditing principles and that it will not be accurate and transparent, which in turn will impact business and the economy.

On the other hand, the ideas recommended in this research include amendments of the laws, adding criminal punishment and raising fine amounts, stipulation of minimum auditing quantity for being licensed auditors, and enhancement of the accounting standards. Finally, if added penalties would help reduce the number of dishonest auditors, audit reports and audited financial statements will be more reliable and useful to users including investors, financial advisors, and credit analysts.

ACKNOWLEDGEMENT

I would like to express profound gratitude to Assoc. Prof. Nattapong Posakabutra, my advisor, who is Director of Master of Law Program, and Chairperson of the Master of Law Program in Business Law (International Laws) and Chairperson of the Master of Arts in Business Law (International Laws), for his invaluable support, ncouragement, supervision and useful suggestions throughout this independence research paper. His moral support and continuous guidance enabled me to complete my work successfully.

I am, especially indebted to my parents for their love, suggestions, encouragement and support for everything throughout my life. Moreover, my sincere thanks are due to my MA friends and LLM program friends, who shared their cares and experiences with me, especially, Khun Yanotai Prachavanichkul, my best friend. Finally, I wish to express my appreciation once again to everyone named above, who helped me overcome all the doubts in doing this independent research.

Prachoomporn Kijpalakorn

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Chapter 1

Introduction

1.1 Background and General Statement of the Problems

Regarding the economic condition in Thailand, there have been failures of the financial institution's system since the year 2540 and serious consequences on the "real sector", which refers to the economic sector generating production and stimulating value-adding and imbalance earnings. The subsequent crisis had an effect on entrepreneurs in the real sector, i.e. small and medium enterprises (SME). The problems also had ripple effects on the international economy and weakened businesses liquidity.'

When there was an economic recession in Thailand as mentioned, the overall economic recovery needed an accurate and apparent financial statement verified by a capable auditor in order to supply financial tools for entrepreneurs or investors in making decisions including investing decision, operating decisions and so on. However, certain auditors failed to perform their jobs in good faith; they even contradicted the auditor's code of conduct in same cases.

Normally, an auditing professional is basically an accounting specialist who has specific duties in auditing the financial statements and expresses his opinion toward the financial statements. He needs to clarify whether or not the financial statement is correct according to the Generally-Accepted Accounting Principles (GAAPs). The auditing was specified to have the method of practice to examine the accuracy of accounting items. Accordingly, this means the auditor tests only some items; he does not perform permanent duties that cover the examination of all accounting items. The

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Belinda Fuller and Ryratana Suwanraks, "Economic Development and Institutional Failures in Thailand," TDRI Quarterly Review (1998): 3-11. In http://www.thaieconwatch.com/articles/m98_1/m98_1.htm, Access date September 7, 2006.

auditor investigates in order to acquire a conclusion that the items are accurate, but they are in effect not totally accurate. [2]

Under the Corporate Reporting Supply chain, company management initially prepares the financial statements that are reported to investors and other stakeholders. These financial statements are approved by an independent board of directors, operating under a code of governance, responsible to shareholders. The information is afterward verified by an independent auditor, hired and overseen by the Board. The data is analyzed by objective security analysts, and broadcast by information distributors, i.e. data vendors and the news media. Finally, investors and other stakeholders make their decisions based on this information.

Financial statement users may not know that the auditing aims to enable an auditor to use an audit method to obtain evidence for the items that appear in financial statements. The auditor is able to conclude the result from such evidence to express whether his opinion the financial statements are accurate and in compliance with the GAAPs or not. The auditor has to perform in conformity with the auditing standards and the code of professional conduct of auditors. The audited financial statements should not contain any material mistakes that will adversely affect the financial statement users' decisions.

However, there are issues about the end-user's confidence in the audit, auditor's report, freedom of auditing work, rules and regulations, responsibilities and liabilities of the auditor. The company executives are still responsible for preparing accurate and complete financial statements. With more likelihood for the company or client to take legal actions against the auditor, however, the responsibilities and liabilities of auditors in Thailand might not be understood clearly.

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[2] Thomson Gale, Internal auditors and the code of conduct (1991): 1-3 . In http://findarticles.com/p/articles/mi_m4153/is_n1_v48/ai_10380969, Access date September 21, 2006.

[3] Ukrit Puttamanun, "Legal accuracy and problem of business ethic," Mathichon Weekend (2 June 2006): 16.

[4] Sukonpun Viravan, "Worldcom and Adephia, the crisis of faith in American Corporations," Manager (1 August 2002): 152.

The Accounting Act, of B.E. 2543 is the law that provides the clarification of the person who has responsibilities in accounting but in the past the real information might not be visible due to conspiracy by management and auditor. So, the accountants cannot report the real figures in financial reports. The cheating is committed by both management and auditors. Thus, the credibility of the financial statement cannot be seen. It is impossible to determine whether the nature of unusual items in the financial statement is caused by the accounting not meeting the standards. Everything may appear to follow the accounting standards but the question is whether the auditing 'person' follows the standards or not. The government and private sectors should research the causes and find the joint solutions in order to prevent this situation.

There have been reports of increasing number of dishonest auditors in Thailand. Therefore all parties including employers, employees, agents, brokers, and the government authorities should band together to solve the problem.[5] After consideration of existing laws directly relevant to the stated problem, the control of auditing professional allowed by the Auditor Act of B.E.2505, the enforcement law used for a period of time can be out of date and may not truly solve such problem. Furthermore, the notifications, rules and regulations issuing to have the enforcement by the relative organizations did not seem to have supportive codes and real solutions. Thus, solutions to problems are urgently needed.

The auditing problems in Thailand might stem from inadequate auditing laws and regulations. Therefore, Thailand should legislate codes that hold auditing practices to the highest levels of standards in checking honestly. Clearly this should provide benefits to the investors or financial statement users. Auditors have to rely on which laws and regulations in performing their duties. If the auditors are legally liable, they will feel more compelled to be more responsible. This research will be carried on with a study of the related laws in Thailand and other countries.

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[5] Ministry of Commerce, Department of Business Development, "Accounting Professional," <u>News from Ministry of Commerce</u> (17 August 2001): 1.

1.2 Hypothesis of the Research

Although there are laws and regulations enacted for legal liabilities of auditors, but they seem to be insufficient as we still found some cases in which the auditors have no fear of legal action for their professional liability on the basis of an administrative procedure. In order to prevent and cope with situations happening in this country in the future, the laws and regulations related to legal liabilities of auditors should be reviewed and amended with the expectation that auditing dishonesty can effectively deterred and controlled.

1.3 Objectives of the Research

1. To study roles and duties of auditors, the related laws, regulations, existing standards and other rules concerning legal liabilities of auditors in Thailand.
2. To study legal liabilities of auditors in certain other countries.
3. To analyze the problems regarding legal liabilities of auditors in Thailand when compared to those covered by international laws.
4. To draw conclusions and seek suggestions about legal liabilities of auditors in Thailand for future reference.

1.4 Research Methodology

This research will be conducted with the use of documentary studies as its major methodology. It is a study of the laws of Thailand concerning auditors and their liabilities, the laws of foreign countries including the United Kingdom and the United States, and Accounting standards of Thailand in comparison with the international standards. Reference sources include text books, journals, theses, articles, documents and electronic information related to legal liabilities of auditors.

1.5 Scope of the Research

This research paper covers the professional and legal liabilities of auditors according to Thai laws comprise Auditor Act B.E. 2505, Thai Revenue Code, Act of Foundation

Business ,Finance Company, Securities Company and Credit Fancier Company Act B.E. 2522, Securities and Exchange Act B.E. 2535 and 2542, Civil and Commercial Code, Criminal code, Accounting Professional Act B.E. 2547, Accounting Standards, and related laws of the United Kingdom and those of the laws of United States concerning liabilities of auditors including a study of the international accounting standards and comparative study of Thai laws and foreign laws.

1.6 Expectations of the Research

1. To provide a clear understanding of the roles and duties of auditors, the laws, regulations, existing standards and other rules concerning legal liabilities of auditors in Thailand.
2. To learn about legal liabilities of auditors in the foreign countries.
3. To realize the problems regarding legal liabilities of auditors in Thailand when compared to those covered in international laws.
4. To offer conclusions and recommendations about legal liabilities of auditors in Thailand which may benefit the public and may be used for future reference.

Chapter 2

Rules, principles and relative law concerning legal Liabilities of auditors in Thailand

2.1 General Rules

2.1.1 Roles and Duties of auditor

The law stipulates that the auditor shall perform his work in accordance with the Generally Accepted Accounting Principles (GAAPs). When considering the purpose of auditing, it is found that to audit the financial statement the auditor is to receive collateral accounting evidence as appeared on the financial statement. For this reason, the auditor would be able to generate conclusions which might bring about the principle for auditor's opinion toward the financial statement, whether or not material contents are designed in compliance with the model accountancy and reach the objective. The audit could be considered in two ways[1] as follows:

1. Audit of information systems, which consists of two steps:
   (1) To understand the business to be audited implies that the auditor must understand the nature of the clients' business for planning in the most concentrated audit. Furthermore, this is used to evaluate the risk that would help the auditor to know what items the executives intend to raise the liability? The auditor could also know the cause that made the business cease to operate and other error items might result from incorrect records.
   (2) To understand the internal control system, the auditor studied the purpose of realizing the mistakes and evaluating the risks from the internal control. Accordingly, the auditor would be able to define

[1] Phayom Singhaseni, The auditing (Bangkok: Chuanpim Publishing, 2001), p. 48.

the volume of the evidences that the auditor kept to gathering information to reach a conclusion for his opinion toward the financial statements.

2. Audit of accounting transactions and balance accounts by running substantive tests.

When the auditor understood the internal control system, he would test the accounting transactions and the balance accounts to find accounting evidences to accompany his opinion. A substantive test consists of the following five objectives[2] :

(1) Existence or Occurrence

(2) Completeness and correctness

(3) Rights and Obligations

(4) Valuation

(5) Presentation and Disclosure

The five objectives related to collection of accounting evidences as a source benefit giving an opinion upon the financial statements to be set in the form of working papers.

In addition, the auditing standard has set a guidance to deal with fraud and errors, but the auditor has no responsibility in the audit to detect such fraud and errors. Also the standard cannot force the auditor to be liable for the fraud and error as said above. However, annual auditing may help to inhibit fraud and error, although there are limitations on the auditing. There is also an unavoidable risk that the auditor may not detect the material information as contrary to the fact as a result of the fraud in the financial statement or an error that occurred during the audit period. This is not an indicator to prove that the auditor did not perform in

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[2] Ibid.

accordance with the basic principle of auditing and did not use the audit method which is necessary for the audit[3]. To examine whether the auditor has performed the work based on the basic principle and method mentioned above or not, the audit method used in this situation will be consider if it is enough and suitable for the auditor's report by the conclusion extracted from the audit. Another component of the audit is to consider the laws and regulations, related to the client's business, which define that the executives have the responsibility of detecting and preventing of negligence such laws and regulations. At the same time, auditor's responsibility is defined for this case, but he might have to report in particular subject in accordance with the legal regulation.

2.1.2 Types of auditor's liability

When considering the laws concerning liabilities of auditors, it is found that the law focuses on the relationship between an auditor and the client. Similarly, the law also specifies the relationship among private entities, even if they are not the contracting parties to each other, e.g. in cases of infringement, both parties have no relationship of employment. Types of auditor's liability can be summarized in four aspects[4] as follows:

1. Breach of Contract

   The audit operation must start with a contract or agreement between auditor and client to attribute the rules for assigning responsibilities of the auditor. The contract can be made in writing or verbally. In this case, although the contract is not made in writing, the auditor must

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[3] Savitree Ongthummakul, "The Expectation of Auditing in Thailand," (The degree of Master, Accounting Department, Faculty of Commerce and Accountancy, Chulalongkorn University, 2004), p.10.

[4] Sukjit Na Nakron, "Liabilities of auditor," Ramkhumhang Journal 8 (March 1983): 6.

perform the audit in accordance with the GAAP. If the contract between the auditor and the client is made in the written form, it will not make the client misunderstand afterward. In contrast, if the contract is made by words, the auditor should confirm the wording agreement by submitting "a letter of undertaking for the audit" to the client to sign on and return to the auditors as to protect himself from claims or argument from the client in the future.

The contract between auditor and client shall bind the legal liabilities of auditor to client. If the auditor performs his duties against the conditions as defined in the contract regarding auditing service, he must be liable to the client for the breach of contract.

2. Auditor's negligence

As negligence of his duty by a professional, the auditor is bound and must be liable for his general negligence, i.e the auditor performed his task carelessly or did not perform it on the basis of one's manner or profession. Generally, professionals shall behave in compliance with the code of professional conduct. However, the degree of auditor's liability in the case of negligence depends on 1) the conditions of auditing work made between the auditor and the client, and 2) the client's damages took place due to the auditor's negligence.

3. Gross Negligence

If the auditor did not have an intention to verify the accuracy of financial statements or performed the audit without carefulness, which is against the GAAPs and did not consider the facts, the auditor shall be liable for his mistake called gross negligence. For instance, the auditor did not perform the audit completely in all steps in order to know the fact on the company's account receivable, the auditor only checked the subsidiary account matching the control account in the general ledger and matching the amount shown in the financial statement.

4. Fraud

Prior to the expression of the opinion on the audited financial statements which presented the financial position and operational result appropriately, the auditor acknowledged the facts that the financial statements were inaccurate. Similarly, there were no reasonable principles used to verify the accurate financial statements, or the auditor did not gather proper and sufficient accounting evidence and did not use the evidences to verify that the financial statements were prepare with fake information, or the auditor realized that the financial statements were intentionally prepared by fraud and would be then sent to other users of the financial statements. For the above cases, the auditor is found to disregard declaring the facts in materiality, which is necessary for the decision making upon the audited financial statements. Also, the auditor truly realized that the fraud must have involved some person who intended to hide or mislead the facts in the material financial statements which would result in damages to another person. Thus, the auditor shall be liable to his client in this case of fraud.

2.2 Existing laws of Thailand as applicable to the legal liabilities of auditors

2.2.1 The Auditor Act B.E. 2505

The Auditor Act B.E. 2505 is an important law for an auditing professional because it is a major law which sets the auditing principles. As of the content of this Act, the "Board of Supervision of Auditing Practices" (B.S.A.P.) was established for the purpose of monitoring and controlling auditors. According to the law, the B.S.A.P has the power to suspend or revoke auditor's license when the auditor was not qualified as specified by the laws, or when he performed against the laws and Ministerial Regulations. Other than the suspension and revocation of the auditor's license, in case a person was not the one who performed the audit for the company as specified by the law, except for performing for the government, that person shall receive criminal penalty. Similarly, the person who presented himself as the auditor that was actually not, that person shall be assessed the criminal penalty as well[5].

Apart from the liability as stated in the Auditor Act of B.E. 2505, Ministerial Regulation No.4 (B.E. 2534) also issued in accordance with the Auditor Act B.E. 2505 the code of professional conduct for auditors as follows:

1. Independence , fairness, and honesty
2. Capability and ability to perform their works
3. Responsibilities to the clients
4. Responsibilities to other auditors (same profession)
5. Other general Responsibilities

Additionally, the B.S.A.P. issued Notification No.4 on guidance of auditing practices for certified accountants and auditors to perform professional conduct in accordance with the GAAPs, and specified that the auditor must have planning and perform with judgment in observation and suspension as professional. The auditor must also define the scope of his audit on the basis of the auditing standards set by the Institute of Certified Accountant and Auditor of Thailand (ICAAT), and related regulations set by other organizations. Consequently, the B.S.A.P issued Notification No.41 on opinions in the auditor's report certified with signature. The provision defines types of the auditor's report to classify qualified and unqualified opinions on the financial statements as they appear in the auditor's report. The provision aims to enable relevant persons to be aware of the limitations of auditor's liability in that the auditor shall be liable for his audit and opinion on the financial statements only.

On the other hand, the executives shall be liable for accuracy and completion of the financial statements. Finally, the Notification of B.S.A.P. No. 42(B.E.2543) on the accounting standards for auditors, states that the auditor shall assess the

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[5] The Auditor Act B.E.2505

accounting method used by the company in accordance with the accounting standard set by the ICAAT, 40 issues in total, including 1 of the Accounting Models, 31 of the Accounting Standards, and eight of implications of the accounting standards, in order to express his opinion on the financial statements whether all information is accurate and in compliance with the GAAPs.

2.2.2 The Revenue Code

Section 3 of the Revenue Code was enacted to authorize the Director-General of the Revenue Department to consider an auditor's performance and plan on responsibility for auditing performance toward licensed auditors received from the Director-General of the Revenue Department. If the auditor performed against the law that the Director-General of the Revenue Department was assigning, the Director-General may consider revoking the license in compliance with the regulations in the Accounting Act of B.E.2543, Section 11, with the exception for the following businesses as exempted from the auditing financial statements and the auditor's opinion.

1. Ordinary partnerships registered under the law of Thailand with their capital registers not exceeding 5 million bath
2. Total assets not exceeding 30 million baht
3. Total revenues not exceeding 30 million baht

However, when these ordinary partnerships submit their financial statements to the Revenue Department, there must be some kind of inspection and accounting verification. Thus, the Director-General of the Revenue Department will issue a notice of the Director-General of the Revenue Department (No.2) on auditing procedures and verify accounts by challenging that the auditor and certified accountant to perform the work in accordance with the auditing laws and notifications or orders from relevant organizations. The auditor shall also perform in accordance with the code of conduct specified by the Director-General of the Revenue Department concerning tax issues. Plus, there is a mandate from the Revenue Department (Tor Por 122/2545) on procedures to perform and report the auditing and accounting verification of tax auditor, together with the Revenue Department's commandment (Tor Por 123/2545) concerning the code of professional conduct for auditors and the accounting verification which follows the certified accountant's code of conduct but focused mainly on the importance of Taxation. The reason for the auditor to be subject to the laws, notifications, or directives from the Revenue Department is that the auditor might be either a certified accountant or tax auditor assigned by the Director-General of the Revenue Department.[6]

2.2.3 The Finance Company , Securities Company and Credit Fancier Company Act of B.E. 2522

Section 23 of this Act requires that auditing procedures of the auditor follow the code of professional conduct and perform audits and accounting confirmation in compliance with the standards of auditor laws including the standard set by the Bank of Thailand. Especially, in the case that a company taking some documents for recording in the accounting entry found no match, the auditor must disclose material facts and report such mistakes in the audit report certified with his signature and at the same time report to the Bank of Thailand. If the auditor did not follow the Bank of Thailand, his expressed opinions might be rejected or cancelled. If the auditor wrongly confirmed the balance sheet of other accounts or made false statements or violated the stipulations of Section 23, he shall receive imprisonment penalty for three months up to three years and fine for a minimum of 30,000 baht up to 300,000 baht, according to Section 75.[7]

[6] The Revenue Code, Section 3.

The Finance Company , Securities Company and Credit Fancier Company Act of B.E. 2522, Section 23.

2.2.4 The Registered Ordinary Partnership, Limited Partnership, Company limited, Association and Foundation Act of B.E. 2499

This Act assigns legal liabilities of auditors in Section 31, which states that an auditor who wrongly verifies the balance sheet or any other accounts or making false statements of that registered ordinary partnership, Limited partnership and company limited will be penalized with an imprisonment term not to exceed one year or a fine not exceeding 2,000 Baht.[8]

2.2.5 The Securities and Exchange Act of B.E. 2535 and 2542 (No.2)

Both Acts specify auditors and public companies limited which offer to sell new stocks in the form of shares, debentures, bonds, warrants and any other securities assigned by the Securities and Exchange Commission (SEC) of Thailand on observation reports or on disclosure of material facts and stated in the Section 63 report. These rules use to enforce with Section 140 on the management of personal funds including married couples for disclosure of securities holding in a public company limited that issued stocks or granted such personal funds. Besides, Section107 defines that the auditor shall retain the code of professional conduct and perform the audit in accordance with the auditing regulations and additional rules as enacted by the B.S.A.P. The B.S.A.P. notes that if the auditor violates those rules and regulations, the SEC of Thailand has the authority to disregard the auditor's expressed opinion.

When the auditor performs the work in the Stock Exchange of Thailand, he must do so based on the principles of audit opinions of a listed company or licensed company in accordance with the notification of the Stock Exchange of Thailand (SET). The Notification defines the qualification of auditors and authorizes of the

[8] The Registered Ordinary Partnership, Limited Partnership, Company limited, Association and Foundation Act of B.E. 2499.

SET to reject the auditor's expressed opinion in case the auditor lack of qualifications or does sub-standards jobs based on GAAPs.[9]

2.2.6 The Civil and Commercial Code

With regards to partnerships and companies, there are rights and duties assigned in the auditing practices for auditors. The Code defines that the auditor can be one of the shareholders in the company, but he must have no vested interests in the company's gains or losses, the rule does not allow the auditor to be on the board of directors, agent or employee in the company that he holds shares[10].

In addition, the auditor must be able to verify and inquire the company's detailed information. Because the Civil and Commercial Code is the law that regulates private companies, the auditor's performance tends to infringes upon others and causes damage to others, the auditor shall be liable to pay compensation based on the principle of infringement stated in this code.

2.2.7 The Criminal Code

Similar to the Civil and Commercial Code, the Criminal Code is also the law to regulate private companies. However, the Criminal Code clearly stipulates liability of auditors regarding false statement in documents or the disclosure of the secret that if the auditor performed wrongly, he will be liable as per in the Criminal Code.

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[9] The Securities and Exchange Act of B.E. 2535 and 2542 (No.2), Section 107, 140.

[10] Civil and Commercial Code, Section 420.

2.2.8 The Accounting Professional Act of B.E. 2547 and the Federation of Accounting Professions

On October 23, 2004, the Accounting Professional Act of B.E. 2547 came into effect as another advanced step in ensuring enactment of the quality of financial reports. This Act has repealed the Auditor Act of B.E. 2505 that had regulated only auditors. It is designed to regulate the conduct of all accounting professionals, thereby accommodating rapid change in current accounting professions as well as providing greater transparency and protection to investors and the public.

This new Act introduced a new regulatory framework under which all accounting professionals (i.e. auditing, accounting, managerial accounting, tax-planning, and other accounting services) are supervised. Consequently, a self-regulatory organization called the "Federation of Accounting Professions" was established with authority to supervise such professionals in the following areas[11]:

- Issuing, suspending and revoking the accounting professional license for individuals
- Registering all accounting service firms
- Setting up the auditing, accounting and any other standards that are in conjunction with accounting professions
- Establishing a code of conduct for all accounting professionals

In addition, under this Act, another new body named "Accounting Profession Oversight Board" was also set up to regulate the activities of the Federation, endorse Thai accounting standards and rules issued by the Federation, and consider appeals regarding the Federation's orders. The Board comprises 14 members (seven from the government sector, three from the private sector, one from the Federation, two accounting professionals and one legal professional). In

[11] The Accounting Professional Act B.E. 2547, Section 37-43, the Federation of Accounting Professions.

this connection, to maintain Thai accounting standards in line with international accounting standards, the SEC will cooperate with the Federation of Accounting Professions on further developments[12].

Table 1: Summary of the laws relating to auditor's misconducts

Law	Point of Responsibility
1. The Auditor Act of B.E. 2505	1. Lack of qualifications as required (Section 3) 2. Violations of the code of conduct for auditors (Section 18)
2. The Revenue Code	Lack of qualifications as required and failure to comply with the rule of the Director-General of the RevenueDepartment (Section 3 Sutta)
3. The Finance Company, Securities Company and Credit Fancier Company Act of B.E. 2522	1. Failure to adhere to the code of conduct, perform an audit in accordance with auditor's rules or regulations of the Stock Exchange Commission of Thailand, and disclose the material facts which affect the financial statements in the case that the company falsifies documents or distorts accounting records (Section 23) 2. Verification of inaccurate balance sheets or other wrong accounts with false statements (Section 75 navi)
4. The Registered Ordinary Partnership, Limited Partnership, Company limited, Association and Foundation Act of B.E. 2499	1. Verification of inaccurate balance sheets or other wrong accounts with false statements (Section 31)

[12] SEC Thailand, "Corporate Governance Update," Capital Thailand Quarterly Newsletter (October 2005), p. 1. In http://www.sec.or.th/th/infocenter/pub/other/capthai.shtml Access date October 1, 2006.

5. The Securities and Exchange Act of B.E. 2535 and 2542 (No. 2)	1. Failure to report the observation or disclosure of material facts in the financial statements and the actions in the trial balance for public companies limited that issued new securities (Section 62) 2. Failure to follow the code of conduct, perform an audit in accordance with the auditing rules and regulations of the Securities and Exchange Commission of Thailand and disclose material facts that affect the financial statements in the case that the company makes false documents or distorts accounting records (Section 107) 3. Failure to perform as stated in 2. above concerning the management of personal funds (Section 107) 4. Failure to disclose one's securities or couple holdings in a listed company issuing new securities (Section 107) 5. Failure to perform an audit in accordance with the auditor's rules, making false statements, or contradicting Section 62, 107, 140 (Section 287)
6. The Civil and Commercial Code	1. Infringements causing damages to others (Section420)
7. The Criminal Code	1. Making false verification which probably causes damages to others (section269) 2. Disclosure of secrets which that the secret probably cause damages to others (Section323)

Chapter 3

Foreign Laws concerning legal liability of auditor

3.1 The Laws of the United Kingdom

3.1.1 The International Standard on Auditing (ISA) for the UK and Ireland

The International Standard on Auditing (ISA) 240 focuses on the auditor's responsibility to consider fraud in an audit of financial statements. The purpose of this International Standard on Auditing is to establish standards and provide guidance on the auditor's responsibility to consider fraud in an audit of financial statements and expand on how the standards and guidance in the ISA 315, "Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement" and the ISA 330, "The auditor's Procedures in Response to Assessed Risks" are to be applied in relation to the risks of material misstatement due to fraud. The standards and guidance in this ISA are intended to be integrated into the overall audit process'.

1. Inherent Limitations of an audit in the Context of Fraud
   As described in the ISA 200, "Objective and General Principles Governing an Audit of Financial Statements." Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected even though the audit is properly planned and performed in accordance with the ISAs. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error because fraud may involve sophisticated and carefully organized schemes designed to conceal it,

[1] Financial Reporting Council, International Standard on Auditing (UK and Ireland)240 "The auditor's responsibility to consider fraud in an audit of financial statements," The Auditing Practice Board (December 2004): 3. In http://www.frc.org.uk/apb/publications/isa.cfm, Access date September 8, 2006.

such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion. Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false. The auditor's ability to detect a fraud depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error[2].

The subsequent discovery of a material misstatement of the financial statements resulting from fraud does not, in and of itself, indicate a failure to comply with the ISAs. This is particularly the case for certain kinds of intentional misstatements since audit procedures may be ineffective for detecting an intentional misstatement that is concealed through collusion between or among one or more individuals among management, those charged with governance, employees, or third parties, or that involves falsified documentation. Whether the auditor has performed an audit in accordance with the ISAs is determined by the audit procedures performed in the circumstances, the sufficiency and appropriateness of the audit evidence obtained as a result thereof and the suitability of the auditor's report based on an evaluation of that evidence.

[2] Ibid., p.10.

2. Responsibilities of the auditor for detecting material misstatement due to fraud

An auditor conducting an audit in accordance with the ISAs obtains reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. An auditor cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.

When obtaining reasonable assurance, an auditor maintains an attitude of professional skepticism throughout the audit, considers the potential for management override of controls and recognizes the fact that audit procedures that are effective for detecting error may not be appropriate in the context of an identified risk of material misstatement due to fraud. The remainder of this ISA provides additional guidance on considering the risks of fraud in an audit and designing procedures to detect material misstatements due to fraud.[3]

3.1.2 The legal responsibilities and liabilities of auditors

An auditor is the person who is engaged to carry out an audit of a company's accounts required by the Companies Acts of1 985 and 1989. The nature of his work and the right to engage in it are quite closely regulated by statute[4].

In practice all auditors will also be accountants (though not all accountant are authorized to act as auditors.) Another important feature of accounting

[3] Ibid., p.11.

[4] Ray Hodgin, "Auditors and Accountants," in Professional Liability: Law and Insurance, (Great Britain: MPG Books, 1999), p.255.

and auditing practice in the United Kingdom is that the accounts of a company are usually audited by the same firm which provides the company with accounting advice, despite the apparent conflict of interest involved in this arrangement.

1. Breach of Duty

Once it is established that the auditor has breached his duties, the question of remedies naturally arises. The remedy most commonly sought will be damages.

The first problem is to establish that the company has suffered loss, when the company and shareholders have bought on the faith of the audited accounts, which were alleged to be materially wrong[5].

A particular difficulty arises where a company has declared unlawful dividends in reliance on improperly prepared accounts which appear to show that there is profit available for distribution. It is not obvious why the payment of a dividend should be regarded as causing a loss to the company. Certainly it appears a strange use of language to describe a lawful dividend in those terms, notwithstanding that money is obviously paid out of the company, and there is no obvious reason why an unlawful dividend should be different in this context[6].

2. Limitation of Liability

The Companies Act, Section 310, makes void any term in an agreement between a company and its auditor under which the company agrees to exclude or limit any liability of the auditor for breach of duty in connection with the conduct of the audit. The question of possible limits on auditors' liability has been much discussed. In1989 the Likierman

[5] Ibid., p. 293.
[6] Ibid.

Report on Professional Liability recommended that the liability of auditors and directors for failures in the accounts should be several and not joint, and the auditors should prefer to negotiate as matter of contract limits to their liabilities for audit work, subject always to the Unfair Contract Terms Act 1977. Neither of these suggestions was adopted in the Companies Act 1989, but the suggestion of several liabilities has recently been raised again, and the question has been referred to the Law Commission for consideration. An obvious difficulty arising from the proposal is that of deciding in any given case how the responsibility should be apportioned between, for example, the directors on the one hand and the auditors on the other[7].

Even where it is clear that auditors have been negligent and loss can be established, liability will not arise unless it can also be shown that this advice was the cause of the loss suffered by the plaintiff.

3.1.3 The new Companies (Auditing and Accounting) Act 2003

This Act consequently incorporates better balanced provisions affecting companies. Arrangements governing the relationship between the existing accountancy bodies and the new statutory regulator, the Irish Auditing and Accounting Supervisory Authority (IAASA), have also been improved, although IAASA power to intervene in disciplinary matters remain extensive.

1. The new regulator's duties and powers

   The Act defines IAASA’s principal objectives as:

   - Supervising regulatory activity of the existing accountancy bodies.
   - Promoting high standards in the auditing and accounting profession.

[7] Ibid., p. 294.

- Monitoring companies' financial statements.
- Providing the Minister with specialist advice on auditing and accounting issues.

The profession in Ireland is fragmented with most of the other accountancy bodies being either directly governed from the UK or having close affiliations to UK bodies. This has led to a myopic reliance on UK standards and a failure to issue more local accounting and auditing standards which take account of European and International developments.[8]

2. Accounting standards

The Act provides for specific recognition of accounting standards and requires that companies disclose whether their financial statements (and group financial statements) comply with applicable standards. These are defined as (a) statements of accounting standards and (b) any written interpretation of those standards issued by any body or bodies prescribed by regulation. Thus any guidance issued by accountancy bodies could have the status of an accounting standard in law. Coordination of such pronouncements by the accountancy bodies will be vital so as to minimize divergent interpretations.

The official recognition of accounting standards in law is to be welcomed. It is important, however, that the definition does not lead to a situation whereby companies try to cherry pick accounting standards to suit their circumstances e.g. Irish/UK, US, IAS etc. In this context, it is time to establish an the UK body responsible for the adoption and harmonization of International Accounting Standards (IAS) in line with the UK Company Law[9].

[8] The Companies (Auditing and Accounting) Act 2003, Section 45.
[9] Ibid.

3.2 The laws of the United States

3.2.1 Causes of legal liabilities of Certified Public Accountant (CPA) or auditors

1. Breach of Contract

In general, if an auditor does not fulfill the terms of his engagement, the client can hold the auditor liable for breach. Contract liability generally requires privities, so only a party to the contract can sue under a contract theory. Where an auditor breaches the contract, the client or third party beneficiary is entitled to recover compensatory damages (sufficient money to compensate for the contract not having been performed). If the auditor's breach is material, the auditor cannot recover any payment. Of course, all defenses that were mentioned in the contract outline apply to a contract made by an auditor e.g., client's failure to let the auditor see any accounting records is a failure to cooperate and is a valid defense[10].

2. Commission of Tort

In general, there are three torts that are relevant: negligence, constructive fraud (also called gross negligence), and fraud. Firstly, Negligence implies a breach occurs when the auditor fails to act with reasonable care. The standard of care owed by an auditor is to perform with the same skill and care expected of ordinarily prudent auditors under the circumstances. The best evidence that an auditor has acted like a reasonably prudent auditor is that the auditor followed applicable standards for the profession (e.g., followed GAAS in an audit or followed GAAP with regard to financial statements). Following GAAS or GAAP is not an absolute defense. On rare occasions following GAAS or GAAP can make a report or the financial statements misleading. Second, fraud or actual fraud includes a misrepresentation of material fact; Intent to deceive (knowing

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[10] Devry and Becker Educational Development Crop, "CPA Legal Liability," Becker Conviser CPA Review 1 (March 2003): 23.

the statement was false); actual and justifiable reliance by plaintiff on the misrepresentation; an intent to induce plaintiffs reliance on the misrepresentation; and damages. Finally, constructive Fraud has the same element as actual fraud, except instead of intentionally deceiving, the defendant acts recklessly."

3.2.2 Procedures for licensed auditors

All 50 states grant to State Boards of Accountancy the sole power to license Certified Public Accountants. Requirements for license vary from state to state. They require successful completion of the CPA examination and all or some of the requirement i.e. a residency requirements, educational requirements, and experience requirements[12]. Since a state board is the only entity that can license a CPA, the state board is also the only entity with the power to suspend or revoke a CPA's license.

In addition, with disciplinary power of State Boards, although each state determines what constitutes professional misconduct by a CPA sufficient to subject the CPA to disciplinary action. After investigation of professional misconduct, the state board can conduct a formal hearing for possible disciplinary action. Five penalties that a state board of accountancy may impose for professional misconduct comprises Suspension or revocation of license, a monetary fine, a warning or censure, probation, and requirement for Continuing Professional Education (CPE) courses.

3.2.3 Statutory Liability

According to the Securities laws, Section11 of the Securities Act 1933, an auditor who signs off on financial statements in a registration statement can be held liable

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[11] Ibid., p. 24.

[12] American Institute of Certified Public Accountants, Professional Accounting (New York, 1975), p.638.

for misstatements in the financial statements to a plaintiff who (i) acquired the stock and (ii) suffered a loss if (iii) the financial statement contained a material misrepresentation or material omission of fact. With reference to the rule 10b-5 of the Securities Act 1934, an auditor can be held liable for material misstatements or omissions made in connection with the purchase and sale of securities under rule 10b-5.

3.2.4 The Code of Professional Conduct

The American institute of Certified Public Accountants (AICPA) and Sate CPA Societies assign the code of conduct that applies to all members of the AICPA. Many state CPA societies and state boards have incorporated all or parts of the Code. The AICPA Code of Professional Conduct addresses the question of what is "right" and "just." The code is applicable to all members of the AICPA, not just to those in the public practice. The code of professional conduct is a distinguishing mark of a profession that accepts a high degree of responsibility toward the public. It is a voluntary acceptance for the purpose of benefiting society. The basis for the code of conduct consists of "responsibilities" as professionals to exercise sensitive professional and moral judgments, "public interest" to honor the public trust and responsibility to the public, "integrity" to maintain and broaden public confidence, and "objectivity and independence" to be free of conflicts of interest in discharging professional responsibilities.[13]

3.2.5 Corporate and Criminal Fraud

1. Criminal penalties for destruction, alteration, etc.; to knowingly later destroy, falsify, etc., a document with intent to impede a federal investigation is a crime punishable by fine and prison for up to 20 years.

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[13] Devry and Becker Educational Development "CPA Legal Liability," Becker Conviser CPA Review, : 31.

2. Criminal penalty for destruction of corporate audit records; it is a crime punishable by fine and up to 10 years' imprisonment for auditors who fail to keep all work papers related to the audit for at least five years.
3. Debt not dischargeable in bankruptcy: debts incurred in violation of the securities laws are not dischargeable in bankruptcy.
4. Statute of limitations for fraud; the statue of limitations for private cases for securities fraud is the latter of two years after discovery of the fraud or five years after the action occurred.
5. Whistleblower protection; employees discharged because they lawfully provided information to their supervisors or the federal government regarding conduct believed to be a violation of the securities law may sue their employer. Remedies include reinstatement, back pay, attorneys' fees, and litigation costs.
6. Criminal penalties for defrauding shareholders and the public; defrauding the public in connection with a registered security is punishable by a fine and imprisonment of up to 25 years."

3.2.6 The Sarbanes-Oxley Act of 2002

In the wake of the collapse of Enron and WorldCom corporations, the criminal prosecution of Arthur Andersen for audit irregularities, and the restatement of financial statements of a number of other SEC reporting companies, Congress passed the Sarbanes-Oxley Act (SOA). The SOA provides for a Public Company Accounting Oversight Board comprised five members. Two members must be CPAs, and three members cannot be CPAs. The Board is subject to oversight by the SEC and is charged with the following duties[15]:

1) Registration with the Board

[14] Ibid., pp.50-51.
[15] Ibid., pp. 46-48.

Only a "registered public accounting firm" (i.e., an accounting firm registered with the Oversight Board) may prepare audit reports for an SEC issuer. Registration application for public accounting firms must contain:

a. The names of all issuers audited in the preceding and current year including annual fees received for such audits;
b. A statement of the firm's quality control policies;
c. A list of all firm accountants who will participate in the audits;
d. Legal or disciplinary proceedings pending against the firm; and
e. Disclosures filed by audited issuers concerning accounting disagreements between the issuer and the firm related to audits.

This information must be updated annually. Then, each registered firm must consent to cooperate with any request from the Oversight Board concerning testimony or production of documents.

2) Each registered firm must adhere to the following auditing standards:

a. Maintain audit papers and supporting documentation for seven years;
b. Provide a concurring or second partner review of each audit report; and
c. Describe in each audit report the scope of the auditor's testing of the issuer's internal control structure and procedures.

3) Quality control standards required of registered firms

Registered accounting firms must monitor professional ethics and independence from issuers that it audits and must supervise audit work.

4) Inspections

The Board must inspect annually registered firms that audit more than 100 issuers and must inspect firms that perform fewer audits at least once every three years.

5) Investigations and Sanctions

The Board is empowered to conduct investigations on wrongdoing by registered firms, and may suspend registration of , or suspend or bar a person from association with the firm, censure, require further professional education, etc.

The Sarbanes-Oxley Act of 2002 also provides the principles for corporate responsibility as follows:

1) Audit Committee Appointed by the Board

The board of directors of each issuer must establish an audit committee to oversee the accounting and financial reporting processes of the issuer and audits of the issuer's financial statements. The audit committee must pre-approve all auditing and nonauditing services performed by a registered firm. The committee is responsible for overseeing the appointment, compensation and work done by the audit firm. Each audit committee member must be a member of the issuer's board of directors and must be independent (i.e. the member can only receive compensation for his position on the board and cannot accept any other compensation for the issuer or be affiliated with the issuer. In addition, the committee must establish procedures for i) Treatment of complaints regarding auditing matters; and ii) Confidential employee tips of questionable accounting procedures. Audit committees must be sufficiently funded and have authority to hire independent advisers.

2) Corporate Responsibility for financial reports

Companies filling Forms 10-K and 10-Q reports must have the CEOs, CFOs, or similar person certify in each report that:

(i) The report is true, does not contain material deficiencies and fairly represents the issuer's financial position on his knowledge;

(ii) The signing officer is responsible for establishing internal controls, has designed the controls to ensure that material information is made known to the officer, and has evaluated the controls within 90 days of the report;

(iii) The signing officer has disclosed to the auditors and the audit committee all significant deficiencies in internal control design that might adversely affect the issuer's ability to process financial data and also any fraud (whether or not material) involving management or other employees; and

(iv) The signing officer has indicated any significant changes in internal controls that could affect internal controls after the date of the evaluation.

The SOA imposes criminal fines of up to USD one million and up to ten years' imprisonment for knowingly marking a false certification.

3.3 International Standards

Though it is clear that legal, political, regulatory and infrastructure barriers are hampering the development of an integrated capital market, financial reporting is also a key element of the problem. To function effectively the capital markets require reliable, relevant, comparable and transparent financial information. Without it – even if all other barriers are removed – investors will remain skeptical and demand a premium for their capital. Financial reporting is a key element of the overall landscape of an integrated capital market. In the European Union (EU) announced that starting in 2005, all listed companies within the EU will have to prepare their consolidated financial reports in agreement with International Accounting Standards (IAS). The adoption of IAS is not about different accounting policies; it is the adoption of an entirely different system of performance measurement and communication with the markets. There will be substantially increased levels of transparency for many companies.

For the international concerns, the key success is to enhance the quality of auditor's performance based on the same standards for all countries. The standards on auditing are under the control of International Federation of Accountants (IFAC). The B.S.A.P is one member of IFAC which shares the same objective to continuously develop the auditing professional and certified accountant in order to have reliable result which can benefit the public in the economic system. Nowadays, the accounting standards of the countries are not too different; however, investors and the public still misunderstand and need more studying . To understand the key similarities and differences between three accounting frameworks: IAS, US GAAP, and Thai GAAP. An illustration is shown in the Appendix A "Comparison of International Accounting Standards to Thai Standard"

Wrapping up important issues from the comparison table in Appendix A shown as the following items:

Al. Accounting Framework

First time adoption of the IFRS, as the primary accounting basis, requires the preparation of financial statements as if the entity had always reported in accordance with IFRS. Consequently, the application or standards and

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[16] Pamela Eichhorst, Bert Steens, Leo van der Tas and others, "IAS 2005 Preparing Your Enterprise for New International Financial Reporting Standards" Canada: Cap Germini Ernst & Young No.1(November 2002): 1.

[17] Aungkarut Preabjariyawat, "Views of Financing, Accounting, Corporate Governance and future trends" Complimentary Document of the Institute of Certified Accountant and Auditor on Seminar (December 2003): 5-11.

[18] Price Waterhouse Coopers, "International Financial Reporting Standards: Similarities and Differences of IAS, US GAAP and Thai GAAP" (June 2003): 5-15.

interpretations must be retrospective except where the standard or interpretation permits a different transitional treatment, or where the amount of the adjustment relating to prior periods cannot be reasonably determined. For the US GAAP: Accounting principles must be consistent for financial information preserved in comparative financial statements. US GAAP does not give any specific guidance on first-time adoption of its accounting framework. Particular standards specify the transitional treatment upon first-time application of a standard. Specific rules apply for carve-out, entities and first-time preparation of financial statements for the public, while first-time adoption should be treated as change in accounting policy for Thai GAAP

A2. Financial Statements

IFRS and Thai GAAP are similar in that they requires one year of comparatives for all numerical information in the financial statements, with small exceptions. For US GAAP, SEC requirements specify that all registrants must give two years of comparative (to the current year) for all statements except for the balance sheet which requires one comparative year. This rule applies whichever accounting framework is used in the primary financial statements.

A3. Consolidated financial statements

In case of consolidation, under IFRS which is similar to Thai GAAP , subsidiaries must be excluded from consolidation if there are severe long-term restrictions on the exercise of the parent's rights to obtain cash flows or, if the parent acquires the subsidiary and holds it exclusively for subsequent re-sale in the near future. Dissimilar activities between a parent and subsidiary are not grounds for excluding the subsidiary from consolidation. It requires that entities excluded from consolidation be classified as either available-for-sale or held for trading financial assets and measured at fair value. US GAAP is similar to IFRS where subsidiaries excluded from the consolidation are those which operate under long-term restrictions which impair the parent's ability to control the subsidiary. It requires that entities excluded from consolidation be accounted for using the cost method.

IFRS, US GAAP and Thai GAAP all require that where the operations of a foreign entity are largely independent of the reporting currency of the investing entity, amounts in the balance sheet of the foreign entity are translated using the closing (year end) rate with the exception of equity balances for which the historical rate is used. IFRS, US GAAP and Thai GAAP require amounts in the income statement to be translated at the exchange rate current at the applicable transaction dates, although in practice such amounts are often translated using the average rate for the accounting period. Where a foreign operation is integral to the reporting entity, its accounts are translated as if all the transactions had been carried out by the reporting entity itself.

A4. Business combination

A business combination involves the brining together of separate entities into one economic entity. Three types of business combination occur in practice. An acquisition is where one of the combining entities obtains control over the other, enabling an acquirer to be identified; this is the most common type of combination. A uniting of interests (pooling) occurs where it is not possible to identify an acquirer; instead the shareholders of the combining entitles join in substantially equal arrangements to share control. A group reorganization can arise from transactions among entities which operate under common control.

Under IFRS and Thai GAAPS, business combinations are almost always accounted for as acquisitions, requiring that the purchase method of accounting is used to portray the financial effect of an acquisition. IFRS severely restricts the circumstances in which transactions can be recognized as a uniting of interests. Specific IFRS guidance about business combinations excludes from its scope transactions among entities under common control. US GAAP requires the use of the purchase method of accounting for all business combinations.

A5. Revenue recognition

IFRS is one of two frameworks to contain a specific standard on revenue recognition. The standard describes specific revenue recognition criteria for each of: the sale of good; the rendering of services and interest, royalties and dividends. The revenue recognition criteria common to each of these are; the probability that the economic benefits associated with the transaction will flow to the entity, and that the revenue and costs can be measured reliably. Additional recognition criteria apply to revenue arising from the sale of goods. IFRS requires that the seller has transferred the significant risks and rewards of ownership to the buyer and retains neither management involvement in, nor control over the goods, Revenue from the rendering of services must be recognized by reference to the state of completion of the transaction, at the balance sheet date. Interest revenue must be recognized on a basis that takes into account the effective yield of the asset. Royalties are recognized on an accentual basis and dividends when the shareholder's right to receive payment is established.

US GAAP focuses more on revenues being realized (either converted into cash or cash equivalents or the like hood of its receipt being reasonably certain) and earned (not material transaction pending and the related performance has occurred). Additional guidance for SEC registrants sets out four criteria, which an entity must meet before revenue is realized and earned (compared to IFRS and Thai GAAP in the table below). In addition, SEC pronouncements provide guidance related to specific revenue recognition situations. In this case Thai GAAP is similar to IFRS.

A6. Expense recognition

In IFRS, expenses are defined in the IFRS framework to include losses. Expenses are decreases in economic benefits that result in decrease in equity. Thai GAAP is similar to IFRS. For US GAAP, expenses are defined by the Concept Statement to represent actual or expected cash out flows, or the equivalent that have occurred or will eventuate as a result of the entity's ongoing major operations.

A7. Assets

Regarding intangible Assets under IFRS, an identifiable non-monetary asset without physical substance controlled by the entity and held for use in the production or supply of goods or services, for rental to others, or for administration purposes. May be acquired or internally generated. US GAAP is similar to IFRS, while Thai GAAP has no effective guidance on intangible assets, effective guidance covers research and development costs only.

A8. Liabilities

IFRS has specific and very similar standards on accounting for provisions generally, while US GAAP has several standards addressing specific provision, e.g. environmental liabilities and restructuring costs. All three frameworks prohibit recognition of provisions for future costs, including costs associated with the compliance with proposed but not yet effective legislation. Thai GAAP currently includes a standard which generally covers all contingencies. IFRS requires recognition of a provision only when the entity has a present obligation to transfer economic benefits as a result of past events; it is probable that such a transfer will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

For IFRS, the amount recognized as a provision must be the best estimate of the minimum expenditure required to settle the present obligation at the balance sheet date. The entity must discount the anticipated cash flows at a risk free rate if the effect is material. If a range of estimates is predicted and no amount in the range is more likely than any other amount in the range, the mid-point of the range must be used to measure the liability. US GAAP is Similar to IFRS, however, if a range of estimates is present and no amount in the range is more likely than any other amount in the range, the "minimum" (rather than the mid-point) amount must be used to measure the liability. A provision must only be discounted when the timing of the cash flows is fixed. Cost associated with an exit or disposal activity must be recognized and measured at fair value only when the liability is incurred. On the other hand, Thai GAAP has no effective guidance.

A9. Equity instrument

IFRS An instrument is classified equity when it does not contain an obligation to transfer economic resources. Preference shares, which are not redeemable or redeemable solely at the option of the issuer and where distributions are at the option of the issuer and where distributions are at the discretion of the issuer, are classified as equity. Thai GAAP is similar to IFRS in this case. US GAAP, shareholders' equity is analyzed between capital stock (showing separate categories for non-redeemable preferred stock and common stock and other categories of shareholders' equity.

A10. Derivatives and hedging

Under IFRS and US GAAP all derivatives are recognized in the balance sheet as either financial assets or liabilities. They are initially measured at cost. Under IFRS cost includes direct external transaction costs, but not internal allocations of cost. IFRS and US GAAP require subsequent measurement of all derivatives at their fair value, regardless of any hedge relationship that might exist. Changes in the value of a derivative are recognized in the income statement as they arise, measure reliably, is carried at cost loess impairment or amortization until settlement. Under IFRS fair value excludes transaction costs, US GAAP is not specific on this point.

Under IFRS and US GAAP detailed guidance is set out in the respective standards dealing with hedge accounting. At present Thai GAAP does not include a specific standard covering the accounting for hedges; however certain disclosures are specifically required. Under both IFRS and US GAAP hedge accounting is permitted provided that an entity meets certain qualifying criteria in relation to documentation and hedge effectiveness. Both frameworks require documentation of the entity's risk management objectives, and how the effectiveness of the hedge will be assessed. Under both frameworks hedge instruments must be highly effective in offsetting the exposure of the hedged item to changes in the fair value or cash flows, and the effectiveness of the hedge must be measured reliably on a continuing basis.

Chapter 4

Analysis of the problems of legal liabilities of auditor in Thailand when compared with those covered in international laws

Presently, the law to control auditing professionals is the Auditor Act of B.E. 2505 assigning the Board of Supervision of Auditing Practices (B.S.A.P) the power to control and supervise an auditor to perform his work within the scope of the laws, rules and regulations. This Act also gives the B.S.A.P the authority to punish the auditor in case he is engaged in misconduct in violation of the laws, rules and regulations. However, it is only an administrative punishment, i.e. suspension and revocation of the auditor's license, there is no criminal penalty for the auditor or other joint parties in case of audit failure. Also, the disciplines or rulings set by the B.S.A.P are not in compliance with the number of existing audit persons. Especially, Ministerial Regulation No.4 (RE. 2534) on the auditor's code of conduct Article 2(2) Ngor prohibits the auditor to sign off the audit report in which he did not actually perform the audit by himself on the basis of auditing standard. After issuing the Ministerial regulations No.4 by the B.S.A.P, it was found that there were still a number of auditors violating the regulations because laws apportioning criminal penalties to auditors and related persons in the case of infringements of the laws, rules and regulations issued by the B.S.A.P are non-existent.

In the United States, there is the Board of Accountancy in each state which regulates auditing. This Board of Accountancy has features similar to its Thai-counterpart in terms of granting licenses and monitoring the auditor's performance as an administrative unit of the B.S.A.P. The committee consists of veterans who operated under the B.S.A.P together with other authorized persons and staffs under the control of the registrar. Another similar feature is that the auditor may or may not a member of the association. There are no rules or regulations governing this aspect.

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[1] Kesaree Narongdach, Financial report, (Bangkok: Amarin Publishing, 1999), p. 24.

[2] The control unit of auditing professional in California State which is California State Board of Accountancy.

On the other hand, a different feature is that in Thailand the Institute of Certified Accountants and Auditors dealing with acts as the governing body for the auditing profession. However, the institute is not responsible for administrating tests for licensed auditors; this is handled the B.S.A.P. The institute only has to coordinate with the B.S.A.P in transferring the representatives to attend as subcommittees.

The initial analysis focuses on the problem of the laws of Thailand concerning auditor's liability. For the purpose of regulating career professionals such as doctors, lawyers and engineers, these professionals are required to have specific qualifications. Other than specified laws applicable in the present, there are provisions in other related laws being used for effective such professions. The same is true of auditing professionals; there are many other related laws that apply to regulate auditors' performance. In spite of this controlling mechanism, commitment of professional wrongdoings is still common among many auditors.

4.1 Problems of the rule of punishment of auditors

4.1.1 Reviewing the criteria of punishment

Punitive measures against auditors who violate the code of professional conduct for auditors in accordance with the Auditor Act of B.E.2505, administered by the B.S.A.P allow the Board to only suspend or revoke an auditor's license only. To do so, it must be established that the auditor lacks the qualifications as set forth by the Auditor Act B.E. of 2505, Section 15 or he must have committed an act that was against the laws or Ministerial Regulations.

According to Ministerial regulations No. 4 (B.E. 2534) on the code of professional conduct for auditors, Article 2(2) Nor, an auditor is not to verify with his signature and to express his opinion on an audit report for which he did not

[3] The Auditor Act B.E. 2505, Section 11(2).

[4] Ibid, Section 19.

perform the actual auditing work. Likewise, Article 2(2) Kor prohibits auditing beyond the auditor's scope of knowledge and capability.

The Notice of the B.S.A.P No. 39 (B.E.2540) on consideration of an auditor's activities offers the following caveats:

(i) There have been cases where monetary gains were the sole purpose of auditing contracts whereas the auditor's knowledge and skills are not up to the job thus adversely affecting auditing standards. Therefore it is in advisable for the auditor to take on such projects which will require a level of knowledge and expertise that he does not have. Otherwise, the code of professional conduct will be considered violated.

(ii) Any auditor agreeing to perform audits for a number of firms in excess of 300 within one year's period is thought of as exceeding his operating capability. This will constitute grounds for license revocation.

By recognition of above, the enforcement of license revocation will be effective from the date of notification. In the case that the auditor infringed any of the Ministerial Regulations and the Notices, the B.S.A.P would consider the punishment in the following two aspects:

1. In cases where an auditor overwhelms himself with an excessive number of auditing contracts or agrees to those outside his knowledge and skill levels, in which case he will likely resort to a shortcut, that is, he skips the actual auditing and only signs off on the audit report, then the B.S.A.P. committee will seek consensus to suspend his license for a period of up to one year per offense. [6]

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[5] The Notice of Board of Supervision of Auditing Practices (7 March 1997)
[6] The Auditor Act B.E.2505, Section 19 (2).

If the committee establishes that an auditor has been paid just to sign on the dotted line without actually performing the audit of a financial statement, an audit report or other accounting documents, the committee would move to revoke the auditor's license. However, the auditor whose license has been taken away, he may appeal for reissuing the license from the registrar after three years from the date of revocation.

4.1.2 No applicable criminal punishment to the auditor

A major drawback of the preventive and punitive measures of the law has to do with auditors who fail to perform audits in good faith. The Auditor Act B.E of 2505 imposes only an administrative penalty, namely, license suspension and revocation, and presently there are no measures of criminal penalty for auditors who become suspect of ethical misconduct.

As an auditor's misconduct may cause troubles for the economy and be detrimental to financial interests, is deemed "an economic crime" for the reason that the auditor's "criminal" activities affect the reliability and accuracy of audited financial statements and eventually cause damages to entrepreneurs and the pubic as a whole. Because the laws do not intend to criminalize the auditor, the thoughts of punishment of the auditor found guilty of an auditing offense are different from the punishments allowed by the criminal code in general, which aims to "avenge" criminal acts. A characteristic of the criminal code then seeks to confine the criminals' physical liberties or take actions against the criminals' properties, i.e. seize the properties. Although there has been a controversy among experts on the idea of criminal punishment, that is, whether it will bring good or bad outcomes, it is admitted by most experts and general public that a primary objective of criminal punishment is to reduce and deter crimes. Also, it is believed that the

[7] Ibid., Section 20.

punishment of the criminals can really reduce the number of crimes, so we can conclude the good outcome in either three aspects.

Firstly, criminal punishment instances act as "deterrents" to crimes. Second, criminal punishment results in "reformative effect" and "rehabilitative effect" referring change in defendant's attitude and values. The final aspect of criminal punishment should lead to "incapacitive effect", meaning cutting someone's chances to commit a crime, i.e. imprisonment penalty.

It could be noticed that the existing Acts mainly concentrate on the fine punishment by charging higher amounts, especially in the case of business and trade guilty of taxation issues and so on. The reason behind is that such penalties focus on maintaining the principles and making an example thereof. In other words, it is the technical rules (*Mala Prohibita*) rather than moral rules *(Mala In Se).* That is to say, there is no intention to remedy defendants' mentality but just to threaten them not to repeat the misconduct. Regarding the thought of punishment to auditors who perform against the code of professional conduct is different from the thought of the punishment in the Criminal Code.[8] This caused the problem of defensive and suppressive means in case the auditors contradicted to the code of conduct, which means the auditor has no fear of the law because of lax punishment compared to the benefits they would earn from misconducts.

4.1.3 Inadequate fine punishment

Auditing practices were controlled by the code of conduct in accordance with the notification of the Ministerial Regulations enacted by the Auditor Act of B.E. 2505. Auditors were also controlled by other laws, i.e. the Registered Ordinary Partnership, Limited Partnership, Company limited, Association and Foundation Act of B.E. 2499 that legislated liabilities of auditors in Section 31. In the case that auditors verified inaccurate balance sheets or accounts or made deceptive reports, they must receive imprisonment penalty not to exceed one year or a fine

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[8] Narong Jaihan, Explanation of Criminal Code (Bangkok: Mitrnara Publishing, 2534), pp.10-47.

up to 2,000 baht or both. Plus, auditors were controlled by the Criminal Code, Section 269, on the subject of the auditors' verification with false statement. However, the auditors would have liability only when their misconduct is found to cause damages to others or the public.

A critical issue in controlling auditors as considered from both laws is lax punishments which do not reflect the economic situation in Thailand. The existing punishments then could not be expected to effectively protect business and the investing public and suppress misconduct of the auditors.

When considering the feature and characteristic of the existing punishment of professional and ethical misconduct by auditors, we will see that the laws have no intention to limit the right and liberty or seize the properties of those auditors. The punishment only serves to put a dent in the status of auditing professionals , i.e. with license suspension and revocation. Consequently, the result is that a number of auditors have no fear of such punishments set by the auditing laws.

On fine penalties levied on auditors, it can be concluded that the amounts charges does not seem high enough as one still finds defendants repeating misconducts, especially, for those who are in high economical status. With low fines a guilty auditor will realize that there is no impact to his financial position and his remuneration on the misconducts can far exceed the fine. This becomes one of the most pressing problems as unconscientiously auditors just continue to commit wrongdoings without regard to the laws.

4.2 No rules forces auditors to perform auditing

Since there are no provisions requiring auditors to perform audits, this directly affects availability of auditors who are willing to verify financial statements. In consideration of the rules, regulations and methods of the B.S.A.P regarding the principles and procedure

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[9] Ibid., Section 19.

of issuing and renewing the licenses, and issuing a temporary substitute for a license in B.E. 2538 and regulation of the B.S.A.P No.2 of B.E. 2541, spell our the registration rules for auditors. An applicant who has passed the test can submit a petition to the B.S.A.P for registration as a licensed auditor. In addition, if the licensed auditor intends to renew his license each license is good for five year, the B.S.A.P requires that the auditor renew the license, by submitting a renewal petition at least three months before the current license expires. The registrar requires the auditor to audit and verify financial statements with his signature for at least one client. In case the auditor has never done any auditing work, he is required to submit documents, i.e. training or seminar certificates as supporting evidences for registration with a fee of 200 baht.

After consideration of the procedures and method of applying for, issuing and renewing the license including temporary license for auditors, the B.S.A.P has not prescribed any rules regarding a required number of auditing jobs that need to be performed by auditors. The only auditing requirement is the verification of an account together with their signatures for at least one legal entity such as a firm as a condition for renewing the license. In case an auditor has never done any auditing, he is required to submit supporting documents to show he participated in trainings and/or seminars. These supporting documents are regarded as equivalent to a five-year auditing practice. Thus, the auditor does not need to have performed auditing; as a result, this has become the main cause of scarcity of auditors who has the ability to perform audits. In conclusion, there have been no plans to develop and increase the number of legitimate full-time auditing professionals. Furthermore, it is not an exaggeration to state that renewals of the license are far too easy.

4.3 Reviewing the accounting standards

Under a principles approach, standards set general rules that establish broad principles to be applied across a range of particular cases. The standards do not address specific applications and judgment is left for accountants, auditors, and managers to apply. Under

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Ministry of Commerce, Department of Business Registration, Training Institute, "Auditing Session," Accounting Professional News (June 2004): **10-11.**

a rules approach, standards specify, in often minute detail, exactly how to account for specific events and transactions.

4.3.1 Broad differences among the Accounting Standards

The philosophical difference is important to regulators who weigh up competing costs and benefits such as:

(i) Difficulty in prosecuting for non-compliance with broad principles in standards.

(ii) The significance of this issue depends greatly upon differences in legislative and institutional frameworks (e.g., the US rules based approach reflects a highly litigious environment relative to the UK).

(iii) Benefits of using broad principles that cover cases that might not be envisaged at the time that the standard is being developed. Paradoxically, a principles based approach can enable greater consistency than if detailed rules are developed separately for specific cases.

(iv) Whether the business community is more accepting of a principles approach (e.g., UK) or a rules based approach (e.g., US), and the extent to which that community is likely to lobby against the alternative approach.

4.3.2 Similarities among the Accounting Standards

As reference to Table B in the Chapter 3, Guidance under all three frameworks is similar and includes the following:

1) consistent and similar basis of preparation of interim statements with previously reported annual and from one period to the next;
2) use of accounting policies consistent with previous annual financial statements together with adoption of any changes to accounting policies which it is known will be made in the year end financial statements (for example application of a new standard);

3) preparation of the interim statements using a "discrete approach" to revenue and expenditure recognition; that is, viewing the interim period as distinct accounting period, rather than part of the annual cycle. Hence incomplete transactions must be treated in the same way as the year end, although US GAAP allows allocation between interim periods of certain costs benefiting more then one of those periods and deferral of certain cost variances expected to be absorbed by year end. The tax charge in all three frameworks is based on an estimate of the annual effective tax rate applied to the interim results; and

4) a narrative commentary: under all three frameworks comparatives for the balance sheet are taken from the last annual financial statements. Under US GAAP, IFRs and Thai GAAP quarterly interim reports must contain comparatives (other than for the balance sheet) for the cumulative period to date and the corresponding period of the preceding year.

IAS and Thai GAAP encourage but do not mandate the inclusion of an operating and financial review (OFR) outside the Financial Statements of public and large private companies. All three frameworks give some guidance as to the contents of such a review. By contrast, an entity filing with the US SEC or Thai SEC is required to include an operating and financial review and prospects section in addition to the financial statements.

4.3.3 Thai Standards and International Standards

1. Thai GAAP and IAS

Both Thai GAAPs and IAS encourages the following to be included[1]:

i) main features of operating performance for the current period of review

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[1] Price Waterhouse Coopers, " International Financial Reporting Standards: Similarities and Differences of IAS, US GAAP and Thai GAAP" : 89-90.

ii) "dynamics of the business" – changes in the business environment, the reaction of the business to them and their effect on performance;

iii) policy for investment in the current period to maintain and enhance performance in future periods;

iv) sources of funding gearing policy and strategies for managing risks.

2. Thai SEC and US GAAP

The operating and financial review and prospects section focuses mainly on liquidity, capital resources and results of operations addressing the three year period (Thai SEC: two year period) covered by the financial statements and includes among other things: [12]

i) explanation of material changes in financial statement balances, focusing on each relevant reportable segment if the revenues, profits and cash needs of these are disproportionate;

ii) critical accounting policies;

iii) general economic and industry conditions, including known prospective information;

iv) infrequent events or transactions; and

v) the likely impact in future periods of recently issued accounting standards not yet implemented by the entity.

A problem on implementing improved standards is that Culture and individual mindset were the major problems in implementing the new TAS. Thai people are generally familiar with verbal discussion rather than formal disclosure in writing. Hopefully after having tried to seek opinion and participation from various groups, ICAAT will come up with TAS which is acceptable to every group.

[12] Ibid.

Chapter 5
Conclusion and Recommendation

5.1 Conclusions

Auditors are inclined toward cooperation with their clients and will tend to support their clients' reporting objectives. Auditors also are disinclined to say no to their clients. It follows that before so doing they will seek the backing of a precise negative instruction in GAAP. The rule uncovers the negative response to the client of any suggestion that the no-saying stems from the auditor's own professional judgment. The external authority can not find the written justification which directly stated auditor cannot do this. Subsequently, the problem as explained above will directly have an impact on the economy, the public and investors in decision making.

5.1.1 The ethical conducts auditors should maintain

1. Independence, Justice and Honesty

In auditing and presenting the audit report, the auditor must retain independence, justice and honesty in order to have reliable performance. The independence means the auditor can plan to audit and use the method of audit for acquiring sufficient evidences through expressing opinions in the audit report without influence by any other person. Independence must be obvious to the public and auditor must not oblige to any benefit-loss in the company that the auditor is working for. Reliable audits would benefit creditors, investors and others who use the financial statements. For this reason, justice implies deliberation without bias and consideration of the facts with fairness, neutrality and faithfulness. Similarly, auditors should be frank, sincere, free from betraying, free from lying, and free from hiding the truth or destroying the truth materially. Also the auditor would not present himself as performed the audit completely along with auditing standards and principles if he did not actually perform along with the said standard. In this case the auditor shall take working paper and other evidence to approve for leaving his duty in auditing the firm.

2. Knowledge, capability and performance standard

In the audit profession, auditors must use their knowledge and capability including special expertise so that they can perform effectively and efficiently to generate reliable results. In order to be able to perform carefully and considerably in accordance with GAAPs, the auditor must plan and control audit that help him collect sufficient auditing evidences used to express the opinion. In the audit report, opinion shall be expressed without any estimation of items not occurring, unless it is accounting estimation on GAAP basis. Also, the audit report shall address whether the financial statement was prepared in accordance with GAAP as considered from auditing evidences. Other than the accounting audit in general, the auditor also performs the audit in other cases, i.e. special audits, reviews financial statements and budgeting financial statements, and so on. Besides, the auditor must constantly study for additional knowledge at all times during his status as an auditing professional; this enables him to catch up with the current situation.

3. Auditor's Ethic

The auditor shall serve the client with a sense of professional ethic and principles. So he must do his job with knowledge and capability in conformity with auditing standards. The auditor must not discard the work without reasonable reason. In performing the audit, the auditor may know or have secret information of the client's business; in this case he must not disclose such information including any information acquired during the performance of the work for his own or others' sake. An exception is that the auditor may disclose information if the client allows him to or by the court's order according to the law, or in case a government authority calls upon him to share his expertise, etc., for the purpose of promoting and controlling auditing professional.

Auditing professional is an honorable, independent career. Auditing results are honored as faithful and reliable to people in many sectors including the public. Auditors must adhere to the code of conduct in their profession. They are expected to maintain and support their honor and should grant benefits to the public. It is important that financial statements be audited by a certified auditor who is knowledgeable and competent so that business and investors can benefit from the use of financial statements in decision-making. The government then must have the role and intervence the auditing profession to control auditors to manage or perform on the basis of the government rules, i.e., the Auditor Act B.E. 2505 or Ministerial Regulations No. 4 of B.E.2534 for setting principles and scope of auditing basics for auditors.

4. Accounting standard based

Regarding accounting standard issues in reality, the rules are sometimes manipulated by managers, auditors, and consultants toward the end of reporting misstatement. A principles-based system, such as presently in effect in the United Kingdom and in the IASs, would be less manipulability and thus superior. No one challenges these assertions. But the charges are in significant part unfounded. This is not because the GAAPs contain no manipulability rules, for it does. Nor is this because the rules have not been manipulated, for they have been. It is because recent corporate scandals for the most part do not stem from rule manipulation. There is no persuasive causal connection between rule-based GAAPs and recent, catastrophic audit failures.

5.2 Recommendations

In my view, there should be amendments to the Auditor Act of B.E. 2505 assigning criminal penalties to an auditor who performs audits against the code of professional conduct as the defensive and suppressive means. Consideration of punishment measures will become a tool to analyze the problem of laws concerning auditors' liability.

5.2.1 Amendment to the rule of punishment

1. Adding Criminal punishment

After an analysis of the laws concerning liabilities of auditors, it is found that existing legal measures used to control auditing professionals is the Auditor Act of B.E.2505. The Act gives B.S.A.P the authority to enact the rules and principles for auditing professionals to perform. So, if the auditor performs contrary to the rules and principles, the authority can suspend or revoke his license according to section 19(2).

The essential principles enforced by the B.S.A.P is Ministerial Regulation No.4 (B.E.2534) on the code of professional conduct for auditors, especially, in provision 2(2)(kor) and (Ngor). The provision refers to the auditor's misconduct, i.e. performing beyond one's knowledge and capability, signing for verification without real performance. Thus, these actions are against the laws based on the Notice of B.S.A.P No.39 (B.E.2540) with regard to the principles of auditing performance for auditors.

However, the problem is that the punishment of auditors in accordance with Auditor Act B.E. 2505 could not put into effectively prevent certain auditors from fraudulent acts, etc., because it is not criminal punishment. In my view, the Auditor Act (B.E.2505) should be amended on additional measures of criminal penalty in case of wrongdoings in terms of the code of professional conduct that recognizes ethical issues as well. Such auditor's misconducts may have an impact on the local and international investors and the public in terms of economic confidence.

2. Increasing fine punishment

I recommend increasing amounts of fine penalties for auditors who performs misconducts as mentioned. Some advantages of raising fines penalty includes cost-saving for enforcement of the law, time-saving in terms of labor-oriented operations, budget-saving in controlling perpetrators, and the ability to classify innocent defendants as non-violent cases in order to preserve human dignity. On the other hand, increasing fine in some cases may influence perpetrators' change in habits so that he will not be chastened. It is obvious that the government rules cannot change perpetrators' mind and stiffer fines will probably not deter high-status or rich wrongdoers.

Nevertheless, it is presently noticed that new legal enactments to enforce penalties mostly carry fines at pretty high rates, especially for those found guilty of business trading or taxation offenses. Assuming there is an amendment to the Auditor Act of B.E.25058 addressing criminal penalty against a defendant on a case by case basis, the amended Act would then seem appropriate in practice and it is expected that auditors will perform in good faith, clearness, honesty and carefulness.

Furthermore, a case of violation of the code of conduct of auditors implies guilty for misconduct or wrongdoing, which needs the government authority to maintain the convention used to control auditing professional only. Such guilt are technical misconducts *(Mala Prohi Bita),* not moral misconducts like general criminal cases, therefore, it is not reasonable to punish defendant's mind. In contrast, the punishment set forth only in case there are damages caused by the auditor which brings about economic damages, the public's confidence, protection and suppression of repeated misconducts.

Regarding fine payment, it should be set in high rate in order to convince the auditor that it will not be worth while to pay the fine for his misconduct against the code of conduct, which will finally results in revocation and suspension of his license.

5.2.2 Requirement for auditing work for licensed auditors

With regard to the registration rules as mentioned in 4.2 of Chapter 4, the procedure or method of applying for issuing and renewing the license, and issuing temporary license for auditors, the conditional requirements cannot prove that the auditor has actually performed the auditing work before getting the license. So, the licensed auditor is not assured for quality. In order to enhance auditors' quality, I recommend there should be an additional requirement in the procedure. The B.A.S.P should set a minimum quantity of auditing work for auditors within a specified period or full-time period by requiring them to submit supporting documentation for their work to meet the requirements for applying for, issuing and renewing the license, including issuing temporary licenses.

By adding the requirement of minimum quantity of auditing work, the auditor would benefit from practical experiences through performing audits. The more quantity of auditing work, the less opportunity for the auditor's bogus performance, the more availability for quality auditors. In this case, there might not appear to be a solution to the problem of an auditor's misconduct directly. However, when the quality of auditors can be proved to some extent with quantity of work, the financial statement users would have more confidence in the auditor's opinion. Finally, the risk of unreliable audited financial statement can be reduced and that can result in reducing the number of dishonest auditors.

5.2.3 Accounting standards Improvement

Similarities and differences among Thai GAAP, U.S. GAAP and International Accounting Standards (IAS) create difficulties for corporations operating in Thailand to communicate with the global investment community and other markets. We are convinced that clear and open communication can deliver 1) Enhanced investor confidence and fund raising capabilities; 2) Improved comparability with international peers; 3) Adaptable financial reporting; and 4) Consistent financial information to potential strategic partners or stakeholders. Since Thailand is an open economy, companies need to present their performance in a way that is easily understood by the competitive global markets. Given globalization, financial reporting, as well as non-financial reporting, reaches a wider audience than ever before, an audience who demands relevance, transparency and creditability in financial reporting.

Thai GAAP must be realigned to match with IAS rather than US GAAP as the two are fine tuning for a convergence. Though Thailand is inclined to follow US GAAP, it would benefit more by aiming to align herself with IAS in order to be in line with the more international practices and communities. To transform Thai GAAP into IAS is a true challenge for Thais. A great deal of time, money and effort would need to be invested to set up global benchmarking to allow investors to look at the financial information of a company's competitors too, whether based in the same country or in other parts of the world. It is evident that financial reporting is not easily understood by global users, leading to difficulties in bringing new business or capital to a company.

The most commonly recognized role of accounting and financial reporting is to provide information for investors to use as the basis for capital market transactions. The other is to provide information that is used to motivate and monitor performance under contracts, e.g., where earnings form the basis of bonuses paid to managers or where debt covenant leverage limits trigger loan default. Over time general-purpose financial report users' information needs are likely to change. Both entity-specific and national factors will influence these changes. The nature of the accounting and financial reporting process means that we should not be surprised that economic globalization has affected accounting and financial reporting. In particular, economic globalization has affected upon capital markets, the nature of commercial activity, and the way financial transactions are reported. It has also changed the international balance of power in relation to accounting standard-setting.

There are a number of more fundamental developments affecting capital markets that ultimately call for new thinking about corporate disclosure policies and practices.

i) Increasing globalization of capital markets, while remain accounting standards, principally US GAAP or IAS - - some believe the solution to this is to set of world standards, or IAS, but it's not stable---- more productive approach is to facilitate greater competition in standards
ii) Disclosure practices--- increased use of the internet--- provide almost instantly all interested investors simultaneously with information.
iii) Development of a common financial language, which assigns 'tags' for various purposes---both financial and non-financial information

Regarding the world accounting scandal case i.e. Enron case, stopping on fair value and just requiring that all numbers presented in financial statement be reliable, and external auditor held responsibility to inform investors that the numbers follow GAAP. The problem could be fixed if US GAAP simply were replaced with international standards, IAS, developed by the IASB. However, for various reasons, replacing US GAAP with IAS is politically unrealistic.

In rulemaking, to reduce political influence, it should allow some form of competition in standard setting as follows:

i) True competition: choose either one which would be most preferable;

ii) Constrained competition: choose either one if government decides the different is narrow;

iii) Limited competition: allow to choose, but require to reconcile material differences between them; and

iv) Mutual recognition.

It is useful to review briefly recent history regarding the U.S. Securities regulation and to discuss our regulatory principles. The depressed markets uncovered the fact that a number of public companies were not being honest with the public.

Congressional mandate developed new regulations concerning audit committees, internal controls and enhanced reporting, also reviewing various aspects of our market, i.e. the role of credit rating agencies and principles-based accounting standards. The Acceptance of International Accounting Standard (IAS) in the U.S. European officials and issuers for years have urges the SEC to accept financial statement prepared under the IAS without requiring reconciliation to the US GAAP, as required at present. Development of an effective global financial reporting, infrastructure for the consistent application, auditing and enforcement of the IAS will benefit cross-border investors. Convergence of accounting standards should translate into greater transparency.

To create public trust in the markets, there key elements as to take into consideration. Firstly, transparency, which refers to openness, consistence, and comparability of the information, disclosed. Another key is accountability which described as ownership and responsibility in management way. Finally, integrity what brings about to do the right thing. This is actually the cornerstone/keystone upon all financial markets---can't be compromised, especially through actions that purport to create value for shareholders, but which ultimately betray them.

Adequate financial disclosure inevitably requires a set of Generally AcceptedAccounting Principles (GAAPs), a robust internal control system, sound IT systems, accepted auditing standards, minimum requirements for financial disclosure and a legal framework as the infrastructure of disclosure standards.Equally important to financial disclosure is non-financial disclosure which is now more and more requested by investors, creditors, lenders and the public. The required ingredients of non-financial disclosure are: the code of ethics/conduct, management style, leadership of the board and management, reputation assurance programs and the effectiveness of board's standing committees such as audit, nomination, remuneration and risk management.

With global capital markets, commerce and trade, international standardization of financial reporting should reduce the cost of capital and contracting costs. How that standardization should best occur is highly controversial. We are strongly committed to the ideals of globalization, but consider that the means of its achievement and the nature of the resultant global standards are important. At both personal and national levels, political connections within the business community, accounting profession, and government have all played a part in shaping a global financial reporting agenda at a national and international level.

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APPENDIX A

Appendix A Comparison of International Accounting Standards to Thai Standard

SUBJECT	IAS	US GAAP	THAI GAAP
Al: Accounting Framework			
Historical cost	Historical cost, but intangible assets, property, plant and equipment (PPE) and investment property may be revalued. Derivatives, certain agricultural assets and most securities must be revalued.	No revaluations except for some securities and derivatives at fair value.	Similar to IASs, but no guidance on revaluation of intangible assets, derivatives, investment properties and agricultural assets to fair value, except for investment companies.
True and fair view override	In very rare cases override the standards where essential to give a "true and fair view."	Similar to IASs.	Similar to IASs.
First-time adoption of accounting framework	Requires the preparation of financial statements as if the entity had always reported in accordance with	No specific guidance, but particular standards specify treatment for first-time adoption of those standards.	First-time adoption should be treated as a change in accounting policy.
A2: Financial statements			
Reporting currency	Requires the measurement of profit using the measurement currency; however entities may present financial statements in a different currency.	Uses a functional currency. Does not specify the concept of a presentation currency.	No guidance. ; In practice it is rare for entities not to use Thai baht.
Components of financial statements	Two years' balance sheets, income statements, recognized gains and losses, cash flow statements, changes in equity, accounting policies and notes.	Similar to IASs, except three year required by SEC for all statements except the balance sheet.	Similar to IASs, except that components do not need to be presented if costs exceed benefits.
Balance Sheet Format	Does not prescribe a particular formant, however certain items must be presented on the face of the balance sheet.	Similar to IASs, items presented on the face of the balance sheet are generally presented in decreasing order of liquidity.	Similar to IASs, specific format prescribed in Ministerial Regulation under Accounting Act of B.E. 2543, which is compliant with IAS.

SUBJECT	IAS	US GAAP	THAI GAAP
Income statement format	Does not prescribe a standard format although expenditure must be presented in one of two formats (function or nature). Certain items must be presented on the face of the income statement.	Present as either a single step or multiple step format. Expenditures must be presented by function.	Similar to IASs, specific format prescribed in Ministerial Regulation under Accounting Act B.E. 2543, which is compliant with IAS.
Exceptional items	Does not us the term, but requires separate disclosure of items that are of such size, incidence or nature that require separate disclosure to explain the performance of the entity. Disclosure on the face of the income statement or in the notes.	Similar to IASs, but disclose on the face of the income statement.	Similar to IASs.
Extraordinary items	Are very rare, limited to events outside control of the entity.	Similar to IASs. Gain or loss from extinguishing debt must be classified as extraordinary.	Similar to IASs, except debtor classifies gain from troubles, debt restructuring as extraordinary.
Statement of recognized gain and losses/comprehensive income	Give statement of recognized gains and losses as either the separate primary statement or highlighted in the primary statement of changes in shareholders' equity.	Disclose total comprehensive income, either combined with income statement, or choose one of the two alternatives as for IAS.	Similar to IASs. In practice normally highlighted within the primary statement of changes in shareholders' equity.
Cash flow statements-exemption	No exemptions	Limited exemptions for certain investment entities.	Similar to IASs.
Cash flow statements-format and method	Standard headings, but limited flexibility of contents. Use direct or indirect method.	Similar headings to IASs, but more specific guidance given for items included in each category. Use direct or indirect method.	Similar to IASs. In practice usually indirect method is used.

SUBJECT	IAS	US GAAP	THAI GAAP
Cash flow statements-definitions of cash and cash equivalents	Cash includes overdrafts and cash equivalents with short term maturities (up to 3 months).	Cash excludes overdrafts but includes cash equivalents with short-term maturities.	Similar to IASs.
Changes in accounting policies	Either restates comparatives and prior year opening retained earnings or include effect in current year income statement and provide proforma comparatives in the notes.	Generally include effect in current year income statement. Disclosure pro-forma comparatives. Retrospective adjustments for specific items.	Restate comparatives and prior year opening retained earnings.
Correction of fundamental errors	Either restate comparatives or include effect in current year income statement with pro-forma comparatives in the notes.	Restate comparatives.	Restate comparatives and opening retained earnings.
Changes in Accounting estimates	Reported in income statement in the current 0period.	Similar to IASs.	Similar to IASs.
A3: Consolidated financial statements			
Definition of subsidiary	Based on voting control or power to exercise dominant influence.	Controlling interest through majority ownership of voting shares or by contract. Recent proposals similar to IASs.	Similar to IASs.
Special purposes entities	Consolidate where the substance of the relationship indicates control.	Consolidate based on risks and rewards. Specific guidance for consolidation of lease arrangements involving SPEs. Specific criteria have to be met for transfers of financial assets.	Similar to IASs.
Subsidiaries excluded from consolidation	Only if severe long-term restrictions on parent's rights or subsidiary acquired and held for re-sale in the near future. Dissimilar activities are not a justification.	Similar to IASs.	Similar to IASs.

SUBJECT	IAS	US GAAP	THAI GAAP
Definition of associate	Based on significant influence: presumed if 20% interest or participation in entity's affairs.	Similar to IAS.	Similar to IASs.
Presentation of associate results	Use equity method. Show share of profits and losses.	Use equity method. Show share of post-tax result.	Similar to IASs.
Disclosures about significant associates	Not required.	Give detailed information on significant associates' assets, liabilities and results.	Similar to IASs. Disclose listing and description of significant associates including proportion of ownership interest and accounting method used.
Presentation of joint ventures	Both proportional consolidation and equity method permitted.	Predominantly use equity method.	Similar to IASs.
Foreign currency translation - individual companies	Translate transactions at rate on date of transaction; monetary assets/liabilities at balance sheet date rate; non-monetary items at the historical rate.	Similar to IASs.	Similar to IASs.
Foreign entities within consolidated financial statement	Use closing rate for balance sheets, average rate for income statements. Take exchange differences to equity. Include in gain or loss on disposal of a subsidiary.	Similar to IASs.	Similar to IASs.
Hyperinflation - foreign entity	Adjust local statements of foreign entity to current price levels prior to translation.	Re-measure local currency statement using the reporting currency as the functional currency.	Similar to IASs. No specific TAS but reference is made to application of IASs within IAS 30.
A4: Business combination			
Types	An acquisition is the most common. Uniting of interests/pooling severely restricted.	All business combinations are acquisitions.	Similar to IASs.

SUBJECT	IAS	US GAAP	THAI GAAP
Purchase method - fair values on acquisition.	Fair value the assets and liabilities of acquired entity. Some plant closure and restructuring liabilities relating solely to the acquired entity may be provided in fair value exercise, if specific criteria about restructuring plan are met.	Similar to IASs, but specific rules for acquired in-process research and development (generally expensed). Similar to IASs but less stringent recognition criteria regards timing of implementation of the plan.	Similar to IASs.
Purchase method - subsequent to fair values	Fair values can be corrected against goodwill up to the end of the year after acquisition, if additional evidence of values becomes available. Record subsequent adjustments in income statement. Reversals of acquisition provisions always adjust goodwill.	Similar to IASs, in that there is an allocated period of up to one year following the date of acquisition. Adjustments made during the allocation period relating to date for which management was waiting to complete the allocation are recorded against goodwill. Similar to IASs.	Similar to IASs.
Purchase method - contingent consideration	Estimated at acquisition then subsequently corrected against goodwill.	Not recognized until the contingency is resolved or the amount is determinable.	Similar to IASs.
Purchase method - minority interests at acquisition	State at share of fair value of net assets or at share of pre-acquisition carrying value of net assets.	Usually state at share of pre-acquisition carrying value of net assets.	Similar to IASs.
Purchase method - disclosure	Disclosures include names and descriptions of combining entities, method of accounting for acquisition, date of acquisition, summary of fair values of assets and liabilities acquired and impact on results and financial position of acquirer.	Similar to IASs, plus additional disclosures regarding the reasons for the acquisition and details of allocations. Public companies must also present pro-forma income statement information as if acquisition occurred at the start of the comparative period	Similar to IASs.

SUBJECT	IAS	US GAAP	THAI GAAP
Purchase method - goodwill	Capitalize and amortize over useful life, normally not longer than 20 years.	Capitalize but do not amortize. Goodwill should be tested for impairment at least annually at the reporting unit level.	Similar to IASs.
Purchase method - negative goodwill	If relates to expected future losses/costs, recognize in the income statement when these occur. Otherwise record as negative asset and recognize over useful lives of identifiable, non-monetary assets. Any excess over the fair value of such assets is recognized in the income statement immediately.	Reduce proportionately the fair values assigned to non-current assets (with certain exceptions). Any excess is recognized in the income statement immediately as an extraordinary gain.	Similar to IASs.
Uniting of interests method	Severely restricted to "true mergers of equals". Requirements focus on lack of identification of an acquirer.	Prohibited.	Similar to IASs.
A5: Revenue recognition			
Revenue recognition	Based on several criteria, which require the recognition of revenue when risks and rewards have been transferred and the revenue can be measured reliably.	Four key criteria. In principal similar to IASs. Detailed guidance for specific transactions.	Similar to IASs.
Construction contracts	Accounted for using the percentage of completion method. Completed contract method prohibited.	Similar to IASs, completed contract method permitted.	Similar to IASs, completed contract method required for specific and contracts.
A6: Expense recognition			
Interest expense	Interest expense recognized on an accrual basis. Effective yield method used to amortize non-cash finance charges.	Similar to IASs, effective yield known as interest method.	Similar to IASs.

SUBJECT	**IAS**	US **GAAP**	THAI **GAAP**
Employee benefits - pension cost (defined benefit plans)	Must use projected unit credit method to determine benefit obligation.	Similar to IASs, although several minor differences.	No guidance.
Employee benefits - other	Account for post-retirement benefits as pensions. Rules also given for termination benefits arising from redundancies and other post-employment and long-term employee benefits. Account for termination indemnity plans as pensions.	Similar to IASs for post-retirement benefits. More detailed guidance given for termination benefits. Termination indemnity similar to IASs.	No guidance.
Employee stock compensation	Disclosure required but no guidance on recognition and measurement.	Two alternative methods for determining cost: intrinsic value (market price at measurement date less any employee contribution or exercise price) or fair value at issue using option pricing model. Recognize cost of share awards or options over period of employee's performance.	No guidance.
A7: Assets			
Acquired intangible assets	Capitalize if recognition criteria met; intangible assets must be amortized over useful life, normally no longer than 20 years. Revaluations are permitted in rare circumstances.	Capitalize purchased intangible assets and amortize over useful life, and review for impairment. Intangibles may also be assigned an indefinite useful life, these must not be amortized but reviewed for impairment at least annually. Revaluations are not permitted.	No effective guidance.

SUBJECT	**IAS**	US **GAAP**	THAI **GAAP**
Internally generated intangible assets	Expense research cost as incurred. Capitalize and amortize development costs only if stringent criteria are met.	Expense both research and development costs as incurred. Some soft ware and website development costs must be capitalized.	Effective guidance covers research and development costs only. If certain criteria are met, it is optional to capitalize and amortize development costs.
Leases - classification	Finance lease if substantially all risks and rewards of ownership transferred. Substance rather than form is important.	Similar to IASs, but considerably more extensive form-driven requirements.	Similar to IASs. Guidance contains numerical classification criteria.
Leases - lessor accounting	Record amounts due under finance leases as a receivable. Allocate gross earnings to give constant rate of return based on (pre-tax) net investment method	Similar to IASs, but specific rules for leveraged leases.	Similar to IASs.
Property, plant and equipment	Use historical cost or revalued amounts. Frequent valuations of entire classes of assets required.	Revaluations are not permitted.	Similar to IASs.
Capitalization of borrowing costs	Permitted for qualifying assets.	Compulsory when relates to construction of certain assets.	Similar to IASs.
Investment property	Measure at depreciated cost or fair value and recognise changes in fair value in the income statement.	Treat as for other properties (depreciated cost).	No guidance, except for investment companies. In practice treated as other PPE.
Impairment of assets	If impairment indicated, write down assets to higher of net selling price, and value in use based on discounted cash flows. If no loss arises, reconsider useful lives of those assets. Reversals of losses permitted in certain circumstances.	For assets to be held and used, impairment assessed on undiscounted cash flows. If less than carrying amount, measure impairment loss using market value or discounted cash flows. Reversals of losses prohibited. For assets held for disposal, impairment based on lower of amount.	Similar to IASs.

SUBJECT	IAS	US GAAP	THAI GAAP
Inventories	Carry at lower of cost and NRV. Use FIFO, LIFO (rarely used) or weighted average method to determine cost.	Similar to IASs. Lower of cost or market. More common use of LIFO.	Similar to IASs.
Financial assets - measurement	Depends on classification of investment - if held to maturity or originated by the entity then carry at amortized cost, otherwise at fair value. Unrealized gains/losses on trading securities recognized in the income statement and on available-for-sale investments recognized in either equity, or the income statement.	Similar to IASs, except unrealized gains/losses on available-for-sale securities go to other comprehensive income (equity).	Effective guidance covers investments in debt and equity securities only. Measurement depends on classification of investment - if held to maturity or non-marketable, carry at amortized cost, otherwise at fair value. Unrealized gains/losses on trading securities recognized in the income statement and on available-for-sale investments recognized in equity.
Derecognition of financial assets.	Recognize and derecognize assets based on control.	Similar to IASs. Legal isolation of assets even in bankruptcy necessary for derecognition.	Similar to IASs.
A8: Liabilities			
Provisions - general	Recognize provisions relating to present obligations from past events if outflow of resources is probable and can be reliably estimated.	Similar to IASs, with rules for specific situations (employee termination costs, environmental liabilities, loss, contingencies).	No effective guidance except if it is probable that a contingency will result in a loss, it should be accrued.
Provisions - Restructuring	Recognize restructuring provisions if detailed formal plan announced or implementation effectively begun.	Similar to IASs, however only need management approval and communication for involuntary employee terminations.	No effective guidance.

SUBJECT	IAS	US GAAP	THAI GAAP
Contingencies	Disclose unrecognized possible losses and potential gains.	Similar to IASs.	Similar to IASs.
Deferred income taxes - general approach	Use full provision method (some exceptions) driven by balance sheet temporary differences. Recognize deferred tax assets if recovery is probable.	Similar to IASs, but recognize all deferred tax assets and then provide valuation allowance if recovery is less than 50% likely. A number of specific differences in application.	No effective guidance.
Deferred income taxes - main exceptions.	Non deductible goodwill and temporary differences on initial recognition of assets and liabilities which do not impact accounting or taxable profit.	Similar to IASs.	No effective guidance.
Government grants	Recognize as deferred income and amortize. May offset capital grants against asset values.	Similar to IASs.	No effective guidance.
Leases - lessee accounting	Record finance leases as asset and obligation for future rentals. Normally depreciate over useful life of asset. Apportion rental payments to give constant interest rate on outstanding obligation. Generally charge operating lease rentals on straight-line basis.	Similar to IASs.	Similar to IASs.
Leases - sale and leaseback transactions	For a finance lease, defer and amortize profit arising on sale, if an operation lease then profit recognition depends on sale proceeds compared to fair value of the asset.	Defer and amortize profits up to certain limits. Immediately recognize losses. Consider specific strict criteria if a real estate transaction.	Similar to IASs.

SUBJECT	IAS	US GAAP	THAI GAAP
Financial liabilities - classification	Classify capital instruments depending on substance of obligations of the issuer. Mandatory redeemable preference shares are classified as liabilities.	Generally where an instrument is not a share, classify as liability when obligation to transfer economic benefits exists. Redeemable preference shares normally mezzanine category	Similar to IASs.
Financial liabilities - measurement	Measure trading liabilities at fair value; recognize changes in fair value in the income statement. Measure non-trading liabilities at mortised cost.	Similar to IASs.	No effective guidance.
Convertible debt	Account for convertible debt on split basis, allocation proceeds between equity and debt.	Convertible debt is usually recognized as a liability.	Similar to IASs.
Derecognition of financial liabilities	Derecognize liabilities when extinguished. The difference between the carrying amount and the amount paid is recognized in the income statement.	Similar to IASs.	No effective guidance.
A9: Equity instrument			
Capital instruments - purchase of own shares	Show as a deduction from equity.	Similar to IASs.	Similar to IASs. Purchase of own shares allowed for public companies only.
A10: Derivatives and hedging			
Derivative and other financial instruments - measurement of hedges of foreign entity investments.	Gains/losses on hedges of foreign entity investments recognized in equity, including hedge ineffectiveness on non-derivatives. For derivatives, recognize hedge ineffectiveness in the income statement. Gains/losses held in equity must be transferred to the income statement on disposal of investment.	Similar to IASs, except all hedge ineffectiveness recognized in the income statement.	No effective guidance.

SUBJECT	IAS	US GAAP	THAI GAAP
Derivatives and other financial instruments - measurement of financial instruments and hedging activities.	Measure derivatives and hedge instrument at fair value; recognize changes in fair value in the income statement except for effective cash flow hedges defer in equity until transaction is recognized in the income statement. Gains/losses on hedge instrument used to hedge for cost transaction, included in cost of asset/liability (basis adjustment).	Similar to IASs, except no "basis adjustment" on cash flow hedges of future transactions.	No effective guidance.
All: Other accounting and reporting topics			
Earnings per share - diluted	Use weighted average potential dilutive shares as denominator for diluted EPS. Use "treasury stock" method for share options/warrants.	Similar to IASs.	Similar to IASs.
Related party transactions - definition	Determine by level of direct or indirect control and significant influence of one party over another, or common control of both parties.	Similar to IASs.	Similar to IASs.
Related party transactions - disclosures	Disclosure name of related party and nature of relationship and types of transactions. For control relationships, give disclosures regardless of whether transactions occur. Some exemptions available for separate financial statements of subsidiaries	Similar to IASs. Exemptions are narrower than under IASs.	Similar to IASs. Exemptions are narrower than under IASs.
Segment reporting - scope and basis of formats.	Public entities. Report primary and secondary (business and geographic) segments based on risks and returns and internal reporting structure.	Public entities. Report based on internal operating segments.	Public entities. Report based on geographical and business segments.

SUBJECT	IAS	US GAAP	THAI GAAP
Segment reporting - accounting policies	Use group accounting policies.	Use internal financial reporting policies (even if accounting policies may differ from group accounting policy).	Similar to IASs.
Segment reporting - disclosures	Disclosures for primary segment include revenues, results, capex, total assets and liabilities and other items.	Similar disclosures to IASs (primary segment), except liabilities and geographical capex not required. Depreciation, amortization, tax, interest and exceptional/extraordinary items disclosured if reported internally.	Disclosures for all segments include sales or other operating revenues, segment results, segment assets, the basis of inter-segment pricing and reconciliation between segment and aggregated financial statement information.
	For secondary segment, report revenues, total assets and capex.		
Discontinuing/discontinued operations – definition	Separate major component.	Identifiable component representing major class of business.	No effective guidance.
Discontinuing/discontinued operations - measurement	Make provisions for some costs if considered a restructuring and criteria for recognizing a provision met. Write down assets to higher of net selling price and value in use based on discounted cash flows.	Accrue at measurement date for estimated operating loss in wind-down period and on disposal. Carry assets at lower of carrying amount and net realizable value.	No effective guidance.
Discontinuing/discontinued operations - presentation and main disclosures	Give details of discontinuing operation. Disclose (on face of the income statement) pre-tax gain or loss from discontinuance.	Report discontinued operations as a separate line item on face of the income statement (net of tax and below net income from continuing operations).	No effective guidance.