

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

(October 31, 1993)

**Chapter I**

***General Principles I***

Article 1

This law is formulated with an aim at defining the role of Certified Public Accountants (CPAs) in the economy and society, reinforcing regulation over CPAs, protecting public interests and the legitimate rights and interests of investors, and promoting the healthy development of the socialist market economy.

Article 2

A CPA is a practising accountant who has lawfully received the certificate of CPA and accepts assignments for auditing, accounting consultation or other accounting related services.

Article 3

An accounting firm is an organization lawfully established which performs professional accounting services.

A CPA must be a member of an accounting firm to perform professional accounting services.

Article 4

An institute of CPAs is a professional organization formed by CPAs. The Chinese Institute of Certified Public Accountants is the national organization of CPAs. The institute of CPAs of a province, an autonomous region, or a municipality directly under the central government is a local organization of CPAs.

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 perform professional services in an independent and fair manner, and are protected by the law.

***Chapter II Examination and Registration***

Article 7

A national uniform examination system for CPAs shall be conducted by the State. The Finance Department of the State Council shall promulgate the regulations of the examination, and CICPA shall administer the examination in accordance with the regulations.

Article 8

Chinese citizens who have completed at least a two-year college programme at a recognised institution or who have achieved a middle-ranked technical title in accounting or subjects related to accounting can apply to take the national uniform examination of CPAs. Certain parts of the examination can be exempted for those who hold high-ranked technical titles in accounting or subjects related to accounting.

Article 9

Those who have passed the national uniform 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, municipalities directly under the central government for registration as CPAs.

An 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) For those who suffer from mental impairment ;
- 2) For those who have been convicted of a crime and whose sentence was not completed more than five years from the date of registration application ;
- 3) For those who committed serious professional misconduct in finance , accounting , auditing , business administration or other economic management activity, and was at least subject to administrative disciplinary measure or discharge of position. Such candidate may apply to register as a CPA two years after the date of decision of the disciplinary action ;
- 4) For those whose certificate of CPA was suspended within the last five years ;
- 5) For those whose application is subject to rejection under any other regulations promulgated by the Finance Department of the State Council.

Article 11

An institute of CPAs shall submit the list of names of applicants who are approved for registration to the Finance Department of the State Council. If the Finance Department of the State Council discovers any applicant on the list who is not qualified according to the regulations of this law, it shall direct the institute of CPAs concerned to invalidate such applicant's registration.

When an institute of CPAs rejects applicant' s registration according to Article 10 of this law ,it should inform the applicant in writing within 15 days from the date of the decision. An applicant may appeal such action to the Finance Department of the State Council and the finance department of the people' s government of a province, an

autonomous region or a municipality directly under the central government for reconsideration within 15 days from receipt of such notice.

## Article 12

For those whose applications for registration are approved, an institute of CPAs shall issue Certificates of CPA in the manner prescribed by the Finance Department of the State Council.

## Article 13

The institute of CPAs which issued the Certificate of CPA shall invalidate and recall the Certificate of CPA under the following conditions which occur after the issuance of a Certificate of CPA :

- 1) For those who have developed mental impairment ;
- 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 activity 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 whose Certificates of CPA have been invalidated but have objections should appeal to the Finance Department of the State Council or the finance department of the people's government of a province, an autonomous region or a municipality 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 can reapply for registration, but their application must conform to the requirements of Article 9 and Article 10 of this law.

### ***Chapter III Service Scope and Rules***

#### 1) Article 14

Only CPAs may undertake the following professional auditing activities:

- 2) Examining the financial statements of an enterprise and issuing an auditing report;
- 3) Verifying the capital of an enterprise and issuing a capital verification report;
- 4) Performing audits related to any merger, splitting or liquidation of an enterprise, and issuing relevant reports;
- 5) Performing other auditing activities as established in the laws and administrative regulations.

The reports issued by CPAs in their lawful execution of auditing activities have the full force and effect of verification documents.

## Article 15

A CPA may undertake accounting consultation and other accounting-related service activities.

## Article 16

Any assignments undertaken by a CPA must be accepted by the accounting firm to which such CPA belongs, and the contracts of assignments must be signed by that firm and the clients.

The accounting firm assumes all civil liabilities for any professional services undertaken by any CPA associated with the firm.

## Article 17

A CPA in the execution of his professional activities may investigate according to the necessity of the situation, the client's relevant accounting information and documents, examine the client's business site and facilities, and require his client to provide 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

A CPA has the responsibility to keep the business information he acquires in the performance of his services confidential.

## Article 20

A CPA shall refuse to issue any relevant report where:

- 1) A client suggests overtly or covertly that a false or misleading report or statement be issued;
- 2) A client intentionally fails to provide relevant accounting information and documents;
- 3) The report to be issued by a CPA cannot correctly present the material items of financial information due to a client's other unreasonable demands.

## Article 21

When performing auditing services, A CPA must issue reports pursuant to the procedures as determined in the professional standards and regulations.

A CPA may not commit any of the following errors or commissions in the performance of an audit or the issuance of a report:

- 1) Omitting any fact of variance between a client's financial and accounting treatments in material items and the State regulations, provided the CPA is fully aware of such fact;
- 2) Issuing an untrue report or a report which fails to disclose the fact that a client's financial and accounting treatments will damage the interests of the users of the reports or other related parties, provided the CPA is fully aware that the report is untrue or that a material fact has not been disclosed;
- 3) Issuing a report in which a client's financial and accounting treatments will be misleading to the users of the report or the persons who have interest in the report, provided the CPA is fully aware that the report is misleading;

- 4) Issuing a report in which the material items of the financial statements are materially untrue, provided the CPA is fully aware that any such statements are materially untrue.

A CPA shall be liable for the behaviour listed in the above items only if he or she should know the situation under the professional standards and rules.

## Article 22

A CPA may not:

- 1) Purchase or sell the stock bonds or other properties of an audited organization or individual during an audit;
- 2) Solicit or accept compensation of any sort beyond the agreed upon price, or try to obtain any other interest by taking advantage of the position of auditor;
- 3) Accept the assignment of collecting a client's receivables;
- 4) Allow others to execute professional activities in his or her name;
- 5) Execute professional activities with two or more accounting firms;
- 6) Solicit business by advertising or publicizing his or her professional qualifications;
- 7) 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 partners are responsible, with their property as security, for the liabilities of the accounting firm held in partnership in proportion to the amount of capital each partner contributed to the firm, or as provided in the partnership agreement. The partners have joint liability for the firm's liabilities.

### Article 24

An accounting firm which conform to the following conditions can be a legal entity with limited liability,

- 1) With a registered capital of not less than 300 000 yuan ;
- 2) With a 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 liability is responsible for its liabilities 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 department of a province, an autonomous region or a municipality 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) Application report;
- 2) 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) List of the names of CPAs, their resumes and other relevant supporting documents;
- 5) List of the names of the principals, partners of the accounting firm, their resumes and other relevant supporting documents;
- 6) 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 shall be approved within 30 days from the date of the receipt of the application documents.

The finance department of a province, an autonomous region or a municipality directly under the central government shall record the approval of an accounting firm with the Finance Department of the State Council. In case the Finance Department of the State Council discovers that the approval is improper, it must notify the organization where the original approval was made and require a reexamination within 30 days from the date of the receipt of the record.

#### Article 27

The establishment of a branch office of an accounting firm must be approved by the finance department of a province, an autonomous region or a municipality 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 establish a fund for professional liability or purchase a professional liability insurance policy, pursuant to the regulations promulgated by the Finance Department of the State Council.

#### Article 29

An accounting firm may accept an assignment independently of the administrative or industrial jurisdiction except to the extent of any limitations in any other laws or regulations.

#### Article 30

No organization or individual shall interfere in an organization's choosing an accounting firm for professional service.

#### Article 31

The stipulations in Articles 18 through 21 of this law shall also be applied to accounting firms.

#### Article 32

An accounting firm shall not violate any provisions of items 1-4, 6 or 7 of Article 22 of this law.

***Chapter V Institute of CPAs***

Article 33

A CPA shall join an institute of CPAs.

Article 34

The Charter of CICPA shall be drawn up by the Assembly of Delegates, and shall be recorded with the Finance Department of the State Council. The Charter of the institute of CPAs of a province, an autonomous region or a municipality directly under the central government shall be drawn up by its assembly of Delegates of a province, an autonomous region or a municipality directly under the central government, and shall be recorded with the finance department of a province, an autonomous region or a municipality directly under the central government.

Article 35

CPA 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 organizations their opinions and suggestions.

Article 37

The institutes of CPAs shall conduct annual examination on professional qualification and annual practice inspection of CPAs,

Article 38

An institute of CPAs shall obtain the legal person status as an association.

***Chapter VI Legal Responsibilities***

Article 39

Any accounting firm violating the regulations 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. Any income from illegal activities shall be expropriated and they can be fined from the same amount to five times the amount of such 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 regulations 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 such CPA.

Any accounting firm of CPA violating the regulation of Article 20 or Article 21 of this law and issuing false auditing reports and false capital verification report intentionally shall be investigated pursuant to the criminal law.

#### Article 40

The finance department of the government at provincial level or above shall order any organization which accepts assignments without special approval of the professional activities of CPAs as regulated in Article 14 of this law to stop such illegal activities, shall expropriate all illegal income and may impose a fine from twice to five times the amount of such illegal income.

#### Article 41

If a litigant refuses to accept any disciplinary punishment, an appeal may be submitted to the next higher organization within 15 days of the receipt of the notice of disciplinary action. The litigant may also directly file a suit with a people's court within 15 days of the receipt of the disciplinary action.

The organization that evaluates the appeal shall render its decision within 60 days of the receipt of such appeal. If the litigant refuses to accept the decision on appeal, the litigant may file a suit with a people's court within 15 days of receipt of the decision on appeal. If the organization which evaluates the appeal does not render a decision by the due date, the litigant may file a suit with a people's court within 15 days of the due date.

The organization which made the original disciplinary decision may petition a people's court to enforce the execution of the decision if the litigant neither appeal nor file a suit with a people's court nor comply with the disciplinary decision by the date specified in such decision.

#### Article 42

An accounting firm which violates any regulation of this law and causes damage to a client or other relevant party shall be liable for such damage pursuant to the law and shall compensate such party for any such loss.

### ***Chapter VII Supplementary Articles***

#### Articles 43

A certified public auditor working in an auditing firm can execute the professional activities regulated under this law provided the certified public auditor's qualifications are determined to be the same as those of a CPA. 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

Foreigner's application for participating in the national uniform 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 sino-foreign joint venture accounting firm jointly run by a foreign accounting firm and a Chinese accounting firm must be examined and agreed upon by the department in charge of foreign economic relations and trade of the State Council or the departments at authorised by the State Council and the

governments at provincial level before being reported to and approved by the Finance Department of the State Council.

Any foreign accounting firm which seeks to temporarily perform relevant professional activities in China in cases in addition to those which have been mentioned above must obtain approval from relevant finance department of the government of a province, a autonomous region or a municipality 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.

*(This is an unofficial translation)*