


Content

Title :	Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants 
Date :	2003.01.13
Legislative :	Promulgated by the Ministry of Economic Affairs on November 25, 1992 per Letter Ref. No. (71)-Commerce-43663 Twenty-nine articles adopted in full and promulgated by the Ministry of Finance Securities and Futures Commission on 8 November 2002 per Letter Ref. No. Taiwan-Finance-Securities (6) 0910148086 Repealed on 13 January 2003 jointly per Order No. Taiwan-Finance-Securities-(VI)-0910006344 of the Securities and Futures Commission of the Ministry of Finance and Order No. (91)-Commerce-09102299070 of the Ministry of Economic Affairs
Content :	<p>Chapter 1: General Provisions</p> <p>Article 1</p> <p>Unless otherwise provided in the Certified Public Accountants Law and other laws and regulations, a certified public accountant consigned to audit and certify the following financial statements shall observe these Regulations. Matters not provided herein shall be handled in accordance with the generally accepted auditing standards published by the Accounting Research and Development Foundation of the Republic of China:</p> <ol style="list-style-type: none"><li>1.The financial statements prepared by a corporate entity in accordance with the Securities and Exchange Law;</li><li>2.The annual financial statements prepared by a corporate entity in accordance with Article 20 of the Company Law;</li><li>3.The financial statements based on which a company/firm applies to a financial institution for financing;</li><li>4.Other financial statements used for general purposes.</li></ol> <p>Regulations for auditing and certification of special business may be separately prescribed by the relevant competent authority.</p> <p>Article 2</p> <p>When an audited enterprise replaces its certified public accountant, the succeeding certified public accountant shall make necessary contact with his/her predecessor in accordance with Statements of Auditing Standards No. 17. If the succeeding certified public accountant discovers that his/her predecessor has different opinion from the audited enterprise, he/she shall record in detail the reasons of his/her own opinion in the working sheets.</p> <p>Article 3</p> <p>If any item in the financial statements of the audited enterprise in a period should be adjusted as audited by the certified public accountant or decided by the competent authority in charge of the business, and if no adjustment has been made before the auditing of the certified public accountant in the following period, the certified public accountant shall request the enterprise to make adjustment or provide an explanation in the</p>

notes to the financial statements, unless the enterprise only needs to make reclassification in the statements or provide a note that no adjustment of book entry is required.

#### Article 4

Certified public accountants and assistants (hereinafter referred to as "Auditors") shall pursue continuing education to expand professional knowledge and practical experience and strictly follow professional ethics.

Regulations for continuing education referred to in the preceding paragraph shall be separately prescribed by the certified public accountants association.

#### Article 5

The financial statements audited by the consigned certified public accounts shall be prepared by the audited enterprises based on its account books and relevant documents. The certified public accountants shall acquire adequate and proper evidence in accordance with the Statements of Auditing Standards No. 4 as a basis for the preparation of the audit report.

#### Article 6

When a certified public accountant is initially consigned to audit financial statements, he/she shall audit the beginning balance in accordance with the Statements of Auditing Standards No. 21 by executing necessary auditing procedures and issuing proper audit opinions.

#### Article 7

A certified public accountant who adopts the audit work of another shall acquire a statement of independence from such other certified public accountant and execute necessary auditing procedures in accordance with the Statements of Auditing Standards No. 15.

#### Article 8

A certified public accountant using an expert's report as audit evidence shall carefully evaluate the reliability of the expert's opinion in accordance with the Statements of Auditing Standards No. 20.

#### Article 9

A certified public account planning the audit work shall have a general understanding of the internal control system of the audited enterprise based on the characteristics of the business and the Statements of Auditing Standards No. 5. If the certified public accountant wishes to rely on such internal control system, he/she shall further investigate the transaction process and relevant procedures in order to make a preliminary assessment of the efficiency of the internal control. If the certified public accountant still wishes to rely on such internal control system, he/she shall make a further investigation and assessment and judge the degree of reliability in order to decide the nature, time and scope of the audit procedures.

#### Article 10

When commencing the audit, a certified public accountant shall select one-month's or gather sufficient information for verifying the following:

1. Item-by-item verification of vouchers against source documents;
2. Item-by-item verification of vouchers against day book;
3. Item-by-item verification of vouchers against subsidiary ledgers;
4. Item-by-item verification of day book against general ledger;
5. Verification of the total amount of subsidiary ledgers against the balance of controlling accounts in general ledger.

#### Article 11

With respect to the subsequent events occurred between the date of the balance sheet of the audited enterprise to the date of audit report, a certified public accountant shall check if the statements have been adjusted based on the nature of such events or if an explanation has been provided in the note of the financial statements in accordance with the Statements of Auditing Standards No. 13.

### Chapter 2: Auditing Procedures

#### Article 12

Before commencing the audit, a certified public accountant shall plan his/her auditing work in accordance with the Statements of Auditing Standards No. 10.

#### Article 13

When a certified public accountant uses the work of internal auditors as the evidence for verification of the financial statements, he/she shall evaluate the quality of the work of the internal auditors in accordance with the Statements of Auditing Standards No. 25.

#### Article 14

In executing compliance auditing procedures, an auditor shall conduct transaction test and function test in accordance with the Statements of Auditing Standards No. 5.

#### Article 15

In executing verification auditing procedures, an auditor shall, in addition to making spot check of the content of the transactions and balance of all accounts, use proper analytical re-examination procedure in accordance with professional judgment and the Statements of Auditing Standards No. 12.

#### Article 16

The general auditing procedures for financial statements shall be based on these Regulations and the generally accepted auditing standards published by the Accounting Research and Development Foundation of the Republic of China; provided that such procedures may be increased or decreased in accordance with the features of the business or actual needs and relevant laws and regulations. When necessary, auditing procedures may be compiled/prepared based on the increased or decreased auditing

procedures, and reasons thereof shall be provided in the working sheet.

#### Article 17

When consigned to conduct audit, a certified public accountant shall establish permanent files for the information with long-term importance in the audited enterprise's financial statements. In each subsequent auditing, the certified public accountant shall still review the content, and update or supplement the same.

#### Article 18

In auditing/certifying financial statements, a certified public accountant shall check item by item the balance in each account listed in the financial statements against the general ledger, and the general ledger against the total amount in detail account or detail schedule. When the amount is found consistent, the certified public accountant shall audit in accordance with the following procedures:

1. Cash and cash equivalent:

(1) Evaluating the internal control system of cash and count the cash on hand. If the date of counting is not the date of balance sheet, adjustment shall be made to check its accuracy;

(2) Checking if there is any item other than cash under cash in treasury and petty cash, such as employee's IOU, checks not honored, and receipts not yet cashed. Proper adjustment shall be made if necessary;

(3) Checking the situation of payment/receipt and report of petty cash and revolving fund and balance thereof, verifying receipts not yet cashed, and making necessary adjustment;

(4) Verifying bank statement against the amounts recorded in the account and sending a confirmation letter to the bank. If there is any discrepancy, the bank deposit reconciliation statement prepared by the audited enterprise shall be obtained and sample check of the reconciled items shall be conducted;

(5) Testing and verifying cash books and stubs of cash delivery books against stubs of checks, and seeing whether there is any check issued for use by other parties or affiliated enterprises without entering such in the account, and the situation, if any, shall be adjusted and recorded or a note shall be provided;

(6) Checking whether a note has been provided for limited use or restricted bank deposit or whether such bank deposit has been re-classified in proper account;

(7) Inventorying certificates of deposits and checking the estimate/recording of interests receivable;

(8) In case of increase of bank deposit due to capital increase, checking the sources and use thereof and whether there is any overstatement or understatement;

(9) In the event that any matured note receivable is not deposited in the bank on the date of balance sheet, checking whether such note is deposited in the bank at the beginning of the following period, and heeding the reason of failure to deposit in the bank;

(10) Spot checking cash and the source documents for the payment/receipt of bank deposit in large amount, and heeding the situation of change of

cash and bank deposits before and after the date of balance sheet, and finding out the reason of large amount or abnormal condition, if any;

(11) Selecting the material cash transactions and transfer/appropriation transactions among banks during a period before and after the date of balance sheet and verifying various documents to ensure that cash account has been properly cut off;

(12) If there is any foreign currency deposit, checking whether such deposit has been adjusted at the spot exchange rate on the date of balance sheet;

(13) If there is any cash equivalent, the auditing procedures for short-term investments shall apply mutatis mutandis, and the certified public accountant shall check whether the classification is proper.

#### 2. Short-term Investments:

(1) Checking purchase and sale procedures of short-term investments and the related documents;

(2) Conducting physical inventory of securities kept in safe in conjunction with the custodian and verifying such against the account books to confirm the ownership and liquidity;

(3) Sending a confirmation letter regarding securities under the custody of other persons through mandate or the securities provided as collateral, or inspecting relevant documents such as custodian's receipt;

(4) Checking whether the entry basis and ending valuation are proper;

(5) Checking the short-term investment used to secure obligations or for other purpose, if any, has been noted or re-classified under proper account;

(6) Finding out whether the dividend or interest income of short-term investment has been properly classified;

(7) If any short-term investment falls in cash equivalent or long-term investment, checking whether such investment has been re-classified as proper account.

#### 3. Notes receivable, accounts receivable, and operating revenue:

(1) Assessing the internal control system of the operating revenue, checking the transaction records and relevant documents to ensure the reliability of the records of the revenue and whether uniform invoices have been issued according to law;

(2) Making comparative analysis of the amount in the previous period to see if the variable trend is reasonable; if there is any material change, finding out and analyzing the reason;

(3) If there is any consignment sale or distribution business, finding out whether the accounting record is consistent with the contract;

(4) Finding out whether the content and classification of the principal operating revenue is proper;

(5) Sending confirmation letters to debtors on spot-check basis;

(6) Issuing confirmation letters to pledgees of secured notes receivable and finding out if such has been recorded/noted;

(7) Jointly inventorying notes in treasury; if the notes are held by other persons or delivered to the bank for collection, a confirmation letter shall be issued to the holder, or the documents of collection of the bank shall be audited. If the date of inventory is not the date of balance sheet, the difference shall be adjusted.

(8) If it is found that any note is exchanged with other persons, an explanation shall be provided or re-classification as proper account shall be made.

(9) Preparing an analysis sheet to analyze the aging of accounts and finding out the condition of subsequent collection of the notes and accounts receivable. If no collection is made upon maturity, the certified public accountant shall find out whether proper treatment is made.

(10) Finding out whether the recognition method and the amount of the allowance for bad debts are proper;

(11) Finding out whether the notes and accounts receivable involved in disputes or litigation have been properly disposed of;

(12) Finding out whether offset of bad debts is proper;

(13) Selecting a period before or after the date of balance sheet to verify various documents to ensure that sales and return of sales has been properly cut off;

(14) Finding out whether there is any material sales return and allowance in the current period and subsequent period. If there is, the certified public accountant shall investigate the reason and find out whether proper disclosure has been provided;

(15) Finding out whether the notes and accounts receivable, if any, incurred as a result of non-operating activities have been re-classified as proper accounts;

(16) Checking whether notes and accounts receivable are represented based on short-term or long-term and whether the long-term notes/accounts receivable is recorded at present value;

(17) Finding out whether the internal profit generated from internal appropriation and pricing has been offset;

(18) Finding out whether the interest income and interest receivable of interest-bearing notes receivable have been recorded;

(19) If any note receivable is discounted, the certified public accountant shall check the discount record and issue confirmation letter to find out whether the accounting treatment is proper;

(20) Finding out whether notes and accounts receivable in foreign currency, if any, have been adjusted based on the spot rate on the date of balance sheet;

(21) Finding out whether the notes and accounts receivable from the transactions with related parties have been properly disclosed.

#### 4. Other receivables:

(1) Noting the nature of other receivables and finding out whether those not falling within current assets have been properly re-classified;

(2) Issuing confirmation letter when necessary and finding out the condition of subsequent collection;

(3) Finding out whether the balance of allowance for bad debts is proper;

(4) Finding out whether other receivables in substantial amount have been separately recorded.

#### 5. Inventory and operating cost:

(1) Assessing the internal control system of the operating cost, verifying the transaction records and relevant documents to ensure the reliability of the classification, calculation and record of the operating cost;

(2) Making comparative analysis of the amount in the previous period to

see if the variable trend is reasonable; if there is any material change, finding out and analyzing the reason;

(3) Finding out the entry basis and calculation method of the inventory and note whether they are consistent with those of the preceding period. If there is any change, finding out whether such change is reasonable and properly handled;

(4) Observing the physical inventory of the audited enterprise. Spot check may be conducted by sampling upon inventory. The condition of inventory and the result of spot check shall be verified against the inventory summary and accounting record;

(5) If there is material difference between the recorded quantity of inventory and that of the physical inventory, finding out the reason;

(6) Upon inventory, if there is any merchandise consigned for sale or placed in custody by other persons, the certified public accountant shall ensure that such merchandise has been separately stored and labeled and shall obtain the specifications, quantity, etc. and other relevant information of the stock to ensure that such merchandise is not included in the inventory of the audited enterprise;

(7) Issuing confirmation letter to the custodian of the inventory stored outside and take other necessary auditing procedures if needed;

(8) Selecting a period before and after the date of balance sheet and verifying various documents to ensure that the operating cost has been properly cut off;

(9) If the cost of goods sold contains any customs duty rebate due to export or commodity tax, finding out whether the accounting treatment is proper;

(10) Finding out whether the inventory is provided for pledge/guarantee or under trust receipt and whether such has been recorded, if any;

(11) Finding out the insurance condition and insurance sum of the inventory;

(12) Finding out whether the damaged, deteriorated, or unsalable inventory of merchandise has been valued by using the lower-of-net-realized-value-or-cost method;

(13) Executing the valuation of ending inventory using the lower-of-cost-or-market method;

(14) Finding out the ownership of inventory in transit, and if such inventory is owned by the audited enterprise, finding out where proper disposal has been made;

(15) Finding out whether the procedures for disposal of idled/scrapped materials are proper.

#### 6. Prepayments

(1) Where prepayments should be re-classified as expense or other proper account, finding out whether re-classification has been made and whether the amounts are consistent;

(2) Finding out whether the prepayments are contract-related, content of the contract, and to what extent the contractual obligations have been performed by the counterpart. When necessary, the certified public accountant should send a confirmation letter to the counterpart for verification.

#### 7. Other current assets

Finding out the nature and understanding whether the classification and accounting treatment are proper, and in case of special nature, whether an explanation has been provided in the note.

#### 8. Funds and long-term investments

(1) Checking whether the basis for allocation of the funds has been provided in the note;

(2) Jointly inventorying with the custodian the securities and relevant documents obtained through long-term investments. If such securities/documents are deposited in places other than the premises of the company, the certified public accountant shall issue a confirmation letter regarding the receipt for custody or adopting other necessary auditing procedures to confirm the ownership;

(3) Finding out the procedures for acquiring and disposing of the long-term investments and the propriety of the accounting treatment;

(4) Finding out whether the entry basis and classification of the long-term investments are proper;

(5) If any long-term investment has been provided for security, pledge, or subject to restriction or limitation, finding out whether explanations are provided in notes;

(6) If a long-term equity investment has material impact on the investee company, finding out whether valuation has been made by using equity method. If the audited enterprise has a control over the investee company, and if the audited enterprise is a public company, finding out whether consolidated statements have been prepared in accordance with relevant rules;

(7) If a long-term equity investment does not have material impact on the investee company, finding out whether valuation has been made on the basis of cost method or lower-of-cost-or-market method;

(8) When loss/profit is recorded for long-term equity investments based on equity method, finding out whether CPA-audited financial statements have been acquired in accordance with relevant rules;

(9) Finding out whether unrealized loss/profit among affiliated companies have been written off;

(10) Finding out whether the difference between the cost of long-term equity investment and net equity has been amortized or written off;

(11) If the value of long-term investment has permanently declined, finding out whether permanent loss due to decline in price has been recognized;

(12) Finding out whether long-term and short-term investments have been re-classified and ensuring whether the accounting treatment is proper;

(13) Finding out whether long-term bond investment has been valued by using cost method, and whether the premium or discount is amortized reasonably and systematically;

(14) Finding out the propriety of the recording of the dividend or interest income of long-term investment;

(15) Checking whether the investee company is in operation, and if it has ceased operation, whether proper adjustment is made or note is provided.

#### 9. Fixed assets and intangible assets

(1) Finding out whether the fixed assets are owned by the audited enterprise. When necessary, physically observing or jointly inventorying



representative fixed assets. If due to restrictions of laws and regulations, the assets cannot be registered in the name of the audited enterprise, the certified public accountant should find out whether precautions have been taken and give proper explanation in the note;

(2) Finding out whether the fixed assets are provided for non-operating use, and if any, such assets shall be re-classified as long-term investment or other assets based on their nature;

(3) Finding out whether the fixed assets are provided for security/pledge or subject to limitation and whether a note is provided if security/pledge is created;

(4) Finding out the condition of insurance and the insured amount of the fixed assets;

(5) Finding out the entry basis of fixed assets and intangible assets. If revaluation is made in accordance with laws and regulations, finding out whether a note of revaluation period and revaluation amount have been provided, and whether the assets are duly depreciated, depleted, or amortized after revaluation. If the land has been revalued, finding out whether the amount of appreciation due to revaluation is proper and whether land value increment tax reserve has been provided;

(6) Finding out whether fixed assets other than land and intangible assets have been depreciated, depleted, and amortized in reasonable and systematic manner in accordance with the current laws and regulations and whether the relevant amounts are proper;

(7) Checking whether the capitalization policy of fixed assets and intangible assets, the depreciation, depletion, and amortization methods and period are consistent with those of the previous period. In case of any change, finding out whether such change is reasonable and whether the accounting treatment is proper, and whether a note of the fact of change and the effect thereof is provided based on change in accounting principle or change in accounting estimate in accordance with the nature;

(8) Finding out whether there is any idle or useless fixed assets, and if any, whether such assets have been re-classified into proper account at the lower of net realized value or book value;

(9) Finding out the nature of the fixed asset added in the current period and the expense account related to the fixed asset to decide whether such should be classified as capital expenditure or expense and whether the accounting treatment is proper;

(10) Finding out whether the accounting treatment of the capitalization of the interest of the assets in purchase or construction is proper;

(11) Finding out the reasonableness of the material increase or decrease, if any, of the advance payments for land or equipment;

(12) Finding out the increase/decrease in fixed assets and intangible assets in the current period and whether the accounting treatment is proper;

(13) Finding out whether the rental income (for building or land) of the fixed assets have been properly recorded;

(14) Finding out whether any fixed asset is leased and whether the accounting treatment is proper;

(15) Finding out the content of intangible assets and whether the accounting treatment is proper;

(16) Verifying relevant documents, papers, and certificate of permit of the intangible assets;

(17) Finding out whether the benefit of intangible assets still exist and whether the cost is periodically amortized in accordance with the validity term.

10. Deferred debit

(1) Finding out the nature and ensure whether the recorded amount is proper;

(2) Finding out whether the benefit extends to the future period and the reasonableness of the amortization.

11. Other assets

(1) Checking the source documents to ensure the reasonableness of the recorded amount;

(2) If there is any other asset to be amortized, finding out the reasonableness of the amortization method;

(3) If there is any outstanding amount which cannot be verified with the debtor or which is not recoverable, finding out whether such amount has been written off or whether allowance for bad debt has been fully provided;

(4) Finding whether any asset in substantial amount under other assets has been separately recorded;

(5) When necessary jointly conducting physical inventory of property under custody with the custodian and issuing a confirmation letter to the owner;

(6) Finding out the nature of deposits paid and whether they are reasonable and necessary.

12. Loans

(1) Finding out whether the loans fall in bank overdraft, bank loan, commercial paper payable, bank acceptance bill, or other borrowings, and whether they are separately recorded;

(2) Checking material loan agreements and issuing a confirmation letter regarding the balance of the loan, interest rate, payment term, amount, material terms and conditions and guarantee;

(3) Finding out whether the bank overdraft balance is the balance after offsetting against the bank deposit. If it is, proper adjustment shall be made;

(4) Finding out whether borrowings, if any, from shareholders, employees, or related parties, have been noted;

(5) Finding out the condition of payment of principal and interest of loans after due date. Any delayed payment shall be recorded in the note.

(6) Finding out the interest paid in the current period and checking whether the ending interest payable or prepaid has been properly recorded;

(7) Finding out whether any material terms of loan have been violated; if any, whether proper treatment is made, and taking into account the impact on financial statements;

(8) If a loan should be paid in foreign currency, finding out whether such loan has been translated at the spot rate prevailing on the date of balance sheet;

(9) Finding out the long-term liability payable within one year or an operating cycle has been re-classified as current liability. However, this provision shall not apply if the sinking fund has been fully appropriated;

(10) If the audited enterprise allocates/deposits a sinking fund, finding

out whether the allocation/deposit rules are complied with.

13. Notes payable and account payable and purchase of goods

(1)Assessing the internal control system of procurement, checking the transaction records and relevant documents to ensure the reliability of the record of purchase;

(2)Finding out the condition of payment after due date. When necessary, sending confirmation letters to principal suppliers and debtors;

(3)As of the auditing date, if the maturity date of any note receivable falls beyond the statutory validity period, finding out the reason and whether any extension has been made or whether the note has been re-classified as other proper account;

(4)Finding out whether any note is exchanged with other persons. If any, a note shall be provided or the note shall be re-classified as proper account;

(5)Selecting a period before or after the date of balance sheet to check various documents to ensure that purchase of goods and return of goods purchased have been properly cut off;

(6)Finding out whether notes and accounts payable, if any, incurred as a result of non-operating activities have been re-classified as proper account;

(7)Finding out whether notes and accounts payable have been separately recorded based on long-term or short-term, and whether the long-term notes/accounts payable have been recorded at present value;

(8)If collateral has been provided to creditors for notes and accounts payable, finding out whether the nature and content have been noted;

(9)Finding out whether notes payable are interest-bearing, and whether the interest payable in the current period has been recorded;

(10) If notes and accounts payable should be paid in foreign currency according to the contract, finding out whether they have been translated at spot rate prevailing on the date of balance.

14. Accrued expenses and other payables

(1)Selecting a period after the date of balance sheet to check invoices of unpaid amounts and documents of cash expenditure and material liabilities to decide whether any liabilities have not been recorded;

(2)If an accrued expense is an estimate or if the amount has not been decided, finding out whether the content and method of estimation are consistent with those in the previous years and the condition of post-statement payment;

(3)Finding out whether the notes issued for installment payment of rented equipment have been properly recorded and noted;

(4)Checking the condition of post-statement payment and relevant documents;

(5)If collateral is provided to any creditor, finding out whether the nature and content of the collateral have been recorded/noted;

(6)Finding out whether any other payable in substantial amount has been separately recorded.

15. Accounts collected in advance and deferred credits

(1)Finding out the nature of the price of goods collected in advance, marginal deposits received, income collected in advance, and deferred credits, and conducting a spot check of the contract, if any;

(2) Finding out whether accounts collected in advance and deferred credits have been properly adjusted on accrual basis;

(3) Finding out the condition of subsequent changes.

#### 16. Corporate bonds payable

(1) Acquiring corporate bonds issuance rules and finding out whether the approved total amount, coupon rate, maturity date, collateral or guarantee, and other relevant agreed restrictions have been recorded/noted. In the case of convertible corporate bonds, finding out whether the method and situation of conversion have been recorded/noted;

(2) If there is any trustee or guarantor, finding out whether the guarantee agreement or trust agreement contains any special provisions, and sending a confirmation letter to the guarantor and trustee about the total issued and unissued amount and the amount which has been paid or cancelled;

(3) Finding out the interest paid in the current period and checking whether ending interest has been properly recorded and whether discount or premium has been properly amortized. If the convertible corporate bonds are issued with a put option, finding out whether interest compensation is periodically estimated and recorded and whether relevant interest expense is recognized in reasonable and systematic manner;

(4) Finding out whether any corporate bond due within one year has been re-classified as current liability. However, this provision shall not apply if sinking fund has been fully allocated.

(5) If a sinking fund is established, finding out the appropriation method, the amount appropriated and the interest;

(6) Finding out the situation of payment of corporate bonds, and whether the capital increase or issuance of new shares has been completed for convertible bonds;

(7) Checking relevant minutes of board meetings;

(8) Finding out whether there is any violation of the material terms and conditions regarding issuance of corporate bonds; if any, whether proper treatment has been made and taking into account the impact on financial statements.

#### 17. Other liabilities

(1) Finding out whether other liabilities due or payable within one year have been re-classified as current liabilities;

(2) Checking the balance of debts in accordance with contract, rules and by-laws or minutes of meetings;

(3) Sending confirmation letters to debtors or relevant persons when necessary;

(4) Finding out whether the estimating basis of the estimated liabilities is proper and the condition of subsequent payment;

(5) Finding out whether other liabilities in substantial amount have been separately recorded.

#### 18. Owner's equity

(1) Finding out the amounts of registered capital and paid-in capital. If shares are issued, finding out whether type of related capital stock, par value per share, number of shares, number of issued shares, and special conditions have been recorded/noted;

(2) Examining minutes of shareholders meeting and board meeting regarding capital increase and decrease and approval document of competent authority

or company application documents, and finding out whether the content of changes in capital has been properly disclosed;

(3)When necessary, sending confirmation letter to certification agency or agency of stock affairs to verify the total number of issued shares;

(4)Analyzing changes in capital reserve and retained earnings in the current period and verifying with Articles of Incorporation and minutes of shareholders meeting;

(5)Finding out whether capital reserve, legal reserve and special reserve have been separately recorded and whether they are provided in accordance with relevant rules;

(6)Finding out whether explanation on capital reserve with different nature has been provided;

(7)If there is any adjustment of loss or profit in the previous period, finding out whether the accounting treatment is proper;

(8)Finding out whether distribution of earnings has been properly recorded or noted;

(9)Finding out whether a note is provided if the distribution of retained earnings and capital reserve is restricted or if payment of dividend of special shares remains outstanding;

(10)If the loss of the company reaches 50% or more of the paid-in capital, the certified public accountant shall adopt necessary auditing procedures in accordance with the Statement of Auditing Standards No. 16 to find out whether the assumption of continued operation is reasonable and provide appropriate auditing opinion.

(11)Inventorying treasury stock, if any, and finding out whether the accounting treatment is proper.

#### 19. Contingencies and commitments

(1)Necessary auditing procedures shall be adopted to examine contingencies and commitments in accordance with the Statement of Auditing Standards No. 23, and a proper auditing report shall be provided.

(2)Investigation shall be made and a note shall be provided in connection with the illegal matter which may result in material impact if the operation and finance statements of the audited enterprise are fairly disclosed.

#### 20. Operating expenses

(1)Making comparative analysis with the amount in the previous period to see if the variable trend is reasonable; if there is any material change, finding out and analyzing the reason;

(2)Analyzing material expense items, examining relevant documents to ensure whether the classification of each expense is proper;

(3)Finding out whether the classification of the accounts of each expense is proper in terms of their nature and importance;

(4)Selecting a period before and after the date of balance sheet to check the documents to ensure that the operating expenses have been properly cut off.

#### 21. Non-operating revenue/expense and extraordinary loss/profit

(1)Making comparative analysis with the amounts in the previous period and find out the reason of material difference, if any;

(2)Analyzing the revenue/expense in substantial amount or with special nature and checking relevant documents and recording situation;

(3) Finding out whether the classification of accounts is proper in terms of the nature and importance;

(4) Finding out the premium income from disposition of assets has been reclassified as capital reserve in accordance with relevant rules.

#### 22. Income tax

(1) Finding out whether the audited enterprise has reported income tax expense, deferred income tax assets or liabilities for the current period, amortized the income tax of the same period, and disclosed relevant information.

(2) Finding out whether there is material unsettled tax remedies and approved additional tax payment or tax refund in past years, and assessing the impact on the income tax and income tax payable for the current period.

#### 23. Transactions with related parties

(1) Finding out the names or titles of all the related parties and their relationship with the audited enterprise;

(2) Finding out whether the audited enterprise has any transaction with the related parties;

(3) Finding out the purpose, price, and terms and conditions of the transactions with related parties already known;

(4) Acquiring from the audited enterprise a statement that the transactions with related parties have been properly disclosed.

#### 24. Others

If the audited enterprise is involved in transactions other than those in ordinary course of operation, the certified public accountant shall find out and assess the impact on the financial statements and make proper treatment.

### Article 19

Before issuing an auditing report, a certified public accountant shall obtain a statement from its customer in accordance with the Statement of Auditing Standards No. 7.

## Chapter 3: Auditing Work Sheets

### Article 20

A certified public accountant consigned to audit financial statements shall record his/her handling of the matter in accordance with these Regulations and shall compile such record together with the acquired auditing evidences into auditing work sheets.

### Article 21

The auditing work sheets are the evidence of whether a certified public accountant has satisfied his/her professional responsibilities and shall be the basis of the opinion in the auditing report. Evidences for the opinion, fact, and figures provided in the auditing report shall be furnished in the auditing work sheets.

### Article 22

Auditing work sheets shall be prepared and kept in accordance with the Statement of Auditing Standards No. 3.

## Chapter 4: Auditing Report

### Article 23

After the financial statements have been audited in accordance with these Regulations and other relevant rules, an auditing report shall be provided in accordance with the Statements of Auditing Standards.

### Article 24

In addition to the particulars provided in the Statements of Auditing Standards, an auditing report shall state the following matters:

- 1.The names of laws and regulations based on which the auditing is conducted and the financial statements are prepared;
- 2.Name, address, and telephone number of the accounting firm.

## Chapter 5: Financial Statements

### Article 25

The term "financial statements" referred to in these Regulations include the following statements and their notes:

- 1.Balance Sheet;
- 2.Income Statement;
- 3.Statement of Changes in Owners' Equity;
- 4.Statement of Cash Flows.

For an enterprise with few changes in owners' equity, the statement of retained earnings (accumulated deficit) may be substituted for the statement of changes in owners' equity. Further, the income statement may be combined with the statement of retained earnings as the statement of income and retained earnings, or the income statement may be combined with the statement of accumulated deficit as the statement of income and accumulated deficit.

Each page of the balance sheet, income statement, statement of owners' equity, and statement of cash flows referred to in Paragraph 1 above shall be signed/sealed by the responsible person representing the audited enterprise, manager, and in-charge accountant.

### Article 26

The amounts in the financial statements shall be based on those audited by the certified public accountant. Unless otherwise provided by laws and regulations or separately requested by the principal, the amounts shall be shown in and rounded up to the nearest thousand dollars.

## Chapter 6: Supplemental Provisions

### Article 27

The format of work sheets, forms, financial statements and the schedules, the example of notes, and specimen of various auditing reports shall be prescribed by the certified public accountants association.

### Article 28

To enhance the quality of their auditing reports, the certified public accountants shall participate in the peer review of fellow certified public accountants periodically held by the certified public accountants association.

The rules for peer review of fellow certified public accountants referred to in the preceding paragraph shall be separately prescribed by the certified public accountants association.

Article 29

These Regulations shall become effective from the date of promulgation.

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Data Source : Financial Supervisory Commission Laws and Regulations Retrieving System