

# Rules on Quality Review of Accounting Firms

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## Chapter I General Provisions

**Article 1** Pursuant to *the Law of the People's Republic of China on Certified Public Accountants* and *Charter of the Chinese Institute of Certified Public Accountants* (hereinafter referred to as "the CICPA"), the Rules are enacted for the purpose of regulating and directing local institutes of CPAs' practice quality review of accounting firms, guiding and urging the accounting firms to strengthen their quality assurance system, preventing system risks, improving professional ethical level and practice quality of the accounting firms and the CPAs, and safeguarding the public interests.

**Article 2** The practice quality review prescribed in the Rules refers to the review organized and conducted by the CICPA on the accounting firms' and CPAs' compliance of Quality Control Standards, the Practice Standards and Code of Ethics for Certified Public Accountants of China, including the organizing and implementing process of the review work, and the evaluation and disciplinary measures to be taken based on the review results.

**Article 3** The practice quality review shall abide by the risk-oriented principles to examine the system risks of accounting firms. The system risks review covers the quality assurance system and the practice engagement. The quality assurance system review involves professional ethical standards, quality control environment, partnership mechanism, clients relationship, acceptance and maintenance of specific engagements, human resources, standards of practice, performing and monitoring of engagements, headquarter and branches management structure and IT system.

The practice quality review shall attach equal importance to the inspection on the quality assurance system and the practice engagement of the accounting firms, apply the quality assurance system inspection findings to guide the practice engagement review, use the practice engagement review finding to support the review conclusion of the quality assurance system, and make a comprehensive evaluation on the efficiency of the quality assurance system design and operation, as well as the practice quality level of the accounting firms.

**Article 4** The practice quality review shall uphold the principles of fairness and justice, take the facts as the foundation and standards as the criteria, inspect and punish strictly in order to achieve the goals of helping, educating, motivating and improving the performance of accounting firms and CPAs.

**Article 5** The practice quality review shall pay attention to differentiate the accountants' and auditors' responsibility, and fully respect the professional judgment of CPAs.

**Article 6** The CICPA shall supervise and regulate the accounting firms differently on the basis of classifying and rating the accounting firms in accordance with the comprehensive evaluation results of the accounting firms' practice quality, and shall strengthen the communication, coordination and information sharing with relevant regulators to optimize the allocation of supervision and regulation resources and improve

supervisory and regulatory efficiency.

**Article 7** The CICPA shall establish the public disclosure system for practice quality review.

## **Chapter II Responsibilities and Division of Labor in Practice Quality Review**

**Article 8** The CICPA is responsible for setting standards and policies of practice quality review on accounting firms across China, guiding and supervising the practice quality review by the local institutes of CPAs across all provinces, autonomous regions and municipalities (hereinafter referred to as “the provincial institutes”).

**Article 9** The CICPA is in charge of organizing the practice quality review on accounting firms with license to engage in relevant securities and futures businesses (including their branch offices, hereinafter referred to as “the licensed accounting firms”), and to discipline the licensed accounting firms with any unlawful practices on the basis of the review results. All provincial institutes shall act upon the unified plan of the CICPA to organize the practice quality review on accounting firms within their jurisdictions. The provincial institutes shall strengthen the communication and coordination work, and to methodically conduct quality review.

**Article 10** The provincial institutes shall conduct quality review on the cross-provincial engagements practiced by the accounting firms within their jurisdictions, and if necessary, seek assistance from the provincial institutes where the engagements are practiced. When a provincial institute finds non-local accounting firms suspected of conducting any unlawful practices, it may ask the provincial institute where the accounting firms is located to investigate and discipline.

## **Chapter III Review Cycle**

**Article 11** The CICPA shall organize and conduct quality review of accounting firms every year.

The licensed accounting firms shall go through at least one practice quality review every three years, and other accounting firms shall go through at least one practice quality review every five years.

The CICPA shall select at random and conduct the practice quality review on accounting firms providing services for H-share companies.

**Article 12** Under the following circumstances, the CICPA shall consider conducting two or more practice quality reviews within one review cycle:

1. Firms which have been punished or fined by the CICPA or administrative regulators;
2. Firms with low overall practice quality and were found with quite a number of problems during quality review in previous years;
3. Firms which have failed to make corrections or make effective rectifications in accordance with the CICPA’s requirements; and
4. Circumstances under which the CICPA decides to conduct further review.

## **Chapter IV Review Plan**

**Article 13** The CICPA shall make annual practice quality review plan to specify the foundation, purpose, targets, contents, methods and requirements of the review and its overall plan.

**Article 14** The provincial institutes shall file their annual practice quality review plan to the CICPA for record keeping purposes.

**Article 15** When the namelist of accounting firmsto be confirmed to undertake practice quality review, the CICPA shall take the following factors into consideration as priorities:

1. The Disciplinary Committee is responsible for enforcing the punishment on non-compliance activities investigated by the CICPA.
2. The firms' new engagements that might have high audit risks;
3. There are disagreements among the shareholders (or the partners) which might affect the practice quality of the firms;
4. The firms adopt unfair methods to compete for new engagements;
5. The firms make vicious and defamatory statements about their peers and damage their peers' interests;
6. The firms received complaints and have problems reported by others;
7. The fee charged by the firms violates the Practice Fee Charge Management Rules or is obviously lower than the average fee charge level of the accountancy profession;
8. The firms are newly established;
9. The number of engagements accepted by the firms clearly does not match the human resources or capacity of the firms; and
10. Circumstances described in Article 12.

## **Chapter V Inspectors and Advisory Experts**

**Article 16** The CICPA shall choose and fairly define the inspectors to form the review group. The review group shall be made up of not fewer than 3 inspectors and headed by a group leader.

The group shall conduct the practice quality review within the scope of authorization of the CICPA.

**Article 17** The inspectors shall be selected from the CPAs and CICPA staff with good professional ethics, high

professional quality and rich relevant work experience.

## **Chapter IV Disciplinary Procedure and Disciplinary Decision**

**Article 18** The selection criteria for CPAs to be an inspector are as following:

1. Currently holds or has held a project manager position or above in the accounting firm;
2. Has engaged in auditing practice in the firm for over 5 years;
3. Familiar with the accounting and auditing theories and practices; and
4. Has not been disciplined by the institutes or the administrative regulators for unlawful practice in the last 3 years.

**Article 19** The CICPA shall recruit capable part-time inspectors, and whenever possible, recruit full-time inspectors. The CICPA shall provide the inspectors with necessary training.

**Article 20** The inspectors are entitled the following rights:

1. Reviewing, recording and photocopying the quality assurance system and relevant governance and management system, business records, financial accounting information and other data related to the inspection, including reviewing and recording relevant information system of the inspected accounting firm; and
2. Inquiring and collecting questionnaires from relevant personnel of the accounting firm under review;

If necessary, submitting the audit report and relevant working paper suspected to be unlawful or against regulations or with great disagreement between the inspectors and the inspected accounting firm to the CICPA for further investigation.

**Article 21** The inspectors shall assume the following duties:

1. Protect the confidential information of the State, the accounting firm and the clients and shall not use them for any purpose other than the review or share with any persons unauthorized or unrelated to the review;
2. Voluntarily withdraw from the review if they have any personal and professional interests with the inspected accounting firm; and
3. Being objective and impartial, honest and self-contained and not accepting any banquet invitation, gifts or cash gifts from the accounting firms under review.

**Article 22** The CICPA shall establish the expert consultation system and form the expert advisory group. The group consists of partners who are in charge of technical or quality control affairs of accounting firms and the staff

of the CICPA who are responsible for supervision and regulation on accounting firms and CPAs.

**Article 23** The experts are responsible for providing technical guidance and assistance across the entire processes of the quality control review including the on-site inspection, review results demonstration, discipline and punishment. During the on-site inspection period, the consultative experts shall provide the inspection group with technical advice on any significant issues and offer technical support to assist the inspection team to conduct the inspection work. When the inspection work completes, the consultative experts shall participate in the inspection results demonstration process to review the inspection findings, examine the working papers, review report and rectification proposal.

The experts shall abide by all duties prescribed in Article 21.

**Article 24** The time spent by the inspectors and the consultative experts on the practice quality review shall qualify for Continuing Professional Education hours in accordance with *the Regulations on Continuing Professional Education for the Certified Public Accountants* and *the Provisional Regulations on Continuing Professional Education for Non-practicing Members of the CICPA*.

**Article 25** The CICPA may pay a specified amount of fee to inspectors and the consultative experts or the accounting firms they work for. The CICPA shall also commend, reward and attach great importance to the training of excellent inspectors, and take corresponding disciplinary actions against those inspectors or consultative experts who violate the inspection rules.

1. Accepting the appeals made by members;
2. Reviewing and verifying the relevant facts and evidences of appeal cases;
3. Proposing to the Chair of Appeal and Member Rights Committee to convene a Committee meeting;
4. Preparing, serving and archiving the relevant documents of the Appeal and Member Rights Committee; and
5. Handling other affairs entrusted by the Appeal and Member Rights Committee.

**Article 26** Accounting firms shall actively recommend qualified CPAs to participate in the review group and provide necessary supports to their review work.

Accounting firms shall ensure that the performance assessment and evaluation, the remuneration and welfare of the inspectors and the consultative experts recommended by the firms during their participation in the review work organized by the CICPA.

## **Chapter VI On-site Review**

**Article 27** Before the on-site inspection, the CICPA shall publish the name list of accounting firms to be reviewed at least 15 working days in advance and inform them in writing at least 5 working days in advance.

**Article 28** Accounting firms to be inspected shall prepare for the inspection with a pre-self-inspection, issue a self-check report according to inspection requirement notice.

**Article 29** Accounting firms to be inspected shall cooperate actively in the following ways:

1. Submit necessary materials for the inspection in a timely manner and ensure the completeness and validity of all submitted materials;
2. Provide the review team with a workplace and necessary office conditions;
3. Designate a person to be in charge of communication with the inspection team;
4. Make proper arrangements with shareholders (partners), CPAs and other related staff to cooperate with the review team; and
5. Answer truthfully to the inspectors' inquiries, attend the meetings convened by the review team and provide timely opinions and feedback.

In case the accounting firms and the CPAs refuse to cooperate with the review or submit the related materials on time, or refuse to rectify wrongdoings even after warning by the review group, the review group shall report to the CICPA and then withdraw from the inspected accounting firms. The CICPA shall issue a public notice and take corresponding disciplinary measures on those accounting firms.

**Article 30** The CICPA shall formulate the inspection disciplines and communicate to all inspectors. The review group shall inform the inspected accounting firms of the disciplines as soon as the review begins. The inspectors, the inspected accounting firms and the CPAs shall abide by the disciplines.

**Article 31** The review group shall conduct on-site inspection of the accounting firms. If necessary, the group can seek access to all relevant documents for the purpose of off-site inspection.

**Article 32** The review group shall determine the main point of the practice engagement review on the basis of the quality assurance system. Normally, the review group shall choose the engagements practiced by the accounting firm during the year of the review, and shall inspect randomly according to a certain proposition on the engagements practiced by the accounting firms during the period since last review. When choosing the random inspection samples, the review group shall take the inspection findings of the inspected accounting firms' quality assurance system, the adequacy and relevance of the samples into consideration.

**Article 33** The review group shall efficiently communicate the problems found during the inspection with the accounting firms and the CPAs under review, and shall listen to and accept their reasonable explanations.

**Article 34** The review group shall collect the evidence, ensure the sufficiency and adequacy of the evidence, make final opinions on the inspection and issue the inspection report to the inspected accounting firms. The inspected accounting firms shall submit feedback to the inspection team within the stipulated period. All the evidence, feedback and important communication and results acquired by the inspection team from the inspected accounting firms shall be confirmed by stamp of the inspected accounting firms and signature of relevant persons of the inspected accounting firms. In case the inspected accounting firms or their relevant persons refuse to stamp or sign on the inspection report, the inspection team shall report to

the CICPA, who shall make corresponding disciplinary decisions.

**Article 35** The review group shall immediately report to the CICPA on the review progress and major issues found during the review, and seek guidance and supervision from the CICPA.

**Article 36** The review group shall conduct the practice quality review and prepare the inspection working paper in accordance with the review standards stipulated by the CICPA.

**Article 37** The review group shall submit the practice quality review report to the CICPA as soon as the review completes. The practice quality review report shall include the following:

1. Overview of the accounting firms under review;
2. General description on the review work;
3. Comprehensive evaluation on the practice quality of the accounting firms;
4. Description on the quality assurance system review progress and problems found;
5. Description on the practice engagement quality review progress and problems found; and
6. Feedback of the accounting firms under review.

**Article 38** The review group shall timely work on the inspection working papers, including the electronic documents and file them for record keeping, and submit the files to the CICPA as soon as the review completes.

The CICPA shall arrange the experts to examine and receive all these review files. All the files are properties of the CICPA.

## **Chapter VII Disciplinary Measures**

**Article 39** The CICPA shall arrange the experts to recheck all these review files from the following perspectives.

1. Whether the unlawful practice is obvious, whether the evidence is undeniable, and whether there is adequate evidence to prove the existence of the unlawful practice;
2. Whether the review is conducted in accordance with the stipulated procedures; and
3. Whether the application of laws, rules and regulations, and professional standards is appropriate.

**Article 40** The CICPA shall arrange the experts to verify the review conclusions by the inspection team.

**Article 41** The CICPA shall formulate corresponding disciplinary rules, set up the disciplinary committee or similar body to make corresponding disciplinary decisions on the inspected accounting firms and CPAs with serious problems found during the review.

- Article 42** The CICPA shall take disciplinary measures based on facts, shall consider the nature, degree and social influences of the unlawful practices to impose corresponding disciplinary measures, in line with the principles of independence, objectiveness and fairness, and upholding the aim of combining punishment with education.
- Article 43** The CICPA shall protect all legal rights and interests of accounting firms and CPAs, and safeguard their rights on statements, defense and appeal.
- Article 44** The CICPA shall instruct the inspected accounting firms which are disciplined and punished or those who have other quality assurance defects to correct and submit the rectification report within the stipulated period. The CICPA shall conduct follow-up review on the rectification of those accounting firms and urge them to correct effectively.
- Article 45** The CICPA shall summarize the annual review work. All provincial institutes shall submit their annual review summaries to the CICPA within the stipulated period as soon as their annual review work completes.
- Article 46** The CICPA shall issue a public notice on the numbers of accounting firms being reviewed, the name list, inspection contents, inspection focuses, disciplinary measures and main problems found in the review.

## **Chapter VIII Supplementary Provisions**

- Article 47** The CICPA can refer to the Rules for a reference to conduct the special project inspection and other special inspections.
- Article 48** The CICPA shall upload the annual inspection summary and inspection conclusions onto the CICPA Professional Regulation Information System.
- Article 49** All provincial institutes can stipulate their own implementation measures in accordance with the Rules and report to the CICPA for record keeping
- Article 50** The Rules shall come into effect on July 16, 2011.

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