

# Audit - Internal Audit, Risk and Compliance

## Internal audit regulations

China joined the Institute of Internal Auditors (IIA) in 1987 and established The Chinese Institute of Internal Auditors the same year. Since then, the country has gradually established the basic framework of a standard internal audit system by promulgating basic guidelines for internal audit, codes of practice for internal audit practitioners, and specific rules and directories for internal audit practices, including implementing the Internal Audit Regulations in 2003.

China's Internal Audit Regulations are concerned with improving risk management, control, and governance processes. Internal auditors are consequently expected to examine and evaluate risk management and the effectiveness of internal control systems.

## Key business challenges

### China's financial system is complex

Overseas-based financial administration teams often find that mastering the financial system in China is more complicated than in other jurisdictions. A complex bureaucracy and licensing regime, idiosyncratic features, strict capital controls, and frequent audits – as well as pronounced regional variance – all contribute to this complexity.

All of the aforementioned issues raise the risk of errors or omissions occurring during the process of preparing financial records in China, and this risk is particularly pronounced if the senior managers are based overseas and entrust the accounting functions of the company to a local bookkeeper working under limited supervision.

### Hands-off management results in fraud risk

While fraud is a well-known issue for foreign investors doing business in China, many companies underestimate the risks of fraud occurring from within their own organizations. Cultural differences and language barriers frequently cause misunderstandings and lapses in operational protocols, especially when senior managers are based overseas.

Other times, the threats are more malicious, with opportunistic employees taking advantage of an unstructured business

environment for their own gain. The answer to limiting exposure to these risks is the implementation of internal controls processes to limit the potential for mismanagement and increase operational efficiency.

### FDI receives considerable scrutiny

Foreign-invested entities (FIEs) operating in China receive considerable scrutiny and regulators rarely shy away from sanctioning FIEs that are not compliant with local laws and regulations. As such, it is vital for foreign companies doing business in China to meet first-class compliance standards and limit the potential for fraud occurring at their Chinese subsidiary.

Compliance to Chinese tax laws will require meticulous bookkeeping and financial reporting – and for the company's financial statements to be audited once a year. This annual statutory audit will need to meet Chinese financial and accounting standards, and should be conducted by an external licensed accounting firm and signed by a Certified Public Accountant (CPA) registered in China.

## How we can help

### Financial statement audit

- Legal review
- HR review
- Financial review

### Special purpose review

- Accounting, tax, HR and IT health checks
- Sarbanes-Oxley advisory
- Transfer pricing review

### Financial statement audit

- Internal control review and training
- Fraud prevention and investigation
- Risk management advisory

### PRC statutory audit

- Annual statutory audit assistance
- Statutory audit documentation arrangement and preparation
- Statutory audit review



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## Why Dezan Shira & Associates

Dezan Shira & Associates has a dedicated Audit team with 3 decades of experience assisting foreign companies to review the financials and internal controls of their Chinese subsidiaries. Dezan Shira & Associates auditors work alongside in-house PRC attorneys and tax specialists, and our multi-disciplinary focus allows us to tackle even the most complex issues. Utilizing proven methodologies and modern auditing tools, Dezan Shira & Associates professionals are able to assist with all aspects of a company's internal audit and risk management affairs.

Dezan Shira & Associates approaches each audit with a deep understanding of its customer's business, the wider industry landscape, and the current regulatory environment. Our goal will be to consider the specific risks your company faces and to provide you with the tools to address and mitigate these risks. Our mission will be to help you see further and deeper into your business, improve the transparency of reporting to stakeholders, and to make safer, better informed decisions—at the speed business demands in Asia. Please contact us to discuss your particular needs and requirements.

### CONTACT



CHINA

#### Daisy Huang

Senior Manager  
Corporate Accounting Services

T: +86 20 3825 1380  
E: daisy.huang@dezshira.com



INDIA

#### Krishan Aggarwal

Senior Manager  
International Business Advisory

T: +91 11 4003 8908 ext. 908  
E: krishan.aggarwal@dezshira.com



VIETNAM

#### Nguyen Thi Hai Tam

Senior Manager  
Business Accounting Services

T: +84 28 3930 2828  
E: tam.nguyen@dezshira.com



HONG KONG

#### Jennifer Lu

Director  
Corporate Accounting Services

T: +852 2170 6203  
E: jennifer.lu@dezshira.com



SINGAPORE

#### David Stepat

Senior Manager  
International Business Advisory

T: +65 6789 3256  
E: david.stepat@dezshira.com

> Accounting  
> Audit and Risk Advisory  
> Tax Advisory

> Business Intelligence  
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> Intellectual Property

Email: [audit@dezshira.com](mailto:audit@dezshira.com)

Web: [www.dezshira.com](http://www.dezshira.com)



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