

Supervision Regulations on Audit of Financial Statements of Listed Companies

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Chapter I General Provisions

- Article 1** The *Supervision Regulations on the Audit of Financial Statements of Listed Companies* (hereinafter referred to as “the Regulations”) are formulated in line with *Charter of the Chinese Institute of Certified Public Accountants*, for the purposes of regulating and improving the supervision of the audit of financial statements of listed companies (hereinafter referred to as “financial statement audit”), as well as specifying the responsibilities and procedures of the Chinese Institute of Certified Public Accountants (hereinafter referred to as “the CICPA”) in financial statement audit supervision.
- Article 2** In the Regulations, financial statement audit supervision refers to the CICPA monitoring the entire financial statement audit process of accounting firms (hereinafter referred to as “firms”), including the processes prior to, during and after the audit.
- Article 3** The supervision of financial statement audit should be risk-oriented, with the core of following and monitoring the audit quality of financial statements; with the objectives of safeguarding the public interests, stabilizing the capital market and improving the quality of financial statement audit; with the focus of risk assessment, early warning and risk prevention.
- Article 4** During the supervision, practical and effective measures should be taken to support and help CPAs to adhere to the principles of integrity, independence, objectivity and impartiality. The CICPA shall supervise and guide firms to improve quality control system and governance mechanism, strengthen integrity, ethics and quality risk control so as to constantly elevate the practice quality of the profession.
- Article 5** The supervision of financial statement audit should combine supervision, filing and analysis, combine classified guidance and individual coaching, combine daily tracking and regular disclosure, and combine supervision results with quality review.
- Article 6** The Quality Assurance Department of the CICPA is responsible for organizing and implementing audit supervision. The Quality Assurance Department shall set up specific positions and designate personnel to take charge of the supervision work and record keeping.
- Article 7** To ensure the quality of financial statement audit supervision, importance should be attached to the roles of experts. Supervisory information database should be progressively enhanced to provide technical and information support.

Chapter II Main Tasks Prior to Financial Statement Disclosure

Article 8 Prior to the disclosure of financial statements, the Quality Assurance Department shall set up an expert advisory panel. The panel consists of experts from firms and local institutes of CPAs whose major responsibilities are to assist the CICPA in analyzing financial statements and identifying high-risk clients for firms, analyze potential key risk areas and quality control-related problems for firms, and propose countermeasures and suggestions.

Article 9 Prior to the disclosure of financial statements, the Quality Assurance Department shall notify firms and CPAs regarding financial statement audit, requiring them to implement risk-oriented audit concept, observe strictly the requirements of practicing standards, pay close attention to major auditing risks, reinforce quality risk management, all to ensure the quality of financial statement audit.

Article 10 In principle, prior to the disclosure of financial statements, the Quality Assurance Department shall hold a work conference on financial statement audit for firms with securities and futures qualifications, to announce the results of current year 's audit supervision and quality review, as well as make specific requirements for the upcoming financial statement audit.

Article 11 Prior to the disclosure of financial statements, the Quality Assurance Department shall issue notifications on filing of audit business, requiring firms to follow the instructions of audit filing and ensure the information is truthful, accurate, complete and reported in a timely manner.

Article 12 Prior to the disclosure of financial statements, the Quality Assurance Department shall collect relevant materials as required for the supervision work during the disclosure period.

Chapter III Main Tasks During the Disclosure Period

Article 13 In order to strengthen the audit supervision during the disclosure period and make the supervision work sustainable, relevant and effective, the Quality Assurance Department shall launch response-on-demand interview during the disclosure period to inform firms about the potential audit risks.

Article 14 The response-on-demand interview shall focus on specific themes that are closely related to risk-prevention and risk-mitigation in the audit. The themes should also reflect and address the key problems in the audit. When deciding upon the theme, the Quality Assurance Department shall take into consideration relevant government policies, development of the capital market and major problems confronted by the profession.

Article 15 Prior to the response-on-demand interview, the Quality Assurance Department shall determine which firms are good matches for the themes. The Quality Assurance Department shall take into consideration the analysis of the information revealed by listed companies, media coverage, public tip-offs, quality review results of previous years and the opinion of the expert advisors.

Article 16 The personnel from firms should include chief accountant, partner in charge of quality control or technology, project partner and audit partner.

Article 17 Before the response-on-demand interview, the Quality Assurance Department shall send a letter to the designated firm and require the firm to submit a report of the audit project within a given time.

After the interview, the Quality Assurance Department shall follow up the audit project and require the firm to submit a detailed report to the CICPA regarding the audit project within a certain timeframe.

Article 18 Apart from the response-on-demand interview to alert the firms about the potential risks, the Quality Assurance Department can contact the firms with high-risk clients to learn about the situation and send letters of communication, asking them to submit a report concerning the audit situation of these high-risk clients.

Article 19 If disclosed financial statements are subjected to media question and public tip-offs, or should there be inappropriateness in their audit reports, the Quality Assurance Department shall contact the concerned firms to investigate. Methods such as face-to-face communication and project inspection can be employed if necessary.

Article 20 During the disclosure period, the Quality Assurance Department shall dispatch personnel to follow the updates, and publish weekly bulletin on financial statement audit on the website.

Article 21 The bulletin on financial statement audit should include basic information of the disclosure, the number and types of audit reports issued by firms, the reasons for firms to issue non-standard reports, and the change of audit firms. Problems and issues in the interest of the public and the capital market could also be included in the bulletin.

Article 22 In order to strengthen supervision and appropriate and timely guidance of financial statement audit, the Quality Assurance Department shall summarize the auditing status of financial reports on a regular and as-needed basis during the disclosure period, as well as publishing the briefings or reports on *Chinese CPA Magazine*.

Article 23 During the disclosure period, the Quality Assurance Department shall dispatch personnel to supervise and guide firms to report information concerning change of audit firms.

If a listed company is to change its audit firm, the previous and present firms shall file on record at the CICPA and local institutes of CPAs where the firms are located within five working days after the change takes effect. The reported information should include the name and the stock symbol of the listed company, its previous and present audit firms, the explanations for such a change and communications between previous and present firms.

Article 24 After receiving reports on change of audit firms, the Quality Assurance Department shall verify the explanations given by the previous audit firm, the present audit firm and the listed company respectively, in order to evaluate the reasons behind the change. Should any questionable inconsistencies caused by previous audit firm be revealed during the process, the Quality Assurance Department shall exercise maximum surveillance upon the present audit firm.

If the change is due to disagreement between the previous audit firm and the listed company, the Quality Assurance Department shall contact the previous audit firm to learn about the situation, alert the present audit firm and report to leadership of the CICPA as necessary.

Article 25 To continuously explore the connotation of financial statement audit supervision, consolidate its foundation and provide useful references for leadership decision-making, the Quality Assurance Department could set

up expert working group on financial statement analysis during the disclosure period, so as to carry out comprehensive and thorough analyses and research of listed companies with high-risk or of particular type.

Article 26 Should any profession-related major problems occur during the financial statement audit supervision, the Quality Assurance Department could consult the Professional Standards and Technical Guidance Department of the CICPA. If necessary, discussions at related special committees of the CICPA should be arranged.

Chapter IV Main Tasks after the Disclosure of Financial Statements

Article 27 Financial statement audit should be filed for record within two months after the disclosure period. The Quality Assurance Department of the CICPA shall process the filing information in time, summarize the bulletins on financial statement audit, identify problems discovered during the supervision as well as writing related analytical reports. The reports should be ready before the end of July each year.

The analytical reports should include general information, data adjustment before and after financial statement audit, comments on financial statement audit, change of audit firms, audit fees and audit market.

The Professional Standards and Technical Guidance Department of the CICPA is responsible for studying non-standard audit reports and the result reports should be completed within 6 months after the disclosure period.

Article 28 When financial statement audit is done, the Quality Assurance Department could hold meetings and visit firms to solicit opinions and suggestions from CPAs and related government departments on improve the work of financial statement audit supervision. Measures should also be taken to share regulatory information with relevant government departments.

Article 29 During review on practice quality of firms with qualification of conducting securities audit business, especially when the review list and focus are set, the Quality Assurance Department shall make full use of the audit supervision results and pay special attention to firms and CPAs who fail to follow the practicing standards.

Chapter V Disciplinary Measures

Article 30 Local institutes of CPAs can carry out regional financial statement audit supervision with reference to this Regulation.

Article 31 The Regulations come into effect as of the date of promulgation.

(CICPA organized translation of the Regulations into English. The Chinese version is the official one and this English translation is for reference only.)