Several Provisions on the Administration of Accounting Firms of the PRC

Dan Young Business Consultancy — www.danyoungcpa.com

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Chapter I — General Provisions

Article 1 — These Provisions are formulated in accordance with the Law of the People's Republic of China on Certified Public Accountants and other relevant laws and administrative regulations for the purpose of strengthening the supervision and administration of accounting firms, standardizing the practice of certified public accountants, promoting the sound development of the certified public accountant profession, and exerting the role of the profession in the economic and social development of China.

Article 2 — Accounting firms are intermediary service institutions lawfully established and independently undertaking certified public accountant business. Accounting firms shall comply with laws, administrative regulations, and these Provisions in their establishment, modification, practice and operation.

Article 3 — The Ministry of Finance and the financial departments (bureaus) of the people's governments of provinces, autonomous regions, and municipalities directly under the Central Government shall supervise, administer, and provide guidance to accounting firms in accordance with the law. The Institute of Certified Public Accountants shall, in accordance with the law, exercise self-disciplinary management over accounting firms and shall accept the supervision and guidance of the financial departments.

Article 4 — An accounting firm shall establish a partnership-based or internal governance structure that is commensurate with its scale, strengthen risk management and quality control, and undertake corresponding legal liability for its practice.

Chapter II — Establishment of Accounting Firms

Article 5 — An accounting firm may be established in the form of a general partnership or a limited liability partnership.

A general partnership accounting firm shall be liable for its debts with the entire property of the partnership. A limited liability partnership accounting firm shall, for its debts incurred in the course of practice, be liable with the entire property of the partnership; partners who caused the debt through intentional acts or gross negligence shall bear unlimited joint and several liability, while other partners shall bear liability limited to their respective capital contributions.

Article 6 — To establish a general partnership accounting firm, the following conditions shall be met: (1) there are two or more partners, and the partners meet the conditions prescribed by these Provisions; (2) there is a written partnership agreement; (3) the accounting firm has a name and premises; (4) other conditions prescribed by laws and administrative regulations.

Article 7 — A partner of an accounting firm shall meet the following conditions: (1) holding a Chinese certified public accountant certificate, having obtained the qualification of a certified public accountant for not less than 5 years, and having engaged in audit practice at an accounting firm for not less than 3 consecutive years, with a good professional record in the most recent 3 years; (2) being a natural person with full capacity for civil conduct; (3) not having been subject to an administrative penalty of suspension of practice or revocation of the certified public accountant certificate within the most recent 5 years; (4) other conditions prescribed by the financial department under the State Council.

Article 8 — To establish a limited liability partnership accounting firm, in addition to meeting the conditions prescribed in Articles 6 and 7 of these Provisions, the following conditions shall also be met: (1) there are not less than 25 partners, and not less than 50 certified public accountants; (2) the amount of capital contribution meets the provisions of the financial department under the State Council; (3) its name includes the words "limited liability partnership".

Article 9 — The establishment of an accounting firm shall be subject to application, examination and approval by the financial department. The applicant shall submit an application to the financial department of the provincial-level people's government where the proposed accounting firm is to be located, and the financial department of the provincial-level people's government shall conduct the examination and make a decision on whether to grant the approval.

Article 10 — The financial department shall, within 30 days from the date of acceptance of the application, make a decision on whether to grant the approval. Where the approval is granted, a practice certificate for the accounting firm shall be issued. Where the approval is not granted, the reasons shall be stated in writing.

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Article 11 — An accounting firm shall register with the administrative department for industry and commerce within 20 days from the date of obtaining the practice certificate and shall file with the local financial department for record within 20 days from the date of completing the registration.

Chapter III — Branches of Accounting Firms

Article 12 — An accounting firm that meets the following conditions may establish a branch: (1) it has been lawfully established and has been in practice for not less than 3 years, with a good internal management system and no record of administrative penalties for practice-related violations in the most recent 3 years; (2) it has not less than 50 certified public accountants (not less than 30 for an accounting firm established before the implementation of these Provisions); (3) other conditions prescribed by the financial department under the State Council.

Article 13 — To establish a branch, the accounting firm shall submit an application to the financial department of the provincial-level people's government where the branch is to be located. The financial department of the provincial-level people's government shall conduct the examination and make a decision on whether to grant the approval within 20 working days.

Article 14 — A branch shall have at least 5 certified public accountants, and the person in charge of the branch shall be a partner of the accounting firm and shall hold a Chinese certified public accountant certificate.

Article 15 — A branch shall carry out business within the scope of practice authorized by the accounting firm as a whole. The accounting firm shall assume civil liability for the business activities of its branches in accordance with the law.

Chapter IV — Practice Management

Article 16 — An accounting firm and its certified public accountants shall abide by professional ethics and practice standards, and exercise professional judgment independently, objectively and impartially.

Article 17 — An accounting firm shall establish and improve a quality control system and implement an internal three-level review system to ensure the quality of practice.

Article 18 — An accounting firm shall purchase professional liability insurance or establish a professional risk fund in accordance with the law to enhance its risk-resistance capability.

Article 19 — An accounting firm shall not commit any of the following acts: (1) issuing an audit report for an entity or individual with whom it has an interest relationship not disclosed; (2) failing to perform necessary audit procedures, failing to obtain sufficient and appropriate audit evidence and issuing an audit report; (3) issuing a false audit report or an audit report with material omissions while knowing or being reckless as to the fact; (4) concealing any problems discovered in the course of an audit or issuing an inappropriate audit opinion; (5) engaging in audit business without the signature of a certified public accountant qualified for the business; (6) soliciting business by paying referral fees, kickbacks, or by other commercial bribery means; (7) soliciting business at a price significantly below the industry standard or by other means of unfair competition; (8) allowing another entity or individual to engage in audit business in its name; (9) other acts prohibited by laws and administrative regulations.

Article 20 — An accounting firm shall properly keep its audit work papers and relevant materials. The retention period for audit work papers shall be not less than 10 years.

Chapter V — Supervision and Administration

Article 21 — The financial departments shall strengthen daily supervision and special inspections of accounting firms. The main contents of inspections include: (1) whether the conditions for establishment and

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practice are continuously satisfied; (2) whether there is compliance with professional ethics and practice standards; (3) the establishment and operation of the internal management system and quality control system; (4) the practice quality and risk management; (5) the basic information and operational status of the accounting firm; (6) other matters prescribed by laws and administrative regulations.

Article 22 — The financial departments may, when conducting inspections, take the following measures: (1) examining the practice premises and conducting on-site inspections; (2) questioning partners, certified public accountants and other relevant persons; (3) accessing and copying audit working papers, contracts, account books, vouchers and other relevant materials; (4) retaining audit working papers and relevant evidence that may be transferred, concealed, destroyed or tampered with.

Article 23 — The financial departments shall make public the results of inspections in a timely manner and shall handle complaints and reports in accordance with the law.

Article 24 — Accounting firms shall submit the relevant operational information and financial information to the financial departments on an annual basis in accordance with the law, and shall be responsible for the truthfulness and completeness of the information submitted.

Chapter VI — Legal Liability

Article 25 — Where an accounting firm is established without approval in violation of these Provisions, the relevant financial department shall order it to cease its illegal practice and confiscate its illegal gains, and may impose a fine of not less than one time but not more than five times the illegal gains.

Article 26 — Where an accounting firm commits any of the acts listed in Article 19 of these Provisions, the relevant financial department shall give a warning, confiscate its illegal gains, and may impose a fine of not less than one time but not more than five times the illegal gains; where there are no illegal gains, a fine of not more than RMB 50,000 may be imposed; where the circumstances are serious, the accounting firm may be ordered to suspend its practice or its practice certificate may be revoked.

Article 27 — Where an accounting firm practices without reporting to the local financial department for filing in accordance with the law, the relevant financial department shall order it to make corrections and may impose a fine of not more than RMB 10,000.

Article 28 — Where an accounting firm refuses or obstructs a lawful inspection by the financial department, the financial department shall order it to make corrections and may impose a fine of not less than RMB 5,000 but not more than RMB 50,000.

Chapter VII — Supplementary Provisions

Article 29 — Foreign accounting firms establishing resident representative offices in China, and foreign accounting firms and accounting firms from the Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan region applying for temporary practice permits in China, shall follow separate provisions formulated by the Ministry of Finance.

Article 30 — The specific measures for the implementation of professional liability insurance and professional risk funds for accounting firms shall be separately formulated by the Ministry of Finance.

Article 31 — The Ministry of Finance shall be responsible for the interpretation of these Provisions.

Article 32 — These Provisions shall come into force on the date of promulgation. The former Provisions on the Administration of Accounting Firms promulgated by the Ministry of Finance shall be repealed simultaneously.

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