

**THE CAPACITY BUILDING
FOR
IMPLEMENTING ACCOUNTING SYSTEM
(TA FOR IMPLEMENTING THE ACCOUNTING ACT)
IN
THE KINGDOM OF THAILAND
FINAL REPORT
SUMMARY**

JANUARY 2006

**JAPAN INTERNATIONAL COOPERATION AGENCY
ECONOMIC DEVELOPMENT DEPARTMENT**

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Preface

The Government of Japan adopted a request by the Government of Thailand to undertake a study to facilitate implementation of the Accounting Acts and related regulations. Japan International Cooperation Agency (JICA) was mandated to undertake the study.

A study team, consisted by Tohmatsu & Co., was sent eleven times from January 2004 through December 2005. The team, headed by Mr. SEKIKAWA Tadashi held discussions with officials concerned in the Government of Thailand, hearings from private sector, and holding seminars.

This report was compiled by the team in accordance with comments raised by Thai side. It is expected that the report is utilized for further implementation of Accounting Acts, resulting in sound private sector growth.

Lastly I would like to express my sincere appreciation to all those who participated in this study and hope this joint study promotes relationships between Japan and Thailand.

January 2006

IZAWA Tadashi

Vice-President

Japan International Cooperation Agency (JICA)

January 2006

Ms. Sadako Ogata
President
Japan International Cooperation Agency

Letter of Transmittal

We are pleased to submit herewith the Final Report of the Capacity Building for Implementing Accounting System (Technical Assistance for Implementing the Accounting Act) in the Kingdom of Thailand.

This report was prepared to present the results of the technical assistance provided for the Department of Business Development, Ministry of Commerce by the Japan International Cooperation Agency through the Study Team. The report also includes our recommendations to the Thai government and the related organizations for improving the accounting practices in Thailand.

The development of the accounting system in Thailand has been making steady progress. However, operational aspect of the system has many shortcomings. The Study Team strongly believes that accounting practices in Thailand will improve steadily by the efforts of the Thai government and their related organizations. The Study Team sincerely desires that the report will serve as a contribution to the implementation of government policies.

Throughout the course of the Study, we have received an immeasurable amount of support from the Japan International Cooperation Agency and related governmental and private organizations of Japan for which the Team wishes to express its deepest gratitude. We also would like to extend our appreciation to the Department of Business Development, as well as to the relevant agencies and organizations in Thailand for their support and cooperation.

Very truly yours,

Handwritten signature of Tadashi Sekikawa in black ink, consisting of stylized Japanese characters and a horizontal line.

Tadashi Sekikawa, Certified Public Accountant
Deloitte Touche Tohmatsu
Team Leader, the Capacity Building for
Implementing the Accounting Act
in the Kingdom of Thailand

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Abbreviations

BBS	Bureau of Business Supervision
B/K	Bookkeeper (Qualified Accountant Pursuant to the Provisions of the Accounting Act in Thailand)
CPA	Certified Public Accountant
CPD	Continuing Professional Development
DBD	Department of Business Development
FAP	Federation of Accounting Professions
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
JICA	Japan International Corporation Agency
SEC	Securities and Exchange Commission
SET	Stock Exchange of Thailand
SME	Small and Medium Enterprises
TA	Technical Assistance
TAS	Thai Accounting Standards
XBRL	eXtensible Business Reporting Language

1. Outline of the Technical Assistance Program (TA Program)

1.1 Background of the TA Program

(1) Importance of Accounting and Audit System

The development of an accounting and audit system forms the basis for economic development through the enhancement of corporate strength and improvement of the investment environment. The existence of a reliable accounting and audit system is particularly essential in developing countries to attract foreign investment. The Asian economic crisis in 1997 vindicated the notion that the consolidation of an accounting and audit system is a precondition for sustainable economic growth and provided the opportunity for Asian countries to reform their accounting and audit systems as seen with the full revision of the accounting standards in Korea and the reform of the accountant qualification system in Indonesia. Thailand has also proceeded with the full revision of its accounting standards and other reforms since this economic crisis.

There are two principal purposes of accounting: (i) accurate understanding of the state of a company by its owner to ensure the sound business management of the company (internal purpose) and (ii) accurate understanding of the state of a company by creditors and investors to assist their decision-making for loans and investment (external purpose). In the case of accounting by SMEs, the internal purpose is more emphasized while the external purpose is more emphasized for accounting by large companies. Sound accounting practices at large companies, especially listed companies, are essential for the development of the capital market. For SMEs, sound accounting practices contribute to their development as well as the development of the general economy as they prompt sound business management and smooth the way for bank loans. The strengthening of SMEs, which account for half of the employees in Thailand, through the improvement of accounting practices, contributes to the enhancement of “human security” through the stabilization and expansion of employment.

(2) Present Conditions and Problems of Accounting and Audit System in Thailand

In Thailand, the Accounting Act was fully revised in 2000 and the Accounting Professions Act was enforced in 2004. The development of the accounting and audit system in Thailand has been making steady progress as international standards are fully incorporated into the relevant national accounting and audit standards. In fact, the accounting and audit system in Thailand has the most stringent demands in the world in that all companies are,

in principle, required to be audited by a CPA and must submit their financial statements with the government.

However, the operational aspect of the system has many shortcomings. For example, approximately half of all juristic persons fail to submit financial statements to the government in violation of the Civil and Commercial Law as well as the Accounting Act. The biggest problem of the accounting and audit system in Thailand is the large gap between the very stringent demands of the system and the reality of system enforcement.

This gap between the reality and the system is particularly noticeable with SMEs. Even though the financial statements of SMEs are audited by a CPA, they are not trusted by banks, failing to secure a sufficient supply of funds for SMEs. It is pointed out that one reason for the poor accounting practices of SMEs is insufficient awareness of the importance of accounting for business management on the part of business owners who tend to regard accounting as a mere obligation.

(3) Approaches to Solve the Problems

To reduce the gap between the system and the reality to achieve the objectives of accounting, i.e. the healthy management of a business and the protection of creditors and investors, the priority must be to improve the reality to approach a situation expected by the system. Meanwhile, it is also necessary to review the system to reflect the reality with a view of making the system more realistic. A system which is too aloof from the reality has the inherent risk of lowering the sense of necessity to abide by the system. In particular, it is inappropriate from the cost-benefit viewpoint to demand that the accounting practices of SMEs primarily serving the internal purpose abide by the same rules designed for large companies with emphasis on the external purpose.

This TA Program was implemented to strengthen the functions of the Department of Business Development (DBD), which is the supervisory body for the accounting and audit system, in order to mainly improve the reality of accounting practices. In the case of large companies, particularly listed companies, as the Securities and Exchange Commission (SEC) conducts intensive monitoring, the gap between the system and the reality is believed to be small. In contrast, the nominal existence of auditing and chronic tax evasion by non-listed companies, particularly SMEs, are pointed out by many people involving in accounting and auditing. Given this situation, this TA Program emphasized the improvement of accounting practices by SMEs where the situation is much worse than that

of large companies. In connection with the second task, i.e. review of the system, the Study Team recommended improvement measures considered to be necessary together with the presentation of pertinent matters at seminars and training sessions.

1.2 Scope of the TA Program

Based on the agreement between the JICA and the DBD, it was decided to place the emphasis of the capacity building of the DBD on the following three fields.

- a) Continuing professional development (CPD) system for bookkeepers (B/Ks)¹
- b) Improvement of the accounting document inspection work
- c) Reform of the accounting consultation service

Apart from the training of staff members of the DBD and those of the Bureau of Business Supervision (BBS) who are directly responsible for the above-mentioned work or service, it was decided that general capacity building of the DBD/BBS would be attempted through seminars and on-the-job training.

The Study Team prepared a number of draft recommendations for improvement in these three fields, selected the following four recommendations which the BBS would find difficult to implement without external support and primarily focused its efforts on conducting supporting activities relating to these four recommendations.

- a) Development of computer-based self-learning materials
- b) Support for the introduction of quick inspection
- c) Publication of an e-mail newsletter
- d) Preparation of service guidelines for accounting firms

¹ In this report, the term “bookkeeper” is used to indicate someone who is qualified as a bookkeeper pursuant to the provisions of the Accounting Act in Thailand. Those engaged in accounting work without such qualification are described as “corporate accounting personnel”.

2. Analysis of the Present Situation, Outcomes of the TA Program and Recommendations

2.1 Functions of the DBD

(1) General

Analysis of the Present Situation

The Accounting Act awards the authority and responsibility for enforcement of the Act to the Director-General of the DBD. Within the DBD, the BBS plays a central role in terms of accounting matters. The business activities of the BBS predominantly consist of such front line work as the registration of B/Ks, the inspection of accounting documents (financial statements) and the accounting consultation service. For example, 36 of the 58 staff members of the BBS belong to the sections responsible for the inspection of accounting documents while substantially all staff members, as a part of their assignment, are involved in the accounting consultation service on a rota basis.

The DBD has one staff member at each of its provincial offices to conduct the inspection of accounting documents and the accounting consultation service. As these staff members are temporary staff, the ratio of their annual turnover is as high as 20 – 30%.

The role required of the DBD is shifting from a passive role, including the registration of companies and the reception and collection of financial statements, to an active role, such as the fostering of SMEs. This shift is symbolically illustrated by the change of its name from the Department of Commercial Registration to the Department of Business Development in October, 2002. In the accounting field, the DBD/BBS are required to play the role of planning and implementing improvement measures for accounting practices, such as the training of accounting personnel and the capacity building of accounting firms. Enforcement of the Accounting Professions Act in 2004 made it possible to transfer much of the front line work performed by the DBD/BBS to the Federation of Accounting Professions (FAP). As such, the preconditions for the DBD/BBS to play new roles are in place and enhancement of their ability to formulate policies and measures to correspond to their changing roles is now required.

Outcomes of the Study

Training on accounting policies and measures targeting SMEs was provided at a workshop for staff members of the BBS to enhance their policy planning ability and awareness of the importance of appropriate accounting policies and measures. An external seminar was also held featuring such topics as accounting standards for SMEs, capacity building of accounting firms, change of financial data into an electronic form and internationalization of the national accounting standards, all of which are necessary measures to be pursued by the DBD/BBS. Participation in the workshop and seminars has contributed to improvement of the ability of staff members of the DBD/BBS to formulate these measures along with enhancement of the organizational strength of the DBD/BBS in terms of formulating policies and measures. This enhancement of the organizational strength is illustrated by (i) the introduction of a new section within the BBS which is responsible for the fostering of accounting firms to organize training courses at the BBS's own initiative and (ii) commencement of the process to examine the introduction of a system to award excellent accounting firms.

Moreover, computerized self-learning materials have been developed for local staff members responsible for accounting matters and these materials stored in a CD-ROM have been distributed to all local offices of the DBD. It is expected that this CD-ROM will be used for the orientation training for new recruits to improve the efficiency. This CD-ROM has proved its effectiveness for the capacity building of existing staff members and has also had the effect of raising the level of interest among staff members of the BBS in e-learning.

Future Tasks and Recommendations

The contents of the actual work of the DBD/BBS are not yet fully compatible with the required changes of their roles. The Study Team believes that the principal work of the government in the accounting field is the planning and implementation of policies and measures designed to improve accounting practices. It is necessary for the DBD/BBS to retrench such front line work of providing direct services for corporate accounting personnel and companies as the registration of B/Ks, inspection of accounting documents and accounting consultation service in the long run so that the DBD/BBS can implement measures to improve accounting practices, including the capacity building of accounting firms, change of financial data into an electronic form and improvement of the accounting system to suit the reality.

Review of the necessity of each type of work, the transfer of work to the FAP and improvement of the work efficiency through the application of IT should prove effective to facilitate the ongoing reduction of the front line work of the DBD/BBS although strengthening of the FAP's functions is a precondition for the transfer of work to the FAP.

(2) Inspection of Accounting Documents

Analysis of the Present Situation

The DBD/BBS demand that all juristic persons submit their account books to check the state of compliance with the Accounting Act. Although there are some 470,000 registered juristic persons, the number of staff members responsible for the inspection of accounting documents is approximately 100 nationwide. Consequently, the number of inspections remains small at some 7,000 a year or only 1 – 2% of the total number of registered juristic persons.

Thailand is unique in the world in that a government body conducts this kind of inspection. The Accounting Act gives the DBD an authority to inspect companies' accounting documents. Given the fact that it has not been a long time since the enforcement of the Accounting Act, the primary policy of the DBD is currently placed on promoting good accounting practices rather than giving penalties. However, a strategy of the inspection to fulfill the policy may not appear clearly established within the DBD/BBS. Referring to limited resources of the BBS to cover 470,000 companies, establishing a strategy of the inspection and prioritizing all duties are indispensable for appropriate allocation of the BBS's resources.

The Study Team has identified three conceivable purposes of the work to inspect accounting documents and the opinions of the Study Team regarding these three purposes are described below.

a) Guidance on Individual Companies to Improve Their Accounting Practices

There is no doubt that the level of accounting practices among Thai companies, especially SMEs, is low, requiring guidance. It is unrealistic, however, for the DBD/BBS to provide guidance for individual companies because of their limited resources, and the Study Team believes that such work is beyond the direct duty of the government. It will, therefore, be more effective to make accounting firms provide such guidance.

b) Warning Shot to Companies, B/Ks and Auditors

The number of companies inspected is too small at present for inspection to function as a warning shot for possible malpractice. The inspection frequency should be increased to a level where most companies are aware that the DBD/BBS inspect accounting documents.

c) Exposure of Serious Offending

The inspection method traditionally adopted by the DBD/BBS is not very effective to expose serious offending. An approach which is capable of narrowing down companies suspected of serious offending is required so that more concentrated efforts can be made to inspect these suspected companies.

Outcomes of the TA Program

The Study Team analyzes that b) and c) of the conceivable purposes described above can be the two primary purposes, if inspection is to become meaningful for the present situation in Thailand. For these purposes, the Study Team recommended the quick inspection method using the corporate finance database possessed by the DBD for the inspection of accounting documents and assisted its implementation. This quick inspection method is outlined below.

- Step 1 : Use of the corporate finance database to extract companies showing unnatural financial figures or ratios based on the financial analysis (the necessary program was developed in the course of the TA Program)
- Step 2 : Simple review of extracted companies using a questionnaire
- Step 3 : More detailed check by asking a company to submit its accounting books if the results of the simple review has strengthened the suspicion of malpractice

Training on the financial analysis technique and program operating technique was provided for staff members of the BBS as familiarity with these techniques is a precondition for quick inspection.

As a result of this quick inspection program, the method to extract suspected companies has improved compared to the previous sampling method, enabling the extraction of companies with a high risk of serious offending as targets for inspection. However, as the simplified method of reviewing extracted companies has not been

put into practice because the DBD/BBS has a concern that such simplified method cannot detect malpractices of the companies effectively. As a result, the number of inspected companies has not significantly increased.

The BBS has also utilized quick inspection program to classify the companies such as by size, industry, and/or legal structure, etc. This also contributes for the BBS to select targeted companies effectively based on its policies.

Future Tasks and Recommendations

Firstly, it is essential to establish a strategy of the inspection of accounting documents within the DBD/BBS, followed by the establishment of an inspection method which is relevant vis-à-vis the strategy. The Study Team analyses that direct guidance for individual companies by the BBS has constraint in terms of its resources. The role of the DBD/BBS should rather be the implementation of various measures which are designed to make accounting firms perform such function of providing guidance (refer to 2.3).

As analyzed by the Study Team, if the restraint (warning shot) effect and the exposure of serious offending become the purposes of the inspection of accounting documents, the following tasks must be fulfilled to achieve these purposes.

a) Significant Increase of the Number of Inspected Companies

The DBD needs to establish a clear target in terms of the number of companies inspected firstly. If the target number is set at 50,000 (some 20% of the juristic persons currently submitting financial statements at present) a year, simple calculation suggests the necessity to reduce the average inspection time per company to one-seventh of the present time. To achieve this, simple review using a questionnaire or a major reduction of the inspection items as recommended by the Study Team will be necessary.

b) Application of Quick Inspection Program for Inspection by Local DBD Offices

As the application of the quick inspection program under the TA Program was at the pilot stage, the program was only applied to inspection by the Central Team. It is hoped that this program will be applied to inspection by the Local Teams.

One feasible method is for the BBS to extract the subject companies using the program and to inform its local offices about these companies.

(3) Accounting Consultation Work

Analysis of the Present Situation

The accounting consultation service is one of the one-stop consultation services offered by the Head Office of the DBD and some 70 staff members (some 40 temporary staff members) of the BBS provide this service on a rota basis. Some 20,000 cases of consultation are made a year by means of actual visits, enquiries via the web notice board or telephone. At the local DBD offices, staff members responsible for accounting matters provide a similar consultation service.

The nature of the enquiries is diverse, ranging from those regarding the submission of financial statements and the provisions of the Accounting Act to the application of specific accounting standards. Some questions can be easily answered once the relevant law or notification is properly read. The DBD has been trying to publicize the laws and systems relating to accounting by means of publishing a Q & A pamphlet explaining frequently asked questions and laws and regulations (some of these publications are uploaded to the DBD's website).

It appears to be the case that consultations on the application of accounting standards should essentially be provided by accounting firms. It is unclear why questions on the application of accounting standards are made so often but reluctance on the part of companies (or persons making enquiries) to pay a consultation fee is suspected. In addition, Thai people tend to trust in the government sector. The DBD considers that the entrustment of the consultation service to a private sector outsider(s) is not an option as its refusal to answer inquiries on accounting standards would invite criticism. However, staff members of the BBS lack sufficient knowledge of the new accounting standards resulting from the substantial revision of the Thai Accounting Standards around 2000. It is also believed that staff members of the BBS find it difficult to answer questions regarding the application of accounting standards as they are not involved in practical accounting work.

Outcomes of the TA Program

Based on the understanding that the short-term tasks for the DBD/BBS are the efficient implementation of the consultation service and improvement of the quality

of their answers, the Study Team adopted the approach described below for each category of answers.

- a) In regard to basic questions for which answers can be readily found in the law, etc., it is desirable for people making enquiries to find the answers themselves without contacting the DBD/BBS. For this purpose, it will be effective for the DBD to provide information on its website in a manner which is easy to understand and to urge potential questioners to gain access to the website.
- b) Answers on the website are preferable to answers by telephone to improve the quality of answers to complicated questions. In the case of telephone enquiries, it is sometimes difficult to provide an appropriate answer because of the often unclear nature of the question and lack of prior preparation on the part of the answerer. The preparation of answers to questions on the website is preferable because of the resulting automatic compilation of a kind of collection of Q & A and improvement of the efficiency.
- c) In connection with enquiries regarding accounting standards in particular, the level of knowledge should be improved, primarily on the new accounting standards for which BBS staff members feel uneasy about giving correct answers.

To realize a) and b) above, it is essential to guide potential questioners to the DBD's website. The Study Team recommended the issue of an e-mail newsletter precisely for this reason and also to enhance the publicity of the CPD system (refer to 2.2) and provided assistance for the necessary work. This e-mail newsletter was issued 14 times in the period from January to September, 2005. Because of technical limitations, the number of subscribers remained small at approximately 500. Nevertheless, after the issue of the first e-mail newsletter, the number of telephone enquiries in a seven month period (February through August) dropped by 24% while the number of enquiries using the website increased by 72%.

To improve knowledge on accounting standards among BBS staff members, i.e. Task c), training totaling 40 hours was provided on seven accounting standards, resulting in improvement of the ability of staff members to respond to enquiries.

Future Tasks and Recommendations

a) Increase of Subscribers to E-Mail Newsletter

The number of subscribers should be considerably increased by means of enlarging the server and adopting an automatic mail sending system. If 69,000 B/Ks are considered to be the main targets, the target number to be achieved in the near future could be 20,000 to 30,000.

b) Divided Roles to Answer Enquiries on the Application of Accounting Standards (Long-Term Task)

It is desirable for the DBD to urge the FAP to consolidate the latter's accounting consultation service so that the DBD and the FAP play their own roles corresponding to the nature of specific questions.

The questions posed by companies relating to the application of accounting standards should essentially be answered by accounting firms providing accounting or audit services for these companies. As these accounting firms know the business of their clients, they can provide more appropriate answers than the DBD in most cases. At present, companies appear to make enquiries to the DBD as they do not want to pay an extra fee to an accounting firm. However, further consolidation of the free service by the DBD may obstruct the business expansion of accounting firms. While there may be cases where an accounting firm (or a B/K or auditor) makes an enquiry to the DBD, it is difficult for a BBS staff member who is not engaged in practical accounting work to answer something which an accounting expert does not understand.

Under these circumstances, the establishment of a system where 1) the questions posed by companies are answered by accounting firms and 2) the questions posed by accounting firms are answered by accounting experts with rich experience is desirable. In the light of the purport of the Accounting Professions Act, it appears to be appropriate for the answers to questions posed by accounting firms to be answered by the FAP. The Accounting Act demands that all juristic persons use a B/K while the Accounting Professions Act demands that all B/Ks become members of (or register with) the FAP. If the FAP establishes a solid accounting consultation service for its members, all juristic persons will be able to enjoy this service via B/Ks. However, the FAP's capacity has not built to

take such responsibility. The DBD has to continue to reply those inquiries for the time being, and support the FAP to enhance its capacity.

2.2 CPD System for B/Ks

Analysis of the Present Situation

B/Ks are institutionalized under the Accounting Act of 2000 and some 69,000 B/Ks are currently registered with the DBD. The Accounting Act demands that B/Ks undergo continuous training and the continual professional development (CPD) system was introduced in August, 2004.

The CPD system is a mechanism to facilitate the continual capacity building of B/Ks and is crucial for the proper functioning of the B/K system. Given the fundamental purpose of the CPD system, it is desirable for educational institutions in the private sector to provide a variety of training courses for B/Ks based on the ability and interests of individual B/Ks. However, there is concern in regard to the insufficient provision of training courses for B/Ks working in local areas as it is likely that most training courses are based in Bangkok and other big cities.

Outcomes of the TA Program

In August, 2004 prior to the start of the CPD system, the Study Team compiled the first set of recommendations. Out of these recommendations, the DBD adopted publicity using the website and the e-mail function (e-mail newsletter), use of the website to declare CPD achievements and the introduction of a self-learning program. The Study Team provided assistance for the issue of the e-mail newsletter and the development of a self-learning program while publicizing the CPD to potential CPD training providers at a CPD seminar.

As a result, 1,115 CPD courses provided by 106 CPD training providers have been certified by the DBD as of 7th November, 2005, indicating a fairly smooth start to the CPD system for B/Ks in general. The introduction of a self-learning program developed to compensate for the shortage of training courses in local areas is expected to provide the opportunity for all B/Ks to undergo a CPD course.

Future Tasks and Recommendations

1) Assured Training Opportunities for B/Ks in Local Areas

As of November, 2005, 31% of B/Ks are registered in local areas, while only 10% of the existing CPD courses are organized by CPD training providers based in local areas. The shortage of training opportunities in local areas is also illustrated by the fact that 59 out of 75 provinces have no local CPD training providers. CPD training providers feel that it is difficult to organize training in local areas because of uncertainties regarding the possible number of participants and the profitability.

The system could not achieve its purposes if many B/Ks fail to meet their obligation because of the shortage of training courses in local areas. As a provisional measure to deal with this shortage, a self-learning program was developed under the TA Program. In the short term, it is important for the DBD to provide the opportunity to attend a CPD training course, which is a legal obligation, for all B/Ks by spreading this program in all local areas.

In view of the fundamental purpose of the CPD system, however, it is desirable for B/Ks in local areas to be able to select a course from among a variety of training courses to suit their own abilities and interests. The provision of a variety of training opportunities for B/Ks in local areas will, therefore, be essential in the long run by means of utilizing e-learning and other methods.

2) Punitive Measures for Those Failing to Meet Their Obligation

The introduction of measures to warn and punish those B/Ks which fail to meet their obligation is necessary to avoid the situation of a vicious cycle where those honest B/Ks abiding by the rules feel cheated, thus increasing the number of violations.

2.3 Accounting Firms Providing Services for SMEs

Analysis of the Present Situation

As many SMEs actually use an accounting firm, it will be more effective to try to improve the accounting practices of these companies via accounting firms rather than the direct inspection of and guidance for SMEs by the DBD in the form of the inspection of accounting documents.

Many accounting firms in Thailand are small and their business management base is weak. Their clients have a strong tendency to emphasize a low fee level rather than service quality. As the proper execution of accounting services by accounting firms makes tax evasion and the personal use of company assets, etc. more difficult, it is not unusual for the owner of a SME to avoid an accounting firm which properly conducts the work and to seek a firm which is willing to follow instructions.

While the CPD system for B/Ks is consolidating the base for individual B/Ks to spontaneously seek their own capacity building, many staff members of accounting firms are not qualified B/Ks. Accounting firms acting as organizations provide services for their clients and capacity building at the organizational level, including quality management and personnel management, is necessary to enable them to maintain a high level of work ethics and to provide appropriate services.

In 2002, the DBD organized a training course for accounting firms for the first time and, following the reorganization of the BBS in March, 2005, the DBD considers the capacity building of accounting firms to be one of the important policies and measures of the DBD/BBS.

Outcomes of the TA Program

Following the reorganization in March, 2005, the BBS has been making wide-ranging efforts in regard to the capacity building of accounting firms. Apart from the work listed below which was assisted by the Study Team, these efforts include examination of the introduction of a system to award excellent accounting firms and the sponsorship of general training courses.

- 1) An advanced training course (three days) for owners of accounting firms was held and the case of the TKC² in Japan was introduced as a main topic. Following this course, the voluntary efforts of owners of accounting firms have made much progress, including a study tour to Japan voluntarily organized by some of the participants of the training course.
- 2) Draft service guidelines for accounting firms were prepared to prompt the qualitative improvement of accounting firms and were introduced at the advanced training course. The guidelines have a good potential to act as an effective tool for the qualitative improvement of accounting firms in the coming years.

Future Tasks and Recommendations

The continuous voluntary commitment of accounting firms to the qualitative improvement of their services is necessary with the assistance of the DBD. Given the limited capacity of individual accounting firms, it should prove effective for accounting firms to collaborate with one another in terms of the development of tools for work management and staff training, the development of accounting software and the mutual introduction of successful cases, etc.

Some of the seemingly effective measures to be adopted by the DBD are explained below.

- 1) Development of a mechanism whereby good money drives out bad money or where the business of accounting firms providing proper services expands because of their good reputation. For example, an award system for excellent accounting firms should produce the motivation for accounting firms to improve the quality of their services.
- 2) Revision of the service guidelines for accounting firms which were prepared under the TA Program to make them more practical and their spread for general use.
- 3) Introduction of the actual work of excellent accounting firms in Thailand and abroad at training courses and on other opportunities and the provision of “places” for accounting firms to facilitate their collaboration.

2) The TKC is a network of accounting firms in Japan.

2.4 Systems and Policies Relating to Accounting

(1) Accounting and Audit System for SMEs

Analysis of the Present Situation

Even though a very strict system, including the compulsory requirement for all juristic persons to undergo financial audit, is applied to SMEs, the reality of system operation is far from ideal. In particular, the following facts can be pointed out.

- 1) Some two-thirds of registered partnerships, i.e. the form of business preferred by many small companies, fail to submit their financial statements to the DBD.
- 2) The number of CPAs conducting auditing of some 6,000 is very small compared to the some 200,000 companies subject to a CPA audit.
- 3) Even though small partnerships are exempt from a CPA audit under the Accounting Act of 2000, the intended alleviation of the audit burden on these partnerships has not been realized because of the compulsory tax audit imposed by the Revenue Department.
- 4) Many of the accounting standards introduced in 2000 and afterwards are too complex for SMEs to apply. Therefore, some accounting standards are exempt for companies other than public limited companies under a notification of the Ministry of Commerce.

Outcomes of the TA Program

The accounting standards for the SME project of the IASB were extensively introduced to the persons concerned through a seminar on the accounting standards for SMEs and a round table talk. In addition, a workshop on systems and measures relating to the accounting and auditing of SMEs was held as part of the BBS staff training and some useful cases for the planning of measures were introduced. As a result, there is a growing commitment by the DBD and the FAP to prepare accounting standards for SMEs in Thailand, referring to the examples of the IASB and other countries. The FAP, which has the authority to establish accounting standards, expressed its intention to establish accounting standards for SMEs based on the IASB standards after the completion of the IASB project. Meanwhile, the DBD intends to proceed with the translation of the Japanese Guidelines for Accounting of SMEs

(publicly announced in August, 2005) into Thai with a view to their use as reference materials.

Future Tasks and Recommendations

1) Exemption of Small Companies from Audit Requirement

The Study Team recommends the revision of the Accounting Act, the Civil and Commercial Code and the Revenue Code with a view to their exemption from the audit requirement.

At present, auditing is not a compulsory requirement for small companies in many countries from the cost-benefit viewpoint. Given the fact that the number of CPAs in Thailand is only some 6,000, reduction of the number of companies subject to auditing is necessary to improve the quality of auditing.

The rules of auditing for limited companies are set forth in the Civil and Commercial Code. It is, therefore, necessary to revise both the Accounting Act and the Civil and Commercial Code to exempt small limited companies from their obligated to have their accounts audited. Moreover, the audit burden on small companies cannot realistically be alleviated unless the rules of audit stipulated by the Revenue Code are also revised to avoid the repeat of the positive effect of the Accounting Act of 2000 to exempt small companies from the obligation to have their accounts audited by the introduction of the tax audit system based on the Revenue Code.

2) Preparation of Accounting Standards for SMEs

It is difficult for SMEs to comply with the TAS developed to primarily target listed companies, making the preparation of accounting standards for SMEs an urgent task. In view of the fact that the TAS have been developed based on the International Financial Reporting Standards (IFRS) of the IASB, it will be appropriate for the FAP which has the authority to establish accounting standards to prepare new accounting standards for SMEs in Thailand, referring to the IASB's accounting standards for SMEs of which the preparation is in progress.

(2) Electronic Financial Data and XBRL

Analysis of the Present Situation

The Government of Thailand is proceeding with efforts to develop an electronic form of government services, including applications, notifications and access to administrative information. The situation of the use of electronic data in the financial field is outlined below.

- 1) Electronic disclosure of data on listed companies on the Stock Exchange of Thailand (SET) website
- 2) Provision of a fee-charging on-line service by Business Online to allow access to financial statements submitted to the DBD; access to part of the above electronic data on the DBD website
- 3) Commencement of electronic tax returns

The electronic data mentioned above uses such formats as XML, Word, Excel and PDF. Meanwhile, XBRL (eXtensible Business Reporting Language) which can be easily used for the secondary processing of data has become the de facto global standard for computer languages for financial reporting but the existence of XBRL was hardly known in Thailand prior to the TA Program.

Outcomes of the TA Program

As a result of the publicity of XBRL through the relevant seminar and round table talk, local activities to introduce this language commenced. The SET in particular showed strong interest and sent a delegation of seven members to the 12th International XBRL Conference held in Tokyo in November, 2005.

Future Tasks and Recommendations

The first step is the establishment of a body to promote the introduction of XBRL with the participation of wide-ranging stakeholders. In many countries, an organization of professional accountants acts as the main body to promote XBRL because of its neutrality and mobility as a private sector organization. From this viewpoint, the Study Team believes that the FAP is the most suitable body in Thailand to promote XBRL. Meanwhile, it is desirable for the DBD and other

government bodies to assist the FAP's activities in terms of funding and human resources while considering the adoption of XBRL for their own activities.

3. General Conclusions: Strengthening of Thai SMEs with Proper Accounting Practices

The purpose of the development of an accounting system or that of the Accounting Act is to contribute to the sound development of companies through improved accounting practices, thereby contributing to the development of the national economy. The DBD which is responsible for enforcement of the Accounting Act must always operate the system with full awareness of the Act's purposes. While enforcement of the system itself tends to become the sole purpose, the system is a tool to improve the actual situation rather than a purpose.

The current situation of SMEs on which the TA Program primarily focused is a huge gap between the principle and the reality regarding the system required by the Accounting Act. As such, the materialization of sound business management and the appropriate supply of information to external stakeholders, both of which are sought by the Accounting Act, have a long way to go. Under these circumstances, the DBD which is responsible for management of the system must identify the important as well as fundamental problems and their causes from the viewpoint of improving actual accounting practices which is the purpose of the system and deal with them as a matter of priority. The Study Team believes that the biggest reason for the lack of proper accounting lies with the attitude of SME owners who view accounting simply as a legal obligation and have little understanding of its usefulness for the management of their companies. Accounting is an important tool for business management and the viewpoint of using this tool to strengthen companies and for the sound development of the national economy must not be forgotten. While it is difficult to change the attitude and awareness of company owners, this must be achieved under a long-term perspective.

Accounting in Thailand is conducted by such accounting professionals as auditors and B/Ks in the private sector. The improvement of accounting practices cannot be achieved without collaboration between the DBD/BBS and these accounting professionals. The fact that the DBD/BBS have begun intensive efforts to foster accounting firms is highly valued from this viewpoint. Japan's experience shows that the persistent and committed pursuit of clients by accounting firms can achieve a positive change of the attitude and awareness of SME owners.

The enforcement of the Accounting Professions Act has given the FAP important roles to be played as a self-regulatory body for accounting professions. It is important for the FAP to strengthen its capacity to fulfill the roles expected by the Accounting Professions Act. Meanwhile, the DBD/BBS must seek the improvement of accounting practices in Thailand through the appropriate division of roles as well as collaboration with the FAP.