

## Annual Audit of Representative Office

Representative Offices who are expenses based taxpayers or operate taxable activities 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 RO to verify the balance has been correctly recorded. Inter-company confirmation letter will be sent to head office of RO to verify the balance be same with the head office records.

### **Taxes Payable**

Expatriate's IIT should be correctly calculated and declared monthly with tax returns. Local employ's IIT should be withholding by RO. Business tax & corporate income tax should be calculated by the cost-plus method according to actual expense. To be sure that all the expenses has been correctly recorded otherwise the basis for tax calculation will be corrupt.

### **Payroll & Staff welfare**

Local staff payroll & welfare should be handled by agents like FESCO, the agents will calculate the social insurance you need to pay 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, Fesco fees, 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 RO 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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