

**Shenzhen, China**  
Rooms 1203-06, 12/F.  
Di Wang Commercial Centre  
5002 Shennan Road East  
Luohu District, Shenzhen  
T: +86 755 8268 4480

**Shanghai, China**  
Room 603, 6/F., Tower B  
Guangqi Culture Plaza  
2899A Xietu Road  
Xuhui District, Shanghai  
T: +86 21 6439 4114

**Beijing, China**  
Room 303, 3/F.  
Interchina Commercial Bldg.  
33 Dengshikou Street  
Dongcheng District, Beijing  
T: +86 10 6210 1890

**Taipei, Taiwan**  
Room 303, 3/F.  
142 Section 4  
Chung Hsiao East Road  
Daan District, Taipei  
T: +886 2 2711 1324

**Singapore**  
138 Cecil Street  
#13-02 Cecil Court  
Singapore 069538  
T: +65 6438 0116

**New York, USA**  
202 Canal Street  
Suite 303, 3/F.  
New York  
NY 10013, USA  
T: +1 646 850 5888

## **China WFOE Maintenance and Compliance Guide (12)**

### **Statutory Audit of the Financial Statements of WFOE in China**

#### **1. Statutory Audit in China**

According to the Company Law of the PRC, a one-person limited liability company shall prepare a financial report by the end of every fiscal year and have the report audited by a certified public accounting firm registered in China. The term "one-person limited liability company" refers to a limited liability company with only one natural person shareholder or legal person shareholder. A non-one-person limited liability company, that is, a company with two or more shareholders, is exempt from audit.

Annual statutory audits are required for wholly foreign owned enterprises (WFOEs) with only one shareholder in accordance with the foregoing provisions.

#### **2. What are the key areas of annual audits?**

When a CPA performs an annual audit, in deciding on the appropriate audit procedures for income statement and balance sheet accounts, the auditor should assess the risk of error and fraud in those accounts. What are the key areas they are most concerned about? We can divide this into three areas:

##### **(1) How to present profit?**

The sales figure is a critical part of a review. Usually the following issues are the control objectives: Sales cut-off check ensures that all valid sales comply with revenue recognition criteria, recorded and properly billed; customer contracts are properly setup, approved, invoiced, priced and executed; pricing is accurate, updated and monitored by management; and gross margin is appropriate on all sales transactions, if not there must be legitimate reasons.

##### **(2) How to present cost?**

Cost of sales/revenues should represent all transactions for products sold or services provided during the year and be properly recorded. This requires a thorough costing system review.

(3) What are the revenue & cost accruals?

Expense / cost is not recognized on a cash basis, but on accrual basis. Subsidiary ledger reviewal and substantive analysis procedures are often employed to check if revenue and cost are properly accrued at the year end.

These concerns are based on one important accounting principle - prudence. Recently, there is a developing trend of FIEs, instead of recording profits, reporting a loss. With this growing, the tax bureau and government are devoting more effort in auditing FIEs. As a result, if a company reports profit margin and tax burden rate below the industry average or is in deficit in consecutive years, the auditors will monitor the possibility of any potential attempt to conceal profit to evade taxes and will evaluate transfer pricing issues within related party transactions.

### 3. How to prepare for the annual audit?

Conducting a sound internal review prior to annual audit is a good idea. Make sure your bank reconciliation report is completed for bank accounts, that petty cash has no major discrepancies, and conduct a complete check of accounts receivables and accounts payables. An overall inventory stock take at the year-end is also a must for manufacturing entities.

The company should review its internal control system and financial policies, such as depreciation method, costing system, pricing policy, not only for the purpose of annual audit, but also for good future internal management.

Please have all these following available for the auditor before they arrive: Accounting Vouchers, Account Books, Warehouse Records, Financial Statements, Tax Filing Records, Bank Statements, Cash Count Statement, Fixed Assets List, Inventory Sheet, Invoices, Contracts, Vendor Statements, and other relating document and reports. If you can check some of these items yourselves prior to audit, you may well pre-identify some problems themselves.

**KAIZEN Group** is equipped with experienced and highly qualified professional consultants and is therefore well positioned to provide professional advices and services in respect of the formation and registration of company, application for various business licences and permits, company compliance, tax planning, audit and accounting in China. Please call and talk to our professional consultants for details.

If you need assistance or wish to obtain more information, please visit our official website at [www.kaizencpa.com](http://www.kaizencpa.com) or contact us through the following methods:

**E:** info@kaizencpa.com **T:** +852 2341 1444

**M:** +852 5616 4140, +86 1521 9434 614

**WhatsApp/Line/WeChat:** +852 5616 4140

**Skype:** kaizencpa

## SERVICES SCOPE

### CORPORATE SERVICE

Company Formation & Registration  
Lease assist  
Company Secretary  
Merge & Acquisition  
Dis-registration & Dissolution  
Cancellation of Liquidation

### ACCOUNTING & AUDITING

Financial Advisory  
Due Diligence  
Company Secretary  
Accounting & Book-keeping  
Statutory Audit  
Special Audit

### TAXATION

Tax Advisory  
Tax Planning  
Tax Reporting  
Tax Compliance  
Tax Audit  
Transfer Pricing

### INTELLECTUAL PROPERTY

Trademark Registration  
Trademark Infringement  
Trademark Watch  
Design Registration  
Patent Registration

### PERSONNEL

Staff Hiring  
Labor Displacement  
Payroll Processing  
Human Resource  
Legal Advisory

### VISA

Work Visa  
Business Visa  
Entrepreneurship Pass  
Investment Immigrant  
Skilled Immigrants

## CONTACT US

### SHENZHEN

Rooms 1203-06, 12/F.  
Di Wang Commercial Centre  
5002 Shennan Road East  
Luohu District, Shenzhen, China  
T: +86 755 8268 4480

### BEIJING

Room 303, 3/F., Interchina  
Commercial Building  
33 Dengshikou Street  
Dongcheng District, Beijing, China  
T: +86 10 6210 1890

### SINGAPORE

138 Cecil Street, #13-02 Cecil  
Court, Singapore 069538  
T: +65 6438 0116

### LONDON

Room 319, 3/F.  
One Elmfield Park, Bromley  
Greater London, BR1 1LU, UK  
T: +44 20 8176 3860

### SHANGHAI

Room 603, 6/F., Tower B  
Guangqi Culture Plaza  
2899A Xietu Road  
Xuhui District, Shanghai, China  
T: +86 21 6439 4114

### TAIPEI

Room 303, 3/F.  
142 Section 4, Chung Hsiao  
East Road, Daan District  
Taipei, Taiwan 10688  
T: +886 2 2711 1324

### NEW YORK

202 Canal Street Suite 303, 3/F.  
New York, NY 10013, USA  
T: +1 646 850 5888

### KAIZEN CPA LIMITED

Rooms 2101-05, 21/F., Futura Plaza, 111 How Ming Street, Kwun Tong, Hong Kong  
T: +852 2341 1444  
E: info@kaizencpa.com