Law on Certified Public Accountants of the People’s Republic of China

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Chapter I — General Provisions

Article 1 — This Law is enacted for the purpose of bringing into play the role of certified public accountants in the social and economic activities, strengthening the administration of certified public accountants, safeguarding the lawful rights and interests of the public interest and investors, and promoting the healthy development of the socialist market economy.

Article 2 — A certified public accountant is a professional who has obtained a certified public accountant certificate in accordance with the law and is entrusted to engage in audit business, accounting consultancy, and accounting service business.

Article 3 — An accounting firm is an institution established in accordance with the law to undertake the business of certified public accountants. Certified public accountants shall practice in accounting firms.

Article 4 — The institute of certified public accountants is a public organization with the status of a legal person formed in accordance with the law by certified public accountants. The Chinese Institute of Certified

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Public Accountants is the national organization of certified public accountants. The institute of certified public accountants of a province, autonomous region, or municipality directly under the Central Government is the local organization of certified public accountants.

Article 5 — The public finance department under the State Council and the public finance departments of the people's governments of provinces, autonomous regions, and municipalities directly under the Central Government shall supervise, administer, and guide certified public accountants, accounting firms, and the institutes of certified public accountants in accordance with the law.

Article 6 — Certified public accountants and accounting firms shall abide by laws and administrative regulations in conducting their business. Certified public accountants and accounting firms shall independently and impartially conduct their business in accordance with the law and shall be protected by law.

Chapter II — Examination and Registration

Article 7 — The State shall adopt a uniform national examination system for certified public accountants. The measures for the uniform national examination for certified public accountants shall be formulated by the public finance department under the State Council and shall be organized and implemented by the Chinese Institute of Certified Public Accountants.

Article 8 — A person with a college or university degree or above, or with an intermediate or higher professional technical title in a relevant field, may apply to sit for the uniform national examination for certified public accountants.

Article 9 — A person who has passed the uniform national examination for certified public accountants and has been engaged in audit business for two or more years may apply for registration with the institute of certified public accountants of the province, autonomous region, or municipality directly under the Central Government. A person who meets the requirements for registration shall be granted registration by the institute of certified public accountants and shall be reported to the public finance department under the State Council for filing. The public finance department under the State Council shall revoke the registration if it discovers that the registration by the institute of certified public accountants does not conform to the provisions of this Law.

Article 10 — In any of the following circumstances, the applicant shall not be registered: (1) being a person without civil capacity or with limited civil capacity; (2) having received a criminal penalty, where less than five years have elapsed from the date of completion of the sentence to the date of application for registration; (3) having received an administrative sanction of being dismissed from public office or having had the certified public accountant certificate revoked, where less than five years have elapsed from the date of the penalty decision to the date of application for registration; (4) having been subject to an administrative penalty for providing false certification documents in financial, accounting, audit, enterprise management, or other economic activities, where less than five years have elapsed from the date of the penalty decision to the date of application for registration; (5) other circumstances under which the public finance department under the State Council stipulates that registration shall not be granted.

Article 11 — Where a person who has obtained a certified public accountant certificate ceases to practice in an accounting firm, his or her registration shall be revoked and the certificate shall be withdrawn.

Article 12 — The institute of certified public accountants shall revoke the registration and withdraw the certified public accountant certificate of a person found in any of the circumstances mentioned in Article 10 of this Law.

Article 13 — Where a person who has been denied registration or whose registration has been revoked disagrees with the decision, he or she may apply to the public finance department under the State Council

for reconsideration or bring a lawsuit before the people's court within 15 days of receiving the notice.

Chapter III — Scope of Business and Rules

Article 14 — Certified public accountants shall undertake the following audit business: (1) examining the accounting statements of enterprises and issuing audit reports; (2) verifying the capital of enterprises and issuing capital verification reports; (3) handling audit business in connection with the merger, division, or liquidation of enterprises and issuing relevant reports; (4) other audit business provided for by laws and administrative regulations. The reports issued by certified public accountants in accordance with the law in conducting audit business shall have the effect of proof.

Article 15 — Certified public accountants may undertake accounting consultancy and accounting service business.

Article 16 — An agreement to engage a certified public accountant to undertake business shall be entered into by the accounting firm with the client in a unified manner. When undertaking business, the accounting firm shall not be subject to restriction by any administrative region or industry.

Article 17 — When conducting business, a certified public accountant may, in accordance with the needs of the business, consult the relevant accounting materials and documents of the client, view the business site and facilities of the client, and request the client to provide other necessary assistance.

Article 18 — A certified public accountant who has an interest in the client shall recuse himself or herself. The client shall have the right to request a recusal.

Article 19 — Certified public accountants shall have the obligation to keep confidential the commercial secrets of the client learned about in the course of their business.

Article 20 — When conducting audit business, a certified public accountant shall refuse to issue a report under any of the following circumstances: (1) where the client indicates that the certified public accountant should make false or improper certification; (2) where the client intentionally fails to provide relevant accounting materials and documents; (3) where, due to unreasonable requests from the client, the certified public accountant is unable to express an opinion on important items in the financial and accounting reports.

Article 21 — When conducting audit business, certified public accountants must prepare an audit report in accordance with the practice standards and rules. When conducting audit business, certified public accountants shall not commit any of the following acts: (1) where they know or should know that the client's accounting treatment of an important item is inconsistent with relevant State provisions, but they fail to point this out; (2) where they know that the client's accounting treatment will directly impair the interests of the users of the report or other interested parties, but they conceal or make false statements about it; (3) where they know that the client's accounting treatment of an important item is inconsistent with relevant State provisions, but they fail to point this out; (4) where they know that the client's accounting statements have materially false content, but they fail to point this out. Certified public accountants who issue reports in accordance with the practice standards and rules shall not bear legal liability.

Article 22 — A certified public accountant shall not commit any of the following acts: (1) buying or selling the stocks or bonds of the client whom he or she is auditing during the period of conducting the audit; (2) demanding or accepting remuneration or other financial benefits outside of the agreement, or taking advantage of his or her business position to seek other illegitimate benefits; (3) acting as a mandatory agent to collect debts from the client; (4) allowing another person to practice in his or her name; (5) practicing in two or more accounting firms at the same time; (6) advertising to solicit business; (7) other acts in violation of laws or administrative regulations.

Chapter IV — Accounting Firms

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Article 23 — An accounting firm may be established as a partnership or as a limited liability legal person.

Article 24 — The establishment of an accounting firm shall meet the following conditions: (1) having articles of association or partnership agreement in conformity with the law; (2) having the registered capital or capital contribution in conformity with the law; (3) having a certain number of full-time practicing personnel, among whom there shall be a certain number of certified public accountants; (4) having a fixed place of business; (5) other conditions prescribed by the public finance department under the State Council. Where a limited liability legal person form is adopted, there shall be not less than five certified public accountants. Where a partnership form is adopted, there shall be not less than two certified public accountants and the net assets of the firm shall be not less than the prescribed amount.

Article 25 — To establish an accounting firm, an application shall be submitted to the public finance department of the people's government of the province, autonomous region, or municipality directly under the Central Government for approval. The approving authority shall make a decision within 30 days. The applicant shall carry out registration procedures with the administrative department for industry and commerce within 20 days of receiving the approval document.

Article 26 — The approving authority shall issue a certificate of approval to an accounting firm that meets the conditions. A partnership accounting firm shall use the term "partnership" in its name.

Article 27 — An accounting firm that intends to establish a branch office shall be subject to the approval of the public finance department of the people's government of the province, autonomous region, or municipality directly under the Central Government at the place where the branch office is to be located.

Article 28 — An accounting firm shall, in accordance with the law, pay taxes. An accounting firm shall establish a risk fund for professional liability in accordance with the provisions of the public finance department under the State Council, or take out professional liability insurance.

Article 29 — An accounting firm accepting business shall not be restricted by any administrative region or industry. No entity or individual may interfere.

Article 30 — Where a matter falls within the statutory scope of audit business, no entity or individual may interfere with the certified public accountant and the accounting firm in the conduct of business. Where the client requests a certified public accountant to issue false or improper certification, the certified public accountant shall refuse.

Article 31 — The public finance department under the State Council and the public finance departments of the people's governments of provinces, autonomous regions, and municipalities directly under the Central Government shall supervise and inspect accounting firms. Accounting firms shall regularly submit to the public finance department business reports and other materials relating to their business conditions.

Article 32 — The provisions of Articles 14, 16, and 17 of this Law shall apply to accounting firms.

Chapter V — Institute of Certified Public Accountants

Article 33 — Certified public accountants shall join an institute of certified public accountants.

Article 34 — The articles of association of the Chinese Institute of Certified Public Accountants shall be formulated by the national members' congress and shall be reported to the public finance department under the State Council for filing. The articles of association of the institute of certified public accountants of a province, autonomous region, or municipality directly under the Central Government shall be formulated by the local members' congress and shall be reported to the public finance department of the people's government of the province, autonomous region, or municipality directly under the Central Government for filing.

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Article 35 — The Chinese Institute of Certified Public Accountants shall formulate professional standards and rules for certified public accountants in accordance with the law, and shall report to the public finance department under the State Council for approval before implementation.

Article 36 — The institute of certified public accountants shall provide support for the practice of certified public accountants, safeguard their lawful rights and interests, reflect their opinions to relevant authorities, and summarize and exchange their practical experience.

Article 37 — The institute of certified public accountants shall conduct annual inspections of the professional qualifications and practice performance of certified public accountants.

Article 38 — The institute of certified public accountants shall obtain the status of a legal person in accordance with the law.

Chapter VI — Legal Liability

Article 39 — Where an accounting firm, in violation of the provisions of Articles 20 and 21 of this Law, issues a false audit report or capital verification report, or the report issued has material omissions, the public finance department of the people's government at or above the provincial level shall issue a warning to the accounting firm and confiscate the illegal income. A fine of not less than one time but not more than five times the illegal income may also be imposed. If the circumstances are serious, the public finance department may also suspend its business operations or revoke the certificate of approval. Where a certified public accountant intentionally issues a false audit report or capital verification report, and a crime is constituted, criminal liability shall be pursued in accordance with the law.

Article 40 — Where a person who has not obtained a certified public accountant certificate practices under the name of a certified public accountant, the public finance department of the people's government at or above the county level shall order the person to cease the illegal practice, confiscate the illegal income, and may also impose a fine of not less than one time but not more than five times the illegal income.

Article 41 — Where a party refuses to accept the decision on an administrative penalty, it may apply for administrative reconsideration or bring a lawsuit before the people's court within 15 days of receiving the penalty notice. Where a party neither applies for reconsideration nor brings a lawsuit before the people's court, nor complies with the penalty decision within the prescribed period, the authority that made the penalty decision may apply to the people's court for compulsory enforcement.

Article 42 — Where an accounting firm, in violation of the provisions of this Law, causes damage to the client or other interested parties, it shall bear the liability for compensation in accordance with the law.

Article 43 — The public finance department under the State Council shall formulate specific measures for the administration of certified public accountants and accounting firms.

Article 44 — Where functionaries of the public finance departments commit malpractices for personal gain, abuse their powers, or neglect their duties in the course of supervision and administration, they shall be subject to administrative sanctions in accordance with the law. Where a crime is constituted, criminal liability shall be pursued in accordance with the law.

Chapter VII — Supplementary Provisions

Article 45 — Foreign accounting firms that intend to establish permanent representative offices within the territory of China, or to set up branches, or to apply for membership in Chinese accounting firms shall be handled in accordance with the provisions of the State Council.

Article 46 — This Law shall take effect as of January 1, 1994. The revision to this Law shall take effect as of the date of promulgation.

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