

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

(Released on October 31, 1993)

Chapter I General Principles

- Article 1** This law is formulated to define the certified public accountants' (CPA) role of attestation and service in social economic activities, reinforce regulation over CPAs, protecting public interests and the lawful rights and interests of investors, and promoting the healthy development of the socialist market economy.
- Article 2** A CPA is a practicing accountant who has lawfully received the certificate of CPA and accepts assignments for auditing, accounting consultancy or other accounting related services.
- Article 3** An accounting firm is a lawfully-established organization which provides professional accounting services.
- A CPA who provides services shall join an accounting firm.
- Article 4** The institute of CPAs is a professional organization formed by CPAs. The Chinese Institute of Certified Public Accountants is the national organization. The institutes of CPAs of provinces, autonomous regions, or municipalities directly under the central government are local organizations.
- Article 5** The finance department of the State Council, and the finance departments of provinces, autonomous regions and municipalities directly under the central government shall supervise and provide guidance to CPAs, accounting firms and institutes of CPAs according to the law.
- Article 6** CPAs and accounting firms must observe the laws and administrative regulations in the performance of professional activities.
- CPAs and accounting firms shall carry out their business in an independent and fair manner, and are protected by the law.

Chapter II Examination and Registration

- Article 7** A national unified examination system for CPAs shall be conducted by the State. The finance department of the State Council shall formulate the measures of the examination, and CICPA shall organize and implement the examination.

Article 8 Chinese citizens who have completed at least a two-year college program at a recognized institution or who have achieved the professional title of accountant or an intermediate or a higher professional title in accounting or subjects related to accounting can apply to take the national uniform examination of CPAs. Certain subjects of the examination can be exempted for those who hold the professional title of accountant or senior professional titles in accounting or subjects related to accounting.

Article 9 Those who have passed the unified national examination of CPAs and have been engaged in the auditing services for more than two years can apply to the institutes of CPAs of provinces, autonomous regions and municipalities directly under the central government for registration as CPAs.

The institute of CPAs should approve the application except under the conditions specified in Article 10 of this law.

Article 10 The registration application should be rejected under any of the following conditions:

- 1) If the applicant does not have the full capacity for civil conduct;
- 2) If the applicant has been convicted of a crime and the period between the date of completing the punishment and the date of application for registration is less than five years;
- 3) If the applicant committed serious professional misconduct in finance, accounting, auditing, business administration or other economic activities, and was subjected to an administrative sanction or discharge of position, and the period between the date of the decision for such punishment or sanction and the date of application for registration is less than two years;
- 4) If the applicant's certificate of CPA was suspended, and the period between the date of the decision for punishment and the date of application for registration is less than five years;
- 5) Other circumstances under which registration shall not be approved as stipulated by the finance department of the State Council.

Article 11 The institute of CPAs shall submit the name list of applicants who are approved for registration to the finance department of the State Council. If any applicant on the list is found not qualified according to the regulations of this law, the finance department shall notify the institute of CPAs concerned to invalidate the registration.

If an institute of CPAs rejects an applicant's registration according to Article 10 of this law, it should notify the applicant in writing within 15 days after the decision is made.

If the applicant disagrees with the decision, it may appeal such action to the finance department of the State Council or the finance departments of the provinces, autonomous regions or municipalities directly under the central government for reconsideration within 15 days from receipt of such notice.

Article 12 The institute of CPAs shall issue certificates prescribed by the finance department of the State Council to those whose applications for registration are approved.

Article 13 If anyone who has acquired the certificate of CPA is involved in any of the following circumstances besides the one stipulated in the first paragraph of Article 11 of this Law, the institute of CPAs, which approved the registration, shall invalidate and recall the certificate:

- 1) For those who have completely lost the capacity for civil conduct;
- 2) For those who have been convicted of a crime;
- 3) For those who committed serious professional misconduct in finance, accounting, auditing, business administration or other economic management activities and have received at least an administrative disciplinary measure or discharge from position;
- 4) For those who have voluntarily suspended their professional activities as a CPA for more than one year.

Those who concerned disagrees with the cancellation of registration should appeal to the finance department of the State Council or the finance departments of provinces, autonomous regions or municipalities directly under the central government within 15 days from the date of receipt of the notice of invalidation of registration and recall of certificates.

Those, whose registration has been invalidated in accordance with the first paragraph of Article 11 of this Law, can reapply for registration, but their application must conform to the requirements of Article 9 and Article 10 of this law.

Chapter III Business Scope and Rules

Article 14 CPAs may undertake the following professional audit services:

- 1) Examining the accounting statements of enterprises and issuing audit reports;
- 2) Verifying the capital of enterprises and issuing capital verification reports;
- 3) Dealing with audit services related to merger, division or liquidation of enterprises, and issuing relevant reports;

4) Other audit services stipulated by relevant laws and administrative regulations.

The reports issued by CPAs in their lawful execution of audit activities shall be authentic.

Article 15 CPAs may undertake accounting consultancy and other accounting services.

Article 16 Any assignments undertaken by CPAs must be accepted by the accounting firm to which they belong, and the contracts of assignments must be signed by the firm and the clients.

The accounting firm shall assume all civil liabilities for the professional services undertaken by its CPAs in accordance with the provisions of the preceding paragraph.

Article 17 CPAs in the execution of the professional activities may, when necessary, check the client's relevant accounting information and documents, examine the client's business site and facilities, and require the client to provide other necessary assistance.

Article 18 A CPA who has a conflict of interest with or a financial interest in a client must avoid dealing with that client. The client also has the right to require such an avoidance.

Article 19 CPAs shall have the responsibility to keep the business information they acquire in the performance of the services confidential.

Article 20 CPAs shall refuse to issue any relevant report under any of the following circumstances:

1) The client indicates that they should provide untruthful or improper verification;

2) The client intentionally refuses to provide relevant accounting information and documents;

3) The report to be issued by CPAs cannot correctly present the material items of financial information due to the client's other unreasonable demands.

Article 21 When carrying out audit services, the CPAs must issue reports in accordance with the procedures as determined in the professional standards and regulations.

CPAs may not commit any of the following acts in the performance of an audit or the issuance of a report:

I) Refraining from pointing out while clearly knowing that the client's processing of

the important items of the financial accounting contravenes the relevant provisions of the State;

2) Issuing an untrue report or a report which fails to disclose the fact that a client's financial and accounting treatments will impair the interests of the users of the reports or other related parties;

3) Refraining from pointing out while clearly knowing that the client's financial and accounting treatments will be misleading to the users of the report or the persons who have interest in the report;

4) Refraining from pointing out while clearly knowing the important items of the financial statements are materially untrue.

CPAs shall be liable for the behavior listed in the above items only if they should know the situation under the professional standards and rules.

Article 22 CPAs shall not commit any of the following acts:

1) To buy or sell stocks or debentures of the institutions audited or purchase other property of institutions or individual audited when carrying out audit services and such acts are prohibited as prescribed by the laws and administrative rules and regulations;

2) To ask for or accept compensation of any sort beyond the agreed upon with the client in the contract, or try to obtain any other unlawful interest by taking advantage of the position of auditor;

3) To accept the assignment of dun for debts;

4) To allow others to execute professional activities in their names;

5) To execute professional activities with two or more accounting firms;

6) To solicit business by advertising or publicizing their professional qualifications;

7) To conduct other activities contrary to the laws and regulations.

Chapter IV Accounting Firms

Article 23 An accounting firm can be established by two or more CPAs in partnership.

The obligations of an accounting firm in partnership shall be borne by the partners

with their own property according to the proportion of their respective capital contributions or to their agreement. The partners shall bear the joint liabilities to the obligations of the accounting firm.

Article 24 An accounting firm which conforms to the following conditions can be a legal entity with limited liabilities:

- 1) With a registered capital of not less than 300,000 yuan;
- 2) With a certain number of full-time professional staff and at least five of them are CPAs;
- 3) Conforming to the scope of professional activities and other conditions as stipulated by the finance department of the State Council.

An accounting firm with limited liabilities shall bear obligations with all its assets.

Article 25 The establishment of an accounting firm shall be approved by the finance department of the State Council or the finance departments of provinces, autonomous regions or municipalities directly under the central government.

To apply for the establishment of an accounting firm, the applicant must submit the following documents to the organization that examines and approves the application:

- 1) An application report;
- 2) The name, organization structure and business location of the accounting firm;
- 3) The constitution of the firm. If the firm has a partnership agreement, the partnership agreement should be attached;
- 4) The name list of CPAs, their resumes and other relevant supporting documents;
- 5) The name list of the principals, partners of the accounting firm, their resumes and other relevant supporting documents;
- 6) The capital verification report of the accounting firm with limited liabilities;
- 7) Other documents as required by the organization that examines and approves the application.

Article 26 The organization that examines and approves the application should decide whether the application should be approved within 30 days from the date of the receipt of the application documents.

The accounting firms approved by the finance departments of provinces, autonomous regions or municipalities directly under the central government shall be filed with the finance department of the State Council for the record. If the finance department of the State Council discovers that the approval is improper, it shall, within 30 days from the date of the receipt of the record, notify the organization where the original approval was made and require to review the case.

Article 27 The establishment of a branch office of an accounting firm must be approved by the finance departments of provinces, autonomous regions or municipalities directly under the central government where the branch office is located.

Article 28 An accounting firm shall pay tax pursuant to the law.

An accounting firm shall set up a professional risk fund and undertake professional insurance as prescribed by the financial department of the State Council.

Article 29 An accounting firm may accept an assignment, not limited by administrative regions or trades, except as otherwise provided by the laws or regulations.

Article 30 No organization or individual shall interfere in the services entrusted by the clients to an accounting firm.

Article 31 The provisions of Article 18 to Article 21 of this law shall also be applied to accounting firms.

Article 32 Accounting firms shall not commit any provisions of items 1 to 4, item 6 and item 7 of Article 22 of this law.

Chapter V Institutes of CPAs

Article 33 A CPA shall join an institute of CPAs.

Article 34 The articles of CICPA shall be formulated by the national congress of the members of the institute and filed with the finance department of the State Council for the record. The articles of the institute of CPAs of provinces, autonomous regions or municipalities directly under the central government shall be formulated by the congresses of the members of the institutes and filed with the finance department of provinces, autonomous regions or municipalities directly under the central government for the record.

Article 35 CICPA shall establish professional standards and rules for CPAs. These standards and rules shall be reported to the finance department of the State Council and shall take effect upon their approval.

Article 36 The institutes of CPAs shall support CPAs pursuant to the laws on the execution of their professional activities, shall protect their lawful interests, and report to relevant authorities their opinions and suggestions.

Article 37 The institutes of CPAs shall conduct annual examination on qualification and professional services of CPAs.

Article 38 An institute of CPAs shall obtain the status of body corporate according to law.

Chapter VI Legal Responsibilities

Article 39 Any accounting firm violating the provisions of Article 20 or Article 21 of this law shall be given a disciplinary warning by the finance department of the government at provincial level or above. The income from illegal activities shall be expropriated and the accounting firm can be fined from one time to five times the amount of the illegal income. In serious cases, all business operations can be suspended or terminated by the finance department of the province or above.

Any CPA violating the provisions of Article 20 or Article 21 of this law shall be given a disciplinary warning by the finance department of the government at provincial level or above. In serious cases, the finance department of the government at provincial level or above can suspend all professional activities or invalidate the certificate of the CPA.

Any accounting firm or CPA violating the provisions of Article 20 or Article 21 of this law and issuing false audit reports and capital verification reports intentionally shall be investigated for criminal responsibilities according to law.

Article 40 If an organization undertakes the services defined for CPAs under Article 14 of this Law without approval, the finance department of the government at provincial level or above shall order it stop its illegal activities, expropriate the illegal income and may impose a fine from one time to five times the amount of the illegal income.

Article 41 If the party concerned refuses to accept any disciplinary punishment, an appeal may be submitted to the next higher organization within 15 days of the receipt of the notification of disciplinary punishment. The party concerned may also directly bring a suit to the people's court within 15 days of the receipt of the disciplinary punishment.

The administrative organization of reconsideration that evaluates the appeal shall make its decision within 60 days of the receipt of the application. If the party concerned refuses to accept the decision on appeal, it or he may bring a suit to the people's court within 15 days of receipt of the decision on appeal. If the organization

of reconsideration does not make a decision by the due date, the party concerned may bring a suit to the people's court within 15 days from the expiration of the time limit for reconsideration.

The organization, which made the original disciplinary decision, may apply to the people's court for compulsory execution of the decision if the party concerned neither appeals for reconsideration nor brings a suit to the people's court nor complies with the disciplinary decision by the date specified in the decision.

Article 42 If an accounting firm violates any provision of this law and causes losses to its client or other relevant parties, it shall be liable for compensation pursuant to the law.

Chapter VII Supplementary Articles

Article 43 A certified public auditor working in an audit firm, who has been recognized as qualified for a CPA, may carry out the professional activities regulated under this law. Such determination together with the supervision, guidance and regulation over certified public auditors shall be made pursuant to regulations to be promulgated separately by the State Council.

Article 44 Foreigners' applications for participating in the national unified CPA examination of China and their registrations shall be conducted under the principle of reciprocity. The establishment of representative office of a foreign accounting firm in China must be reported to and approved by the finance department of the State Council. The application for the establishment of a cooperative accounting firm jointly run by a foreign accounting firm and a Chinese accounting firm shall be examined and agreed upon by the department in charge of foreign economic relations and trade under the State Council or the departments as authorized by the State Council and the governments at provincial level before being reported to the finance department of the State Council for approval.

Apart from what is stipulated in the previous paragraph, any foreign accounting firm that wishes to carry out relevant professional activities in China on a temporary basis, must obtain approval from relevant finance department of the government of provinces, autonomous regions or municipalities directly under the central government.

Article 45 The State Council may promulgate regulations necessary to enforce any provision under this law.

Article 46 This law takes effect on January 1, 1994. The Regulations on CPAs of the People's Republic of China issued on July 3, 1986 by the State Council is repealed at that time.

(CICPA organized translation of the Law into English. The Chinese version is the official one and

this English translation is for reference only.)