

Annual Audit of Wholly Foreign Owned Enterprises

WFOEs should face to annual audit required by the China local government. You should find a Certified Public Accountant to issue those two audit reports for you which should be submit to Local Tax Bureau at the end of each calendar fiscal year. We summarize the points which may be key concerns by tax officers as follows:

Cash & Bank

For cash, you should confirm the balance on your account be similar to the physical cash in your cash box, because the auditors will perform cash count during their field work; For bank, you should check whether the balance on your bank book is same to the bank statement. If not, please prepare a correct bank reconciliation to verify the time differences.

Fixed assets

Purchase of the fixed asset should be recorded in the fixed assets account first and then, using direct method to calculate the annual depreciation and allocate the depreciation to expenses. You have to be sure whether depreciations are correctly calculated and recorded, if you do not use direct method, do you get the approval from tax bureau for using other methods of depreciation? The disposal gain or loss should also be recorded and approved by tax authority.

Current accounts especially with head office

Current account confirmation letter should be sent to the companies with debit or credit relationship with the WFOE to verify the balance has been correctly recorded. Inter-company confirmation letter will be sent to head office of WFOE to verify the balance be same with the head office records.

Inventories, Costs and Taxes Payables

Expatriate's IIT should be correctly calculated and declared monthly with tax returns. Local employee's IIT should be withholding by WFOE. VAT, Business tax & corporate income tax should be calculated according to actual costs, expenses and turnover. To be sure that all the inventories, costs and expenses has been correctly recorded otherwise the basis for tax calculation will be corrupt.

Payroll & Staff welfare

Local staffs' social insurance should be withhold and paid by you to the Shanghai Municipal Labor & Social Security Bureau. Be sure your calculations are correct and money is transferred to the authority monthly.

G&A, Selling and Financial expenses

Rentals, traveling fees, advertisement fees, office equipment or administrative fees, interest income or expenses should be correctly recorded with bank slips, fapiaos as support. Be sure that for each expense, you have to get official fapiao, otherwise you will face tax penalties.

Accrued expenses

Audit fees, salaries, rentals, utilities, any expenses belong to the calendar fiscal year with the payment delay to the next year, should be properly accrued with contracts or agreements as support, since China Accounting use accrual basis.

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Material preparation list for WFOE audit

Type of material	Materials	Description	check (√)	
Account related materials	1	Financial statement & notes	<input type="checkbox"/>	
	2	All accounting books	<input type="checkbox"/>	
	3	All accounting vouchers	<input type="checkbox"/>	
	4	Account balance sheet	Total accounts from Level 1 to the detail account's opening balance, end balance and accumulated movements	<input type="checkbox"/>
	5	Bank statement & reconciliation sheet	All banks' statements	<input type="checkbox"/>
	6	Building, vehicle ownership certificate		<input type="checkbox"/>
	7	Fixed assets count sheet	Name, scale, number, original cost, estimated residual value, useful life, accumulated depreciation, net value	<input type="checkbox"/>
	8	Tax return & payments	All taxes' annual returns & payments by month or quarter	<input type="checkbox"/>
Reference materials	9	Business license	SAIC	<input type="checkbox"/>
	10	Tax certificate	State & local Tax Bureau	<input type="checkbox"/>
	11	Enterprise code	Technical Supervision Bureau	<input type="checkbox"/>
	12	Tax authentication	State & local Tax Bureau	<input type="checkbox"/>
	13	Article of association	SAIC ref.	<input type="checkbox"/>
	14	Capital verification report		<input type="checkbox"/>
	15	Previous years' audit report		<input type="checkbox"/>
	16	Accounting & Financial management procedure and internal control procedure		<input type="checkbox"/>
	17	Organization chart		<input type="checkbox"/>
	18	Board meetings minutes		<input type="checkbox"/>
	19	Lease agreement		<input type="checkbox"/>

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