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# PCAOB Secures Complete Access to Inspect, Investigate Chinese Firms for First Time in History

Chair Williams: Investors are more protected today because Congress passed the Holding Foreign Companies Accountable Act (HFCAA)

Washington, DC, Dec. 15, 2022

Public Company Accounting Oversight Board (PCAOB) Chair Erica Y. Williams released the following statement today after the Board determined the PCAOB was able to secure complete access to inspect and investigate audit firms in the People's Republic of China (PRC) for the first time in history, in 2022.

- [\*\*FACT SHEET: PCAOB Secures Complete Access to Inspect, Investigate Chinese Firms for First Time in History\*\*](#)
- [\*\*2022 HFCAA Determination Report\*\*](#)

## From Chair Williams:

For the first time in history, the PCAOB has secured complete access to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong. And this morning the Board voted to vacate the previous determinations to the contrary.

This historic and unprecedented access was only possible because of the leverage Congress created by passing the Holding Foreign Companies Accountable Act. Congress sent a clear message with that legislation that access to U.S. capital markets

is a privilege and not a right, and China received that message loud and clear.

Investors are more protected today because of Congress' leadership, and I want to thank Members of the House and the Senate for their ongoing work to hold China accountable.

I want to be clear: this is the beginning of our work to inspect and investigate firms in China, not the end. The PCAOB is continuing to demand complete access in mainland China and Hong Kong moving forward. Our teams are already making plans to resume regular inspections in early 2023 and beyond, as well as continuing to pursue investigations.

The Board does not have to wait another year to reassess its determinations. Should PRC authorities obstruct or otherwise fail to facilitate the PCAOB's access – in any way and at any point in the future – the Board will act immediately to consider the need to issue a new determination.

It is important to understand: today's announcement is about one question and one question only – is the PCAOB able to inspect and investigate firms in mainland China and Hong Kong completely at this time? The answer, following thorough and systematic testing, is yes.

What we found during the course of our inspections and investigations is a separate question that we will address through our typical inspection and enforcement processes, which are designed to protect investors.

Today's announcement should not be misconstrued in any way as a clean bill of health for firms in mainland China and Hong Kong. It is a recognition that, for the first time in history, we are able to perform full and thorough inspections and investigations to root out potential problems and hold firms accountable to fix them.

We arrived at today's decision only after thoroughly verifying China's compliance.

More than 30 PCAOB staff members conducted on-site inspections and investigations in Hong Kong, reviewing thousands of pages of documents, conducting interviews and taking testimony over a nine-week period from September to November.

On behalf of the entire PCAOB Board, I want to thank those staff members for their dedication and commitment. Because of their sacrifices and hard work, investors are more protected today.

Our inspections team was more than double the size of a typical team for similar inspections, and they remained on the ground in Hong Kong for about three weeks longer than the typical timeframe.

Our teams were tough. They were thorough. They tested the PRC compliance with skepticism and rigor.

And because of their hard work and commitment to holding China accountable, the PCAOB secured each of the three criteria required to achieve complete access:

1. One: The PCAOB exercised sole discretion to select the firms, audit engagements, and potential violations it inspected and investigated – without consultation with, nor input from, PRC authorities.

PCAOB staff selected two firms for inspection: KPMG Huazhen LLP in mainland China and PricewaterhouseCoopers in Hong Kong. And they inspected a total of eight engagements between the two firms.

Staff selected those firms using the same methodology they use in all PCAOB inspections, including consideration of risk factors posed by particular firms or issuer engagements.

The selected engagements included several from categories of audit engagements PRC authorities had denied access to in the past – including large state-owned enterprises and issuers in sensitive industries.

Neither the PRC authorities nor the firms had any input or influence over the selections, and neither were given advanced notice.

Separately, PCAOB staff also selected potential violations to be investigated consistent with regular practices and processes applied in the U.S. and around the world, without any input from or advance notice to PRC authorities, and PCAOB staff pursued all such investigations without interference.

2. Two: PCAOB inspectors and investigators were able to view complete audit work papers with no redactions, and the PCAOB was able to retain information needed to complete our work.
3. And three: The PCAOB had direct access to interview and take testimony from all personnel associated with the audits the PCAOB inspected or investigated.

I have been clear from day one, there would be no loopholes and no exceptions to our demand for complete access, and there were none.

Our inspection reports are not yet finalized, but we are committed to releasing them as soon as possible in the new year.

Preliminarily, PCAOB staff have identified numerous potential deficiencies.

Any deficiencies are troubling. At the same time, it is not unexpected to find numerous deficiencies in jurisdictions that are being inspected for the first time. And the potential deficiencies identified by PCAOB staff at the firms in mainland China and Hong Kong are consistent with the types and number of findings the PCAOB has encountered in other first-time inspections around the world.

The fact that we found those potential deficiencies is a sign that the inspection process worked as it is supposed to. This is exactly why Congress passed the HFCAA in the first place – so we could open up the books, identify potential problems, and begin the work of holding firms accountable to fix them. And that is exactly what we intend to do.

Again, this is the beginning of the PCAOB’s work to inspect and investigate firms in mainland China and Hong Kong, not the end. We are continuing to demand complete access, and we will act immediately to reconsider today’s determinations should China obstruct, or otherwise fail to facilitate our access, at any time.

I want to thank Chair Gensler and the Securities and Exchange Commission for their ongoing support, the incredible teams at the U.S. Embassy in Beijing and the U.S. consulate in Hong Kong who helped ensure the safety and security of our staff, my fellow PCAOB Board Members for their ongoing work, Members of Congress who made this possible through the passage of the HFCAA, and the PCAOB staff whose tireless efforts secured this historic access to protect investors.

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## About the PCAOB

The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of brokers and dealers, including compliance reports filed pursuant to federal securities laws.

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