

Content

Title :	Regulations Governing Establishment of Internal Control Systems by Public Companies <b>Ch</b>
Date :	2022.12.15
Legislative :	<ol style="list-style-type: none"><li>1. Forty-five articles promulgated in full 18 November 2002 per Order No. Taiwan-Finance-Securities-Audit-0910005800 of the Securities and Futures Commission, Ministry of Finance; for implementation from the date of promulgation</li><li>2. Articles 23 and 24 amended and promulgated 18 December 2003 per Order No. Taiwan-finance-Securities-Audit-0920005169 of the Securities and Futures Commission, Ministry of Finance</li><li>3. Articles 2, 3, 5 to 8, 11, 13 to 17, 21, 22, 24, 31, 32, 37, 39 to 42, and the name of Chapter IV amended and issued 19 December 2005 per Order No. Financial-Supervisory-Securities-Audit-0940005920 of the Financial Supervisory Commission, Executive Yuan</li><li>4. Articles 8, 13, and 22 amended and issued 17 July 2007 per Order No. Financial-Supervisory-Securities-Audit-0960036652 of the Financial Supervisory Commission, Executive Yuan</li><li>5. Articles 6, 8, 14, 16, and 40 amended and issued per 16 March 2009 Order No. Financial-Supervisory-Securities-Audit-0980009090 of the Financial Supervisory Commission, Executive Yuan</li><li>6. Articles 6, 8, 13, 39 and 45 amended and issued, and Article 43-1 added per, 21 December 2011 Order No. Financial-Supervisory-Securities-Auditing-1000062131 of the Financial Supervisory Commission, Executive Yuan; for enforcement 3 months after the date of issuance</li><li>7. Full text of 47 articles amended and issued per 22 September 2014 Order Financial-Supervisory-Securities-Auditing-1030036318 of the Financial Supervisory Commission; for enforcement from 1 January 2015</li><li>8. Article 47 amended, and Article 9-1 added, per 28 December 2021 Order No. Financial-Supervisory-Securities-Auditing-1100365654 of the Financial Supervisory Commission; for enforcement from the date of issuance</li><li>9. Articles 24, 25, 30, 31, 34, and 47 amended, and Articles 32, 33, and 35 deleted, per 15 December 2022 Order No. Financial-Supervisory-Securities-Auditing-1110385440 of the Financial Supervisory Commission; for enforcement from 1 January 2023</li></ol>
Content :	<p>Chapter I General Principles</p> <p>Article 1 These Regulations are promulgated in accordance with Article 14-1, paragraph 2 of the Securities and Exchange Act (the "Act").</p> <p>Article 2 A public company shall establish internal control systems in accordance with these Regulations and with internal control system rules adopted hereunder, except where otherwise provided by another act or regulation applicable to securities, futures, financial, or insurance enterprises.</p> <p>Article 3 The internal control systems of a public company are management processes designed by its managers, passed by its board of directors, and implemented by the board of directors, managers, and other employees for purpose of promoting sound operations of the company, so as to reasonably ensure that the following objectives are achieved: <ol style="list-style-type: none"><li>1. Effectiveness and efficiency of operations.</li><li>2. Reliability, timeliness, transparency, and regulatory compliance of reporting.</li></ol></p>

3. Compliance with applicable laws, regulations, and bylaws.  
The objective of effectiveness and efficiency of operations referred to in sub-paragraph 1 of the preceding paragraph include objectives such as profits, performance, and safeguard of asset security.  
The "reporting" referred to in paragraph 1, subparagraph 2, includes internal and external financial and non-financial reporting of a service enterprise. The objectives of external financial reporting include ensuring that financial statements for external purposes are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and generally accepted accounting principles, and that appropriate approvals are obtained for transactions.

#### Article 4

A public company shall set out its internal control systems, including internal audit implementation rules, in writing, and have them passed by the board of directors. If any director expresses dissent, where stated in minutes or in a written statement, the public company shall submit the dissenting opinions to each supervisor together with the internal control systems approved by the board of directors; the same shall apply to any amendment thereto.

If a public company has established the position of independent director, when it submits its internal control systems for discussion by the board of directors pursuant to the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions; the independent directors' specific opinions of assent or dissent and the reasons for dissent shall be included in the minutes of the board of directors' meeting.

If a public company has established an audit committee, the adoption of or any amendment to the internal control system shall require the approval of the audit committee, and shall be submitted to the board of directors for a resolution.

If the adoption or amendment under the preceding paragraph is not approved by the audit committee, it may be done with the approval of at least two-thirds of the entire board of directors, and the resolution of the audit committee shall be recorded in the minutes of the directors meeting.

### Chapter II Design and Operation of Internal Control Systems

#### Article 5

A public company shall explicitly specify the internal organizational structure, report system, and appropriate assignment of authority and responsibility in its control system, and shall specify therein, with respect to members of management, the establishment of positions, occupational titles, appointment and dismissal, scope of duties and powers, and remuneration policy and procedure.

A public company shall consider the overall operational activities of the company and its subsidiaries, design and faithfully implement its internal control systems, and review such systems from time to time, to adapt to changes in its internal and external environment and to ensure sustained design and operating effectiveness of the systems.

The subsidiaries referred to in the preceding paragraph are those as determined under the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

#### Article 6

A public company's internal control systems shall comprise the following constituent elements:

1. Control environment: Control environment is the basis of the design and implementation of internal control system across the company. Control environment encompasses the integrity and values of the company, governance oversight responsibility of the board of directors and supervisors, organizational structure, assignment of authority and responsibility, human resources policy, and performance measures and reward and discipline. The board of directors and management shall prescribe internal standards of conduct, including the adoption of a code of conduct for directors and a code of conduct for employees.

2. Risk assessment: A precondition to risk assessment is the establishment of objectives, linked at different levels of the company, and with the suitability of the objects for the company taken into consideration. Management shall consider the impact of possible changes in the external environment and within its own business model that may render internal control ineffective.. The risk assessment results can assist the company in designing, correcting, and operating necessary control activities in a timely manner.

3. Control activities: Control activities are the actions of carrying out policies and procedures taken by the company on the basis of risk assessment results to limit relevant risks to a sustainable level. Control activities shall be performed at all levels of the company, at various stages within business processes, and over the technology environment, and shall include supervision and management of subsidiaries.

4. Information and communications: Information and communication means the relevant and quality information that the company obtains, generates, or uses from both internal and external sources to support the functioning of other components of internal control, and the capability of effective communication between the company and external parties. Internal control systems must have mechanisms for generating information necessary for planning, implementation, and monitoring and providing timely information to those who need it.

5. Monitoring activities: Monitoring activities means ongoing evaluations, separate evaluations, or some combination of the two used by the company to ascertain whether each of the components of internal control is present and functioning. Ongoing evaluations means routine evaluations built into the course of operations at different levels of the company. Separate evaluations are evaluations conducted by different personnel such as internal auditors, supervisors, or the board of directors. Findings of deficiencies of the internal control system shall be communicated to the management at appropriate levels, the board of directors, and the supervisors, and improvements shall be made in a timely manner.

A public company designing and operating its internal control systems or carrying out self-assessment, or a certified public accountant (CPA) retained to conduct a special audit of the company's internal control systems, shall fully consider the constituent elements enumerated in the preceding paragraph, and, in addition to the criteria prescribed by the Financial Supervisory Commission (FSC), shall add additional items as dictated by actual needs.

#### Article 7

The internal control systems of a public company shall cover all its operational activities and comply with the laws and regulations governing the industry to which the company belongs, and control activities shall be prescribed for the cycles listed below, classified by operating cycles according to the characteristics of the industry to which the enterprise belongs:

1. Sale and receipt cycle: This cycle includes policies and procedures such as for processing customer orders, credit management, delivery of goods or provision of services, issuance of sales invoices, issuance of bills, recording of revenues and accounts receivable, sales allowances and returns, customer complaints, destruction of products, and execution and recording of receipts of negotiable instruments and cash payments.
2. Purchase and payment cycle: This cycle includes policies and procedures such as for managing suppliers; managing contractors; requisitioning, comparing or negotiating prices; contracting; purchasing or procuring goods, materials, supplies, assets, and services; processing purchase lists; accepting goods; quality inspection; preparing inspection reports or returning goods; recording suppliers' liabilities; approving payments; purchase allowances; and execution and recording of negotiable instruments handed over and cash payments.
3. Production cycle: This cycle includes policies and procedures such as for managing environment safety; managing occupational safety and health; production scheduling; creating bills of materials; storing materials and supplies; requisitioning materials; putting materials into production; managing process safety; controlling the quality of finished goods;

managing scrap and refuse; product composition labeling; calculating inventory and production costs, and calculating sales costs.

4. Labor and wage cycle: This cycle includes policies and procedures such as for hiring, job rotation, leave-taking, shift planning, overtime work, dismissal, training, retirement, determining wage rates, calculating working time, calculating salaries and benefits, calculating payroll taxes and withholdings, creating payroll records, salary payment, and review of attendance and performance.

5. Finance cycle: This cycle includes policies and procedures such as for authorization, execution, and record-keeping with regard to finance and financing matters such as borrowing of funds, granting of guarantees, acceptance of checks, renting/leasing, and issuance of corporate bonds and/or other securities.

6. Property, plant and equipment cycle: This cycle includes policies and procedures such as for acquisition, disposition, maintenance, safeguarding, and recording of property, plant and equipment.

7. Investment cycle: This cycle includes policies and procedures such as for decision-making, trading, safekeeping, and recording with respect to securities, investment property, derivatives, and other investments.

8. Research and development (R&D) cycle: This cycle includes policies and procedures such as for fundamental research, product design, technology development, prototype manufacturing and product testing, recording of R&D operations, safekeeping of documents, and acquisition, maintenance, and utilization of intellectual property.

A public company may tailor its control activities to meet the needs of its actual business activities according to the characteristics of the industry to which the enterprise belongs.

#### Article 8

In addition to control activities for different types of operating cycles as set out in the preceding article, a public company shall include controls for the activities listed below in its internal control systems:

1. Management of the use of seals.
2. Management of the receipt and use of negotiable instruments.
3. Management of the budget.
4. Management of assets.
5. Management of endorsements and guarantees.
6. Management of liabilities, commitments, and contingencies.
7. Implementation of authorization and deputy systems.
8. Management of loans to others.
9. Management of financial and non-financial information.
10. Management of related party transactions.
11. Management of the procedures for preparation of financial statements, including management of application of International Financial Reporting Standards, procedures for professional accounting judgments, and processes for making changes in accounting policies and estimates.
12. Supervision and management of subsidiaries.
13. Management of operation of board meetings.
14. Management of shareholder services.
15. Management of personal information protection.

The internal control system of a public company that has established an audit committee shall include the management of audit committee meeting operations.

The internal control system of a company whose stock is exchange-listed or traded over the counter shall also include controls over the following operations:

1. Management of the operations of the remuneration committee.
2. Management of the prevention of insider trading.

#### Article 9

A public company that uses a computerized information processing system shall, in addition to clearly differentiating the functions and duties of information and user departments, include at least the following control procedures:

1. A clear division of the functions and duties of the information-processing department;

2. Control of system development and program modification;
3. Control of preparing system documentation;
4. Program and data access control;
5. Data input/output control;
6. Data processing control;
7. File and equipment security control;
8. Control of purchase, usage, and maintenance of software and hardware;
9. Control of system recovery plan and testing procedures;
10. Control of information flow security inspection;
11. Control of relevant procedures for disclosing and reporting information on websites designated by the FSC.

#### Article 9-1

A public company shall allocate adequate human resources and equipment for the planning and monitoring of the information security system and the implementation of information security management operations. If certain conditions are met, the FSC may order the company to appoint a person with overall responsibility for the promotion of information security policies and the deployment of related resources to serve on a concurrent basis as chief information security officer, and to establish a dedicated information security unit, chief officer, and other personnel. The certain condition referred to in the preceding paragraph shall be prescribed by the FSC.

### Chapter III Assessment of Internal Control Systems

#### Section I Internal Audits

##### Article 10

A public company shall carry out internal audits to assist the board of directors and managers in inspecting and reviewing defects in the internal control systems as well as measuring operational effectiveness and efficiency, and shall make timely recommendations for improvements to ensure the sustained operating effectiveness of the systems and to provide a basis for review and correction.

##### Article 11

A public company shall establish an internal audit unit under the board of directors, and shall appoint, according to its business size, business condition, management needs, and the provisions of other applicable laws and regulations, qualified persons in an appropriate number as full-time internal auditors and have deputies in place for the internal auditors. The deputies are required to carry out audit work in accordance with these Regulations.

Any appointment or dismissal of chief internal auditor of a public company shall be subject to approval by the board of directors. Where a public company has established the position of independent director, if an independent director objects to or expresses reservations about the appointment or dismissal, it shall be recorded in the minutes of the board of directors meeting.

Where a public company has established an audit committee, any appointment or dismissal of the chief internal auditor shall be subject to approval by the audit committee and be submitted to the board of directors for a resolution, in which case Article 4, paragraph 4 shall apply *mutatis mutandis*.

When there is a change in the chief internal auditor of a public company, the company shall report the change and the reasons for it within 2 days counting inclusively from the date of occurrence via the Internet-based information system to the FSC for recordation.

The date of occurrence referred to in the preceding paragraph means the date of the resolution by the board of directors, or other date sufficient to determine the appointment or dismissal of the chief internal auditor, whichever comes first.

The requirements for the qualified full-time internal auditors referred to in paragraph 1 shall be as prescribed separately by the FSC.

#### Article 12

A public company shall include at least the following in its implementation rules for internal audits:

1. Purpose, functions, and responsibility of the internal audit unit.
2. Assessment of internal control systems to measure the effectiveness of, and compliance with, existing policies and procedures, and their effects on operational activities.
3. A detailed listing of audit items, times, procedures, and methods.

#### Article 13

A public company's internal audit unit shall formulate annual audit plans based on the results of the risk assessment, including matters to be audited monthly, and shall faithfully implement the annual audit plans, so as to assess its internal control systems, and prepare audit reports, annexing working papers and relevant materials.

A public company shall include at least the following as audit items in its annual audit plan for each year:

1. Matters relating to compliance with applicable laws, regulations, and bylaws.
2. The control activities for major financial or business activities, such as for acquiring or disposing of assets, engaging in derivatives transactions, extending loans to others, granting endorsements or guarantees for others, and management of related party transactions.
3. Supervision and management of subsidiaries.
4. Management of operation of board meetings.
5. Management of preparation process of financial statements, including management of application of International Financial Reporting Standards, procedures for professional accounting judgments, and processes for making changes in accounting policies and estimates.
6. Inspection of information and communications security.
7. Major operating cycles such as the sale and receipt cycle and purchase and payment cycle.

The annual audit plan of a public company that has established an audit committee shall also include the management of audit committee meeting operations.

Each annual audit plan of a company whose stock is already listed or traded over-the-counter at securities firms shall also include management of the operations of the remuneration committee.

A public company's annual audit plan, and any amendments thereto, shall be passed by the board of directors.

Where a public company has established independent director position(s), when it submits the annual audit plan to the board of directors for deliberation under the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions, and shall include their opinions in the board meeting minutes.

The audit report referred to in paragraph 1, the working papers, and relevant information referred to therein shall be preserved for no less than 5 years.

#### Article 14

The internal auditors of a public company shall communicate fully with the audited unit regarding the inspection results of the annual audit items, and shall faithfully disclose in audit reports any defects and irregularities of the internal control systems discovered in assessment and, after having presented the reports, follow up on the matters and prepare follow-up reports at least on a quarterly basis until such time as correction is made, to ensure that the relevant departments have taken appropriate corrective measures in a timely manner.

A public company shall include any defects, irregularities, and the status of corrections in the internal control systems as referred to in the preceding paragraph as major items of performance evaluation for each department.

The status of correction of defects and irregularities of internal control systems referred to in paragraph 1 shall include all defects found in the course of inspections by the FSC, found in the course of internal audit operations, those listed in Internal Control System Statements, and those

discovered in the course of self-assessment or by CPAs in special audits.

#### Article 15

After having presented the audit and follow-up reports, a public company shall submit the same for review by the supervisors by the end of the month next following the completion of the audit items.

A public company's internal auditors discovering any material violation or any likelihood of material damage to the company shall promptly prepare and present a report and notify the supervisors.

If a public company has independent directors, when complying with the preceding two paragraphs, it shall simultaneously submit the materials or notification to the independent directors.

#### Article 16

The internal auditors of a public company shall be detached, independent, objective, and impartial, in faithfully performing their duties, and shall exercise due professional care, and in addition to reporting their audit operations to each supervisor on a regular basis, the internal audit officer shall also attend and deliver a report to a board of directors meeting.

The internal auditors shall perform their duties in good faith and shall not do any of the following:

1. Conceal or make false or inappropriate disclosure of any the company's business activities, reporting, or compliance with applicable laws, regulations, and bylaws, knowing that they have caused direct damage to an interested party;
2. Damage any right or interest of the company or any interested party through neglect of duty;
3. Act beyond the scope of audit functions or engage in other improper activity, with the intent to gain illegal benefit for him/herself or a third party, violate the auditor's duties or embezzle company assets.
4. Conduct an audit on a department where he/she worked within the past 1 year.
5. Fail to recuse him/herself from auditing of cases in which he or she has a personal interest or has a conflict of interest.
6. Fail to audit any matter as instructed by the FSC or provide relevant information; or
7. Provide, promise, request, or accept, directly or indirectly, unreasonable gifts, entertainment, or any other improper benefits in whatever form.
8. Any other activity in violation of any act or regulation or prohibited by any rule of the FSC.

#### Article 17

The internal auditors of a public company shall pursue continuing education as well as attend internal audit training held by institutions recognized by the FSC, to improve their auditing quality and competence.

The internal audit training referred to in the preceding paragraph shall include the various professional courses, computerized auditing, and basic legal knowledge.

The hours required for the continuing education under paragraph 1 shall be as prescribed separately by the FSC.

#### Article 18

A public company shall report to the FSC for recordation the names, ages, educational background, experience, seniority, and training of its internal auditors by the end of January each year via the Internet-based information system.

#### Article 19

A public company shall submit to the FSC for recordation its next year's audit plan by the end of each fiscal year and a report on the execution of its previous year's annual audit plan within 2 months from the end of each fiscal year in the prescribed format via the internet-based information system.

#### Article 20

A public company shall report to the FSC for recordation its corrections of any defects and irregularities of the internal control system discovered during the past year's internal auditing within 5 months from the end of each fiscal year in the prescribed format and via the internet-based information system.

### Section II Self-assessment and Internal Control System Statement

#### Article 21

The purpose of self-assessment by a company of its internal control systems is to implement the company's self-monitoring mechanisms and adapt to changes in the environment in a timely manner, so as to adjust the design and operation of the internal control systems and to enhance the internal audit department's audit quality and efficiency. The self-assessment scope shall include the design and operation of all of the company's internal control systems.

Before carrying out the assessment under the preceding paragraph, a public company shall set out in its internal control systems the procedures and methods for self-assessment operations.

A public company shall pay close attention to matters relating to compliance with applicable laws, regulations, and bylaws, and shall decide procedures and methods for self-assessment operations based on the results of the risk assessment, and the following items, at least, shall be included:

1. Determination of the control activities that shall be tested.
2. Determination of the business units that shall be included in the self-assessment.
3. Assessment of the design effectiveness of each control activity.
4. Assessment of the operating effectiveness of each control activity.

#### Article 22

When conducting self-assessments of its internal control systems, a public company shall first see that all internal departments and subsidiaries conduct self-assessments at least once each year, have its internal audit departments review the self-inspection reports prepared by all departments and subsidiaries, and submit the self-assessment reports, together with the reports on the correction of defects and irregularities of internal control systems discovered by its internal audit departments, to serve as the primary basis for the board of directors and general manager to evaluate the overall efficacy of all internal control systems and to produce Internal Control System Statements.

The self-assessments under the preceding paragraph shall be recorded in working papers that shall be preserved, together with the self-assessment reports and relevant materials, for no less than 5 years.

#### Article 23

A public company's findings in its self-assessment of its internal control systems shall classify the systems as either "effective internal control systems" or "materially defective internal control systems" based on whether or not they can reasonably ensure the following:

1. That the board of directors and the general manager understand the degree of achievement of operational effectiveness and efficiency objectives.
2. That the reporting of the company reliable, timely, transparent, and complies with applicable rules.
3. That applicable laws, regulations, and bylaws have been complied with.

#### Article 24

A company conducting initial public issuance of its stock, or a public company, shall conduct annual self-assessment of the design and operating effectiveness of its internal control systems, and, except as otherwise provided by the FSC, shall publicly announce and report the Internal Control System Statement on the websites designated by the FSC within 3 months from the end of each fiscal year in the prescribed format.

Where a public company has established an audit committee, the design and



operating effectiveness of the internal control system as referred to in the preceding paragraph shall be subject to the approval of the audit committee, and the provisions of Article 4, paragraph 4 shall apply mutatis mutandis.

The Internal Control System Statement referred to in paragraph 1 shall be passed by the board of directors. The same shall apply to any amendments thereto, and the company furthermore shall publicly announce the reasons for and content of the amendments on the websites designated by the FSC within 2 days counting inclusively from the date of passage by the board of directors.

The Internal Control System Statement referred to in paragraph 1 shall be published in the company's annual report, public offering and issuance prospectus, and other prospectuses in compliance with relevant regulations.

### Section III Special Audits by Certified Public Accountants

#### Article 25

The engagement of a CPA by a public company, or the appointment thereof by the FSC pursuant to Article 38-1 of the Act, to conduct a special audit of the company's internal control systems shall be governed by these Regulations and other applicable laws and regulations; matters not provided for therein shall be handled in accordance with the Standards on Assurance Engagements issued by the Accounting Research and Development Foundation (the "Standards on Assurance Engagements").

#### Article 26

The purpose for a CPA to conduct a special audit of a public company's internal control systems is to inform the company's interested persons of whether the company's internal control systems are effectively designed and operating.

#### Article 27

Special audits of internal control systems of a public company shall be jointly carried out and attested by two or more CPAs qualified under the Criteria Governing Approval for Auditing and Certification of Financial Reports of Public Companies prescribed by the FSC.

#### Article 28

Except as otherwise provided by the FSC, the scope of special audits of internal control systems of a public company by CPAs shall be the internal control systems of the audited company with respect to external financial reporting and safeguarding of asset security.

The term "safeguarding of asset security" referred to in the preceding paragraph means preventing unauthorized acquisition, use, and disposition of assets.

#### Article 29

Except as otherwise provided by the FSC, the time period covered by a special audit of a public company's internal control systems by CPAs shall be consistent with the time period covered in its Internal Control System Statement.

#### Article 30

When auditing the internal control design and operation of a public company and the matters represented in the Internal Control System Statement produced by the audited company, the CPAs shall provide reasonable assurance, and collect sufficient and appropriate evidence to reduce their attestation risks to an acceptable degree, and shall comply with the following matters:

1. Special audits shall be conducted by professionally trained and competent CPAs.
2. CPAs shall possess adequate knowledge of the matters represented in the Internal Control System Statement produced by the audited company.
3. CPAs shall have the ability to assess statements or internal control systems of the audited company consistently by using reasonable assessment items as standards before accepting audit engagements. The above-stated

standards shall be prescribed by the FSC or by an authoritative institution.

4. In affairs relating to special audits, CPAs shall maintain an attitude of rigor and impartiality and a detached and independent viewpoint.

5. CPAs shall exercise all due professional diligence when conducting special audits.

6. Special audits shall be carefully planned and assistants, if any, shall be properly supervised.

7. CPAs shall obtain sufficient and appropriate evidence regarding the effectiveness of each constituent element of the internal control systems, to provide a reasonable basis on which to form a conclusion on the audited company's internal control systems.

8. The preparation and retention of the working papers of special audits shall be handled in compliance with Standard on Assurance Engagements 3000.

9. The issuance of the internal control system audit report shall be handled in compliance with Standard on Assurance Engagements 3000.

#### Article 31

CPAs retained to conduct special audits of internal control systems of a public company shall conduct such procedures in four stages:

##### 1. Planning:

A. Obtain written records of the audited company's board of directors' and managers' control objectives and internal control system policies and procedures, and other necessary information.

B. Formulate an audit plan. The following factors at least shall be taken into consideration: the characteristics of the industry to which the enterprise belongs, information obtained when undertaking work under other engagements with the audited company, the condition of the audited company and recent changes in it, evidence available to the CPAs, the nature of specific internal control system procedures and the importance of such procedures to the overall internal control systems, preliminary assessment of the effectiveness of the overall internal control systems, differences among various operating locations, degree of centralization, transactions executed and the control environment, and the materiality/significance level and control risk in connection with the internal control system that are acceptable to the CPAs.

##### 2. Gaining an understanding of the internal control system:

CPAs may use means such as inquiry, inspection, and observation to gain an understanding of the internal control system of the audited company, by which to assess the effectiveness of the internal control system.

##### 3. Assessing the effectiveness of the design of the internal control system:

A. When assessing the effectiveness of the design of the audited company's internal control system, CPAs shall collect evidence regarding the effectiveness of the design. Methods for collecting such evidence include inquiry, inspection, and observation.

B. When assessing the effectiveness of the design of the internal control system, CPAs shall focus on whether the overall internal control system achieves a given goal rather than whether any given specific operation of the internal control system is inappropriate.

C. When engaged only to evaluate the effectiveness of the design of the internal control system, CPAs shall conduct necessary control tests based on actual needs.

##### 4. Testing and assessing the operating effectiveness of the internal control system:

A. CPAs shall conduct control tests to collect evidence regarding the operation of the internal control system to provide a basis for assessing the operating effectiveness of the internal control system.

B. Methods for conducting control tests by CPAs include inquiry, inspection, observation, and re-testing. Control tests shall be conducted until sufficient and appropriate evidence has been collected. Evidence collected by the audited company during self-assessment of the internal control system shall not be substituted directly for evidence to be collected by the CPAs.

C. Whether the evidence collected by CPAs is sufficient and appropriate is affected by the following factors: the nature of the audited company's

internal control procedures, the importance of the internal control procedures to attainment of the control objectives, the probability of violation of control procedures by the audited company, the nature and extent of control tests already conducted by the audited company, and the CPAs' preliminary assessment of the effectiveness of the control procedures. CPAs shall also execute necessary procedures and collect necessary evidence regarding subsequent events during the post audit period.

Article 32  
(Deleted)

Article 33  
(Deleted)

Article 34  
Where appointed by the FSC pursuant to Article 38-1 of the Act, CPAs failing to acquire the audited company's Statement about the internal control system at issue shall provide reasonable assurance with respect to the audited company's internal control design and operating effectiveness, and issue an audit report in compliance with Standard on Assurance Engagements 3000.

Article 35  
(Deleted)

Article 36  
CPAs discovering defects when conducting special audits of internal control systems of a public company shall issue internal control system recommendations in the prescribed format, for reference by the audited company to take corrective measures.

Article 37  
CPAs retained to conduct special audits of the internal control systems of a company conducting initial public offering of stocks shall conduct such audits pursuant to Articles 25 through the preceding article.  
When conducting special audits under the preceding paragraph, CPAs shall focus on whether the company has meet the requirements of applicable laws and regulations, and, particularly, express opinions on the company's operational procedures such as for acquiring or disposing of assets, engaging in derivatives transactions, management of loans to others, management of endorsements or guarantees for others, management of related party transactions, management of the procedures for preparation of financial statements, and supervision and management of subsidiaries, and shall give an appropriate explanation thereof in a single separate paragraph in the audit report.  
Except as otherwise provided by the FSC, the time period covered by a special audit under paragraph 1 shall be the most recent fiscal year before the company filed its report for public issuance of its stock. If on the date of the report for public issuance eight months have already lapsed since the beginning of the fiscal year, the time period covered shall be the second half of the most recent fiscal year and the first half of the current fiscal year.

#### Chapter IV Supervision and Management of Subsidiaries

Article 38  
A public company shall specify in its internal control systems necessary control activities with respect to its subsidiaries and, with consideration to the statutory requirements of the government where a given subsidiary is located and the nature of the subsidiary's business, see that a subsidiary establishes its own internal control systems.

Article 39  
A public company shall execute at least the following control activities when supervising and managing its subsidiaries' business management:

1. Establish an adequate organizational control structure between it and each subsidiary, including the election of, the assignment of authority and responsibility to, and the remuneration policy and system for the subsidiary's directors, supervisors, and high-level managers.
2. Set out overall business strategies, risk management policies, and guidelines applicable to it and its subsidiaries, as a basis for each subsidiary to map out business plan and risk management policies and procedures for relevant business operations.
3. Set forth policies and procedures applicable to it and each subsidiary in relation to business segmentation, liaison regarding order placement, materials preparation methods, inventory allocation, conditions for accounts receivable and accounts payable, and account processing.
4. Set forth policies and procedures for supervising each subsidiary's material financial and business matters such as business plan and budget, material investment and reinvestment in equipment, borrowings and debt, lending of funds to others, endorsement/guarantees, obligations and commitments, investment in securities and derivatives, important contracts, major changes in assets, and management of the adoption of the International Financial Reporting Standards (IFRSs), the accounting professional judgment process, and the process for changes in accounting policies and accounting estimates.

#### Article 40

A public company shall execute at least the following control activities when supervising and managing its subsidiaries' financial and business information:

1. Supervise the establishment of independent financial and business information systems by its subsidiaries.
2. Establish effective financial and business communication systems between it and each subsidiary; in addition to the major financial and business matters referred to in the preceding article that shall be reported prior to their occurrence, the subsidiary shall also immediately report to the company the occurrence of any other material event that, under the Act or any applicable regulations, shall be announced or reported as likely to affect company rights and interests and securities prices.
3. Obtain, and analyze and review, at least on a quarterly basis, each subsidiary's monthly management reports, including business report, monthly statement of production and sales volumes, monthly balance sheet, monthly income statement, monthly cash flow statement, aging account receivable analysis and delinquent debt report, aging inventory analysis, monthly report on loaned funds, and monthly report on endorsements/guarantees.
4. Arrange for each subsidiary to provide necessary financial and business information or retain CPAs to audit or review each subsidiary's financial report in compliance with the requirements of laws and regulations regarding matters to be publicly announced or reported and the time limits therefor.

The FSC shall prescribe compliance matters in connection with companies' obtaining, and analyzing and reviewing, of each subsidiary's monthly management reports under subparagraph 3 of the preceding paragraph.

#### Article 41

A public company shall execute at least the following control activities when supervising and managing its subsidiaries' audit management:

1. Direct each subsidiary to establish an internal audit department and to adopt procedures and methods for self-assessment of its internal control systems, based upon the nature of its business, its operational scale, and number of employees, and monitor the subsidiary's execution of such matters.
2. Include all subsidiaries in the internal audit scope in the company's internal audit implementation rules, and regularly, or from time to time, conduct audits. Upon submission of the audit findings and recommendations in reports, the public company shall notify the audited subsidiary to make corrections and prepare follow-up reports on a regular basis, to ensure that proper corrective measures have been taken in a timely manner.
3. All subsidiaries shall, with the least delay, report to the public company matters such as special audit plans, annual audit plans and the

implementation thereof, and the correction of any defects and irregularities discovered in their internal control systems.

4. The public company's internal audit department shall review the audit reports or self-assessment reports submitted by each subsidiary, and shall follow up on the correction of any defects and irregularities in internal control systems.

#### Chapter V Supplemental Provisions

##### Article 42

A public company shall specify in its internal control systems the penalties for violations of these Regulations or its internal control system rules by managers and relevant personnel.

A public company shall from time to time check whether there is any violation of the provisions of Article 11, paragraph 1, concerning "qualified" and "full-time," or any of the circumstances set out in Article 16, paragraph 2, by its internal auditors; and shall, upon discovery of any violation, adjust the position of such auditor within 1 month from the date of discovery.

When reporting basic information of internal auditors pursuant to Article 18, a public company shall check whether or not the internal auditors have met the requirements under Article 17, paragraph 1. If not, the auditor shall take corrective measures within 1 month; otherwise, the public company shall promptly adjust the auditor's position.

##### Article 43

Under any of the following circumstances, the FSC may order a public company to make improvements within a prescribed time limit, or, where necessary, to retain CPAs to conduct a special audit of its internal control system and submit an audit report to the FSC for recordation:

1. Failure to set out its internal control system in writing.
2. Failure to appoint an appropriate number of qualified personnel as full-time internal auditors.
3. Failure to file a report within a prescribed time limit or fail to faithfully execute its annual audit plan.
4. Failure to file a report on the implementation of its annual audit plan within the prescribed time limit.
5. Failure to file a report on the correction of any defect or irregularity of the internal control systems discovered in an audit.
6. Failure to conduct self-assessment of its internal control systems as required or to prepare an Internal Control System Statement.
7. Serious instance of failure to correct a defect of the internal control system in accordance with the internal control recommendations issued by the CPAs.
8. Serious instance of false external financial reporting or violation of a law, regulation, or bylaw.
9. Any material malpractice or suspicion of malpractice.
10. Other condition where the FSC deems a special audit to be necessary.

##### Article 44

A public company is advised to adopt appropriate risk management policies and procedures, and establish effective risk management mechanisms, to assess and monitor its risk-bearing capacity, and the current status of risk already incurred, and to determine its compliance with the risk response strategies and risk management procedures.

##### Article 45

If a public company has established an audit committee, the provisions of Article 4, paragraph 1, Article 6, paragraph 1, subparagraphs 1 and 5, Article 15, paragraphs 1 and 2, Article 16, paragraph 1, and Article 39, paragraph 1, subparagraph 1 of these Regulations that govern supervisors shall apply mutatis mutandis to the audit committee.

##### Article 46

The FSC shall separately prescribe the formats under these Regulations.

Article 47

These Regulations shall come into force from 1 January 2015.

The amendments to these Regulations shall be enforced from the date of issuance, with the exception of the articles amended on 15 December 2022, which shall come into force from 1 January 2023.

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Data Source : Financial Supervisory Commission Laws and Regulations Retrieving System