

# News Select

## Restrictions on Outside Accounting Firms to Practise in China

The MOF of China issued a Provisional Regulation (Draft) to restrict outside accounting firms to carry out audit assignments in China which are listed in HK while being operated within the Chinese boundaries.

The HKICPA and other bodies have made their responses generally urging for more discussions before actually enforced.

An Explanation Note is also issued to clarify the backgrounds about the Regulation.

The first Section "Background and Interpretation" indicates that "the illegal practicing by certain outside firms have become conspicuous that needs a solution." The mode of co-operation results in unclear and mismatched situation. It is therefore submitted to prevent outside firms to carry out audit services in China under the veil of Temporary Permit.

Counterparts in HK worried that the accountants' good days will end. However, we might ask ourselves that for a long time, how many HK accountants do follow the rules to register their practice and pay tax before departing? How much tax and license fees have been avoided?

The second Section "Main Content" pays a special attention to the entities registered outside but operated in China and defines that the audit of these entities cannot be covered by the Temporary Permit. Outside firms are not allowed to carry out the audits and issue reports for them under the Temporary Permit. This is the most damaging but there is no way to object. The best remedy for HK counterparts is to merge with an inland firm. Just guess, if the client knows that your firm can only practice temporarily, would they feel comfortable?

The third Section places strict restriction on outside firms to conduct audit for listed entities. The reason is that "in practice, some outside firms issued their audit reports but when the entity is accused of frauds making, certain institutes especially those involved in speculation, all tend to blame the inland audit firms. "This is unfair and seriously improper". If this is the case, the Authorities

should take appropriate action to get these lousy guys arrested and punished. The accountants should not be blamed at the same time, unless the report made is fraudulent.

It is also mentioned that outside firms should co-operate with those inland firms qualified to audit listed entities or those occupying the

Big-100 ranking. The third Section further explains that the purpose of

it is to "satisfy the regulating

requirements of

the places where the entity is listing and

ensure that co-operation

is made with sizable firms who

are able to conduct auditing properly so as to improve

the general auditing standards."

However, there is one point that needs further

explanation: "when it is necessary that an outside firm is required to

be appointed auditor", that outside firm can

be appointed and issue the report but this

report will not be accepted in China to have

any legal effect.

It looks that if the entity borrows money from

banks, it needs to appoint an inland firm to

prepare another report or it is agreed that a

report done by the outside firm could be

accepted by the banks. Then, there are two

audit reports prepared by the same entity

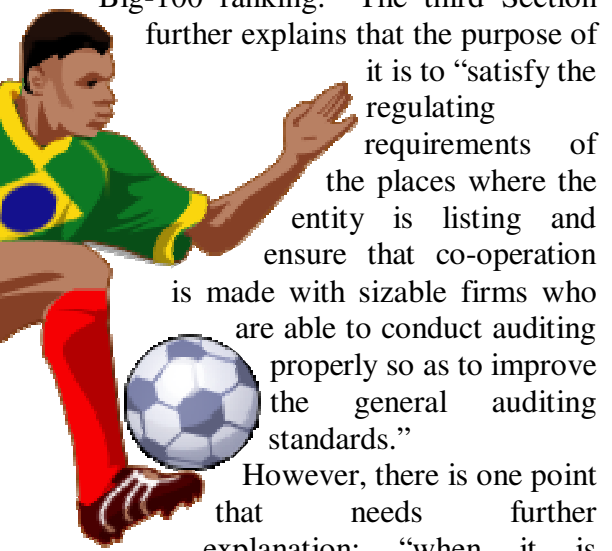
which looks odd. Not to say that the entity

pays double audit fees but it also looks odd to have two separate reports

signed by different auditors which might

strongly imply that the entity is not preparing

its accounts in good faith.



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