

Overview of the Accountancy Profession of China

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Chapter I Overview and Milestones

The accountancy profession was introduced to China in the early 20th century, mainly serving the booming national industry and commerce. After the founding of the PRC, the profession had played a vital role in the national economic recovery. Its development was suspended in the Mid-20th century when China adopted a planned economic system. Along with China's economic reform and opening-up, the accountancy profession was revitalized and reconstructed and grew steadily. With over 30 years of development and growth, accountancy is now a widely recognized and respectable profession in China. Accountants are an important link of integrity chain of the market economy and played a vital role in supervising the market.

Milestones in the revitalization of the profession:

1980, Restoration of CPA system by the Ministry of Finance (MOF) approved by the State Council.

1986, Promulgation of the *CPA Regulations* by the State Council.

1988, Establishment of the Chinese Institute of Certified Public Accountants (CA), the national organization of accountancy profession.

1993, *The Law of the CPA* (Revised) (Law No. 27 of the Standing Committee of the National People's Congress) was promulgated, as the main focus in developing the profession.

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2004 CA's fourth National Assembly of Delegates reaffirmed the focus of building professional integrity and set internationalization as a guiding principle for growth. Subsequently, CPA launched several development strategies, including talent training, international convergence of standards and promoting more competitive and bigger Chinese accounting firms.

54/October 2009, the State Council endorsed the *Policy Statements of the State Council on Accelerating the Development of the Chinese Accountancy Profession (No. 56 State Council (2009))*, a guiding document for the long-term development of the accountancy profession.

54/November 2010, CA's fifth National Assembly of Delegates established 5 strategies: talent training, international convergence of standards, promoting more competitive and bigger accounting firms, developing non-audit services and advancing the informatization of the industry.

54/April 2012, Mr. Xi Jinping instructed that the accountancy profession should firmly take hold of the mission of serving national construction and focus on the priority of building professional integrity. He put forward new expectations and requirements on the scientific development of the profession, which set the path for future development of the profession.

54/December 2016, released *the Development Plan of Accounting Sector in China (2016-2020)* and *the Development Plan for Informatization of Accounting Sector in China (2016 - 2020)*.

As of 31 December 2017, CPA has 8,605 accounting firms as group members (accounting

firms). Among them, 40 are qualified to conduct securities and futures-related business and 11 firms are authorized to conduct H-share audit. CICPA has over 237,000 individual members, including 105,570 practicing members and 131,633 non-practicing members. CICPA now has 2,818 senior members and 17 honorary members. The workforce in this profession exceeds 300,000 people with more than 260,000 of them having CPA qualifications. They provide auditing, assurance, accounting, management consulting, and tax consulting services for over 4.2 million enterprises and institutions including over 3,000 listed companies. The revenue of the Chinese accountancy profession reached RMB 79 billion in 2016.

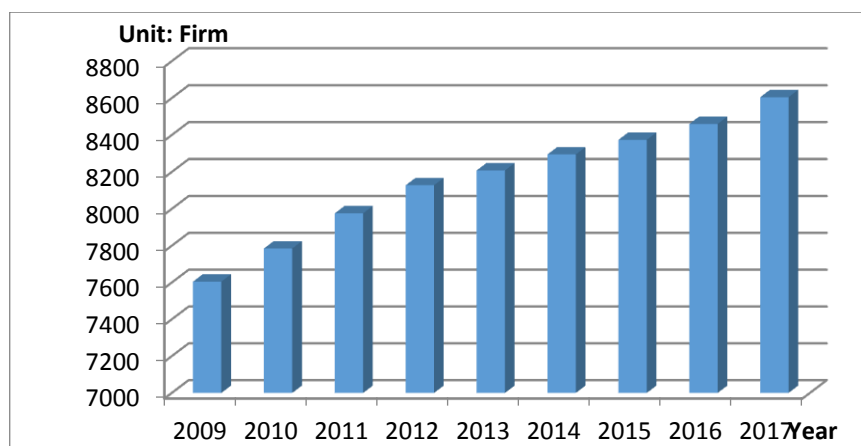


Figure 1 Number of Accounting Firms from 2009 to 2017

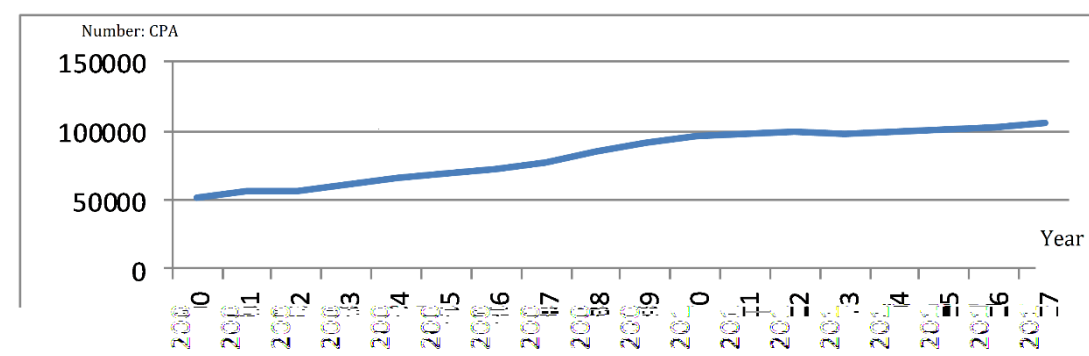


Figure 2 Number of CPAs from 2000 to 2017

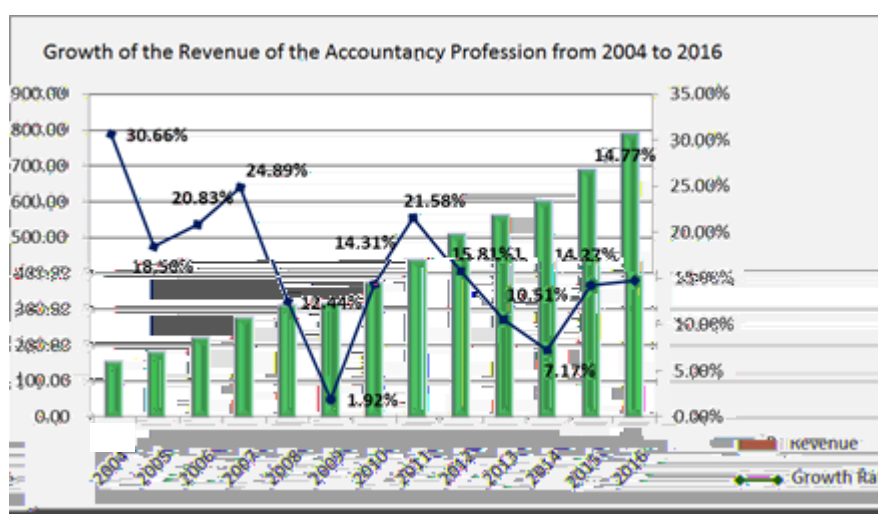


Figure 3 Growth of the Revenue of the Accountancy Profession from 2004 to 2016

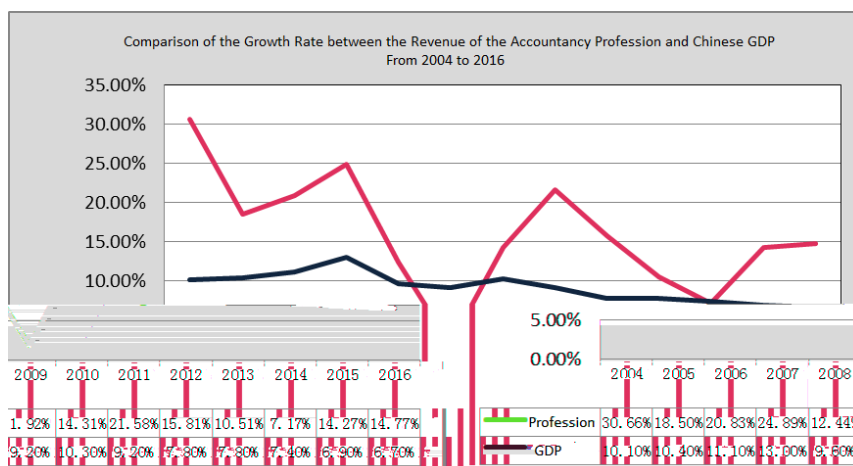


Figure 4 Comparison of the Growth Rate between the Revenue of the Accountancy Profession and Chinese GDP from 2004 to 2016

Chapter II Building Integrity in the Accountancy Profession

Attaching great importance to professional integrity, CICPA continuously explores ways to improve the credibility of the profession. In 2002, CPCPA set integrity-building as the focus of the development of the profession and released *Outline for Building Integrity of the Accountancy Profession*. In 2004, CICPA released *Interim Measures for Managing Integrity Records of Members*. In 2006, CICPA established a registry-based monitoring system that is able to fully record, timely monitor and effectively disclose information on the credibility of CICPA members and firms. Today, relevant information of all Chinese accounting firms and CPAs are released online for public inquiry and supervision.

Professional ethics are another core value of CICPA as it builds the profession's integrity. Since 1992, CICPA has released a series of documents such as the tentative version of *Code of Ethics*, *the Principles of Code of Ethics*, and *Guidance for Code of Ethics*. In 2009, CICPA released *Code of Ethics for Chinese CPAs* and *Code of Ethics for Non-Practicing Members of CICPA*. With 70,000 Chinese characters, the two documents regulate the ethical conducts of CPAs and non-practicing members in detail. These codes were released in convergence with IESBA Code of Ethics for Professional Accountants.

In 2014, CICPA released *Q&As related to Code of Ethics for Chinese CPAs*, covering over 30 specific questions in such areas as conceptual framework, firm networks, service independence, Code of Ethics for non-practicing members. Its detailed guidance and tips that help CPAs properly understand code of ethics and solve problems in practice.

In addition to shaping systems and mapping out regulations, CICPA makes great efforts to publicize the value of credibility among members. CICPA releases an annual ranking of top 100 accounting firms through a comprehensive evaluation, supports firms to strengthen internal governance, reminds members of personal responsibility, and encourages members to take a professional pledge to operate with honesty as CPAs. CICPA is diligently shaping the foundation and culture of integrity within the accountancy profession and persistent in the pursuit of professional credibility.

In 2013, CICPA organized “Year of Building Professional Integrity” and held several profession-wide promotional seminars to carry out the campaign. It sought out public comments on “Spirit of CPA Professionalism” and received over 2,000 comments. It published *The Road to Professional Integrity* to summarize and share the activities and progress of the initiatives.

CICPA further extended the professional integrity-building initiatives into other activities, placing credibility as a priority in

Ph. D degrees; 267 articles have been published in core journals, 38 books on professional research have been written, and 44 national, provincial and professional special research projects have been launched; 169 have obtained overseas qualifications; they have actively contributed to the formation of national policies and ministerial decision-making, and participated in the standard setting, national CPA examinations, practice quality inspections and CPD activities. CICPA has also collaborated with ICAEW, CPA Australia and HKICPA on joint training and qualification programs. Up to now, 112 CPAs have obtained globally recognized professional qualifications and are able to practice in certain countries and regions through such programs.

Continuing professional development (CPD) is an integral part of professional development of CPAs. According to *the Continuing Professional Development System for Chinese CPAs*, each CPD cycle lasts for two years. CPAs have to take no less than 80 hours of CPD in one CPD cycle with at least 30 hours spent each year. For non-practicing members, they must spend at least 40 hours on CPD programs each year.

Distance education is an important part of talent training of the Chinese CPAs. Since 2005, CICPA has gradually established a wide national network of distance training, which now covers 16,000 people each year and becomes major training platform of the profession. Local institutes of CPAs jointly play an important role in professional development, carrying out over 60% of total training programs. CICPA also leverages the resources of the three national accounting institutes in Beijing, Shanghai and Xiamen National Accounting Institutes to train more than 6,000 CPAs a year. Recently, CICPA has continued to reform and innovate the training models. In 2012, CICPA classified talent training into categories and themes: training, seminars and workshops; and assigned differential specialties and topics to the 3 national accounting institutes, addressing innovation to talent training. Training, including basic theories and principles, will always focus on special service expertise of CPAs.

Since 2013, CICPA has made more efforts to better serve its non-practicing members. It publishes e-journals for all non-practicing members, holds symposiums for its non-practicing members in large enterprises, and actively supports the training of senior accounting executives. CICPA cooperates with Shanghai National Accounting Institute to launch distance training for its overseas non-practicing members. In 2014, based on the requirements of comprehensively deepening the reform, CICPA re-designed –the curriculum of its training programs and continued to improve its tailored training systems and its cooperation with Beijing, Shanghai and Xiamen Institutes.

In 2016, CICPA conducted whole-process tracking of CPD curriculum from the demand inquiry, design, organization and teaching to the feedback processes. It launched online training work to research on the classified, graded and module CPD framework and curriculum system. In 2017, in order to continue to enhance the targeted training and center on the new requirements brought by “Four Comprehensive” Deployment and supply-side structural reform, CICPA focused on special training on performance evaluation of fiscal investments, design and assurance of internal control in administrative institutions, audit on hospitals, universities and foundations, consultancy on “overcapacity, de-stocking, de-leveraging, cost reduction and bolstering areas of weakness” and government procurement of services.

Year	Distance Education (Session)	Distance Education (CPA)	Education Entrusted to National Accounting Institutes (Session)	Education Entrusted to National Accounting Institutes (CPA)
2006	4	14,000	33	3,715
2007	6	17,000	32	4,623
2008	5	16,000	35	6,500
2009	5	15,000	38	6,251
2010	6	17,000	41	6,073
2011	4	16,000	39	6,969

2012	4	16,000	38	6,288
2013	4	16,000	42	6,137
2014	4	17,500	41	6,177
2015	7	27,400	51	7,811
2016	5	19,800	51	6,827
2017	4	18,000	54	5,416
Total	58	210,700	495	72,787

Table 1 Training of CPAs from 2006 to 2017

On the CPD of non-practicing members, recently, local institutes of CPAs have actively taken measures to construct a platform. Along with the continuous improvement of new technologies and means, the training of non-practicing members mainly relies on the network. In 2014, 97,972 non-practicing members should be trained, while 54.02% of them, about 52,926, were actually trained; in 2015, 113,178 non-practicing members should be trained, while 43.51% of them, about 49,239, were actually trained; in 2016, 110,533 non-practicing members should be trained, while 56.71% of them, about 62,679, were actually trained; in 2017, 118,775 non-practicing members should be trained, while 60.30% of them, about 71,616, were actually trained.

Nurturing reserve talents for the profession is another important part of CICPA's talent training strategy. Since 1994, CICPA has helped to set up the CPA major in certain Chinese universities and colleges, and provided technical guidance and special funding. Over the past years, CPA major has become a highlight of China's higher education, producing 30,000 graduates. Today, there are 19 Chinese universities and colleges still operating CPA majors with 6,000 CPA major students. Since 2005, CICPA has selected 1,041 Chinese college students in 13 sessions to participate in overseas internship programs in global accounting firms. Meanwhile, over 415 high college teachers, in 12 sessions, have participated in faculty training sessions on core curricula. In 2011, CICPA adjusted the objectives of the overseas internship program, building a platform bridging CPA major students and the accountancy profession. CICPA maintains regular contacts with the accounting departments of more than 300 Chinese universities and colleges in the effort to support the development of the next generation of accountancy professionals.

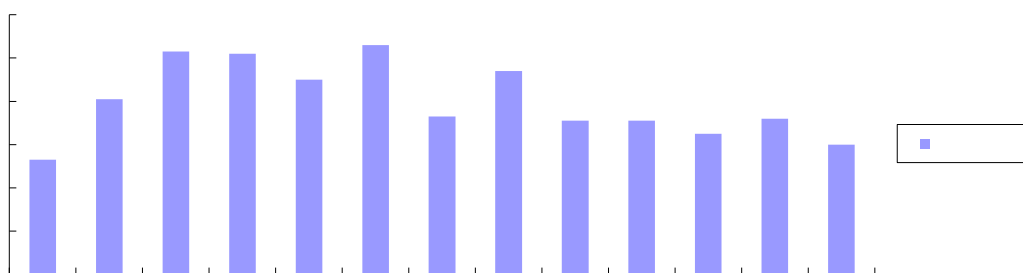


Figure 6 Number of Students Participating in Overseas Internship Programs from 2005 to 2017

Chapter IV Strategy of Convergence of International Standards

According to *Law of PRC on CPAs*, CICPA is responsible for drafting professional standards and rules and the Ministry of Finance is responsible for final approval and release. Since it was established, CICPA's has been attaching great importance to the drafting of professional standards. In 1994, CICPA developed a set of independent auditing standards, including 48 items, in six sessions, which shaped the framework of China's independent auditing standard system. In line with the strategy of convergence of international standards, CICPA released a set of new auditing standards in 2006 that were convergent with international standards. They were updated in October 2010 in accordance with the revisions of international auditing standards on "Clarification Project", and were implemented on January 1, 2012. Through these efforts, CICPA helped

establish a set of professional standards that not only meet the requirements of the development of the market economy and but also conform to international standards.

In 2009, CICPA formulated and released *Code of Ethics for CPAs* based on the international practice. Meanwhile, CICPA released a joint statement with HKICPA to announce that auditing standards and codes of ethics on the Chinese Mainland and Hong Kong are equivalent.

In 2013, CICPA translated and published Chinese versions of *International Standards on Audit* and *Code of Ethics for Professional Accountants*, improving the preciseness, standardization of the accounting language in Greater China. In December 2016, based on the achievements in reform of international audit reports, CICPA developed (revised) 12 standards on audit report. In February 2017, CICPA released 16 new practice guidance of audit report and kept consistent and dynamic convergence with international standards.

IAASB spoke highly of China's efforts and achievements in the convergence with international accounting and auditing standards, saying that "China sets up a good example for developing countries and transitional economies." In 2009, World Bank said in its Report on the Observance of Standards and Codes – Accounting and Auditing, "China's strategy of convergence of international standards can be one for other countries to follow".

Centering on serving reform and development, CICPA released more audit guides: *Guide for Audit of Internal Control of Business Enterprises*, *Guide for Special Purpose Audit of New and High-tech Enterprise*, *Hospitals Financial Report Audit Guides*, *Foundations Financial Report Audit Guides*, *Foreign Exchange Income and Expenditure Examination Guides*, *Guide for Examination of Foreign Equity Confirmation Sheet of Enterprises with Foreign Investments*, *Guide for Audit of Financial Reports of Universities and Colleges*, *Guide for Audit of Commercial Banks*, *Guideline of Performance Evaluation of Fiscal Expenditure by Accounting Firms*, and *Notice of Further Standardizing Bank Confirmation and Response Letter*. In addition to the above documents, CICPA also released a series of guides in the form of Q&As, with 78 questions about Chinese Standards on Auditing, 30 about *Code of Ethics for Chinese CPAs* and 9 about internal control audit. CICPA has established a set of practicing norms covering new type of services and meeting new technical requirements.

At the Cross-Straits, Hong Kong and Macau Accountancy Profession Conference, which was held in Macau in October 2014, the Guidance on Professional Judgment of CPAs was released for institutes in the four markets to use as a reference on a voluntary basis. Based on that document, CICPA released the Guidance on Professional Judgement for Chinese CPAs in March 2015.

Chapter V Strategy of Promoting More Competitive and Bigger Accounting Firms

In June 2007, CICPA released *Opinions on Promoting More Competitive and Bigger Accounting Firms* and the Guidance on Internal Governance of Accounting Firms, and started the implementation of its strategy of promoting more competitive and bigger accounting firms. In December 2007, nine ministries and commissions under the State Council released *Opinions on Supporting Accounting Firms in Expanding Exports of Accounting Services* to

CICPA has been releasing information on top 100 Chinese accounting firms for 14 consecutive years since it launched the Initiative of Comprehensive Evaluation of Accounting Firms of China between 2003 and 2016. In 2017, CICPA released the *Measures of Releasing Information on Top 100 Chinese Accounting firms by Annual Fee*. Based on the statistical data in 2017, by the end of 2016, the revenue of top 100 accounting firms totaled RMB 53.422 billion, accounting for 67.5% of the revenue of the whole profession. Of top 100 firms, 55 accounting firms' annual revenue surpassed RMB 100 million, of which 6 firms between RMB 1 billion and RMB 2 billion, 3 firms between RMB 2 billion and RMB 3 billion, 3 firms between RMB 3 billion and RMB 4 billion and 2 firms exceeded RMB 4 billion. At the same time, transnational service ability of big firms has been greatly improved. Many firms joined international accounting networks or set up branches, affiliates or liaison offices in overseas markets, including Hong Kong, the US, ASEAN and West Asia.



Figure 7 Revenue of Top 100 Accounting Firms of China from 2006 to 2016

Chapter VI Strategy of Developing Non-Audit Services

Since 2010, CICPA fully implemented the strategy of developing non-audit services and formulated a series of guiding documents, including *Opinions on Implementing the Strategy of Developing Non-Audit Services*, *Work Plan of Developing Non-Audit Services in New Areas of Economic and Social Development*, and *Work Plan of Building Demonstration Bases of Accounting Services*. To serve national economic and social development, regional development and industrial restructuring, CICPA worked with local institutes of CPAs and relevant authorities in setting up 14 demonstration bases, including the Accounting Service Outsourcing Base in Suzhou Industrial Park. Three pilot accounting service programs - including the assurance program for agricultural development projects in Hebei Province – were also initiated.

Since September 2010, CICPA regularly issues the Service Catalog, which summarizes and updates the service types provided to all areas in economic and social development. The CPA Service Catalog (2014) lists 430 service items with over 270 assurance services and over 160 consultancy services.

Since the strategy was implemented seven years ago, service types and scope have been greatly expanded. Newly developed assurance services covered disclosure of financial information in rural areas, social responsibility reports, internal control, energy conservation and emission reduction and insolvency management. A series of new non-audit services were also developed, such as consultancy services in terms of internal control, strategy management, mergers and acquisitions, credit investigation, and investment. CICPA also guided SMPs to develop professional services for SMEs, such as corporation secretarial service, credit certificate, registration agency, bookkeeping and accounting, and customs clearance. The clients covered not only enterprises but also governments, public institutions and non-profit organizations. The revenue structure of the accountancy industry has been further optimized, with the ratio of the assurance services revenue to non-assurance services revenue standing at 70:30 in 2016.

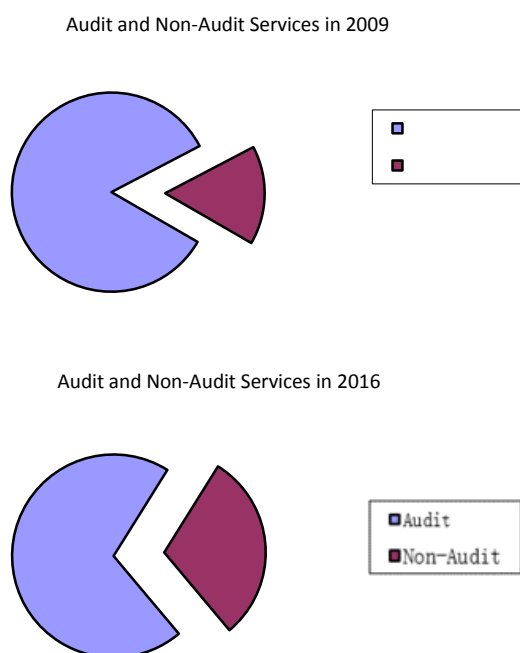


Figure 8 Comparison of Audit and Non-Audit Services

Chapter VII Strategy of Informatization

In the late 1990's, loans from World Bank and other matching funds enabled CICPA to build its website, the CICPA intranet, accountancy profession WAN and the network between CICPA and local institutes. The IT infrastructure created the necessary channels for online information exchange among CICPA, local institutes and the accountancy profession. After many years of development, CICPA has now established the Profession Management Information System, covering online exam registration, examination management, registration management, continuing education, financial statements and quality assurance.

In 2011, CICPA released the Overall Plan for Informatization of the Chinese Accountancy Profession. Over the past six years, CICPA unified the professional resources of the accountancy profession and made initial achievements. A series of projects have been accomplished in aspects including audit software for large accounting firms, the second phase of professional management information system, database of laws and regulations, economic information database, high-definition video conference systems and network information security system upgrading.

In 2015, the Leadership Group and the Expert Advisory Group of Informatization for the Chinese Accountancy Profession were established to advance the informatization. In order to promote the audit software, the Committee for Use of Audit Software in Large Firms and the Committee for Improvement of Audit Software in SMPs were set up. Rewarding Measures for Accounting Firms in Advancing Informatization was released to encourage and support accounting firms to advance the construction of IT systems and a total of RMB 23.5 million Yuan was granted from 2014 to 2016. In 2016, CICPA released *the Development Plan for Informatization of Accounting Sector in China (2016 - 2020)* to fully implement the Strategy of Informatization, so as to create an interconnected, mobilized and intelligent system. In June 2017, CICPA released *the Work Plan to Advance Informatization of Accounting Firms* to better play the role of strategic and policy leadership and guide the accounting firms to implement the tasks proposed in the *Five-Year Development Plan*.

Chapter VIII Quality Assurance of the Accountancy Profession

CICPA has established the audit supervision system to mainly review audit reports of listed companies' annual reports. Another system was also established to review the practicing quality of accounting firms, supplemented with disciplinary and appeal mechanisms. CICPA also set up the credibility monitoring system and qualification review system to supervise its members. With the above systems and mechanisms, CICPA has improved the regulatory system of China's accountancy profession. In January 2011, the European Commission recognized that the Chinese audit regulatory system is equivalent to the European system.

In 2004, CICPA released the Review System of Accounting Firms' Practicing Quality, under which, CICPA reviews accounting firms with qualification to conduct securities and futures-related businesses in a three-year cycle and reviews other firms in a five-year cycle. In 2011, CICPA comprehensively reformed the system to focus on systemic risk prevention, improve independent supervision and converge with globally recognized regulation systems. From 2004 to 2016, CICPA and local institutes reviewed accounting firms for 18,229 times, punished 2,475 firms and 4,932 CPAs.

With respect to the audit of listed companies, CICPA developed and improved regulations of the audit of annual financial reports of listed companies, attaching particular importance to pre-audit warning, audit supervision and post-audit reporting. CICPA does not tolerate opinion-shopping, cracks down on unfair competition, and investigates on abnormal practice. CICPA also implemented a "regulatory talk" mechanism to warn accounting firms of risks. From 2010 to 2016, CICPA has talked to firms with qualification to conduct securities-related businesses 126 times on 80 occasions, involving 136 listed companies.

CICPA also carefully reviews the qualification of CPAs. The institute works hard to ensure professionalism and continuously improve its review system. From 2003 to 2017, CICPA revoked the CPA qualification of 26,653 as they failed to pass the review.

Chapter IX International Exchanges and Cooperation

CICPA understands the Chinese accountancy profession serves the country but it is also an integral part of the global profession. Along with China's opening-up and economic reform, CICPA has made great efforts to reach out to international counterparts and draw on international experiences for the growth of the Chinese profession.

CICPA joined CAPA in 1996 and IFAC in 1997 and ever since CICPA's nominees have served as board members. CICPA has been involved in decision-making of major international accountancy conferences and forums, spoke on the development and revision of international standards, hosted international and regional conferences, and visibly promoted the development of international accounting and auditing profession. Thus far, seven delegates recommended by CICPA have worked in global and regional accounting organizations, including IFAC Board, CAPA, IAASB and SMP.

CICPA has established friendly relations with over 50 overseas accounting organizations, and signed over 30 cooperation agreements and MOUs with over 20 organizations. It receives around 50 international delegations annually, and regularly organizes accounting firms to conduct field study in Africa, ASEAN, Europe and Hong Kong S.A.R. Recently, CICPA began to attend and host international service trade fairs, with the intent to introduce the Chinese accountancy profession to international counterparts. In 2010, CICPA set up an office in Hong Kong S.A.R. to help firms in China Mainland to explore the global market. Concurrently, CICPA regularly translates advanced profession research materials from around the world and invites international experts as guest presenters to help members learn the latest development trends and achievements of global counterparts.

At the 18th World Congress of Accountants, the IFAC granted "Special Service" Award to Mr. Wang Jun, the then Vice Minister of MOF. In 2013, ACCA granted "Excellence Award" to Dr.

Chen Yugui, Vice President and Secretary General of CICPA. In 2013, Dr. Chen Yugui was elected one of the 50 global accountancy powers by The International Accounting Bulletin. In November 2017, Dr. Chen Yugui was elected Deputy President of CAPA.

Chapter X Institution Building

CICPA was established in line with *the Law of the PRC on CPAs* and *the Regulations for the Registration and Administration of Social Organizations*. It exercises both regulatory and service functions authorized by *the Law of the PRC on CPAs* and stipulated by the Charter of The Chinese Institute of Certified Public Accountants. CICPA proactively explores the ways of regulating the industry and improving its services. To that end, CICPA has established several systems with regard to assurance services, examination and assessment, registration, international convergence, continuing professional development, supervision and inspection, international cooperation, go-global efforts of Chinese accounting firms, development of stronger accounting firms, and industrial organizational system.

There are 10 special committees and one professional committee under the CICPA Council. CICPA Secretariat has 15 departments and over 100 staff. At present, 31 Chinese provinces, autonomous regions and municipalities directly under the Central Government have local institutes of CPAs.

Chapter XI Role of the Accountancy Profession

As a major link of integrity in the market economy, the accountancy profession is vital to carry out the decisions of five-in-one pattern of socialism construction (to comprehensively promote progress in economic, political, cultural, social and ecological fronts in the course of building a moderately prosperous society, realizing socialist modernization and rejuvenating China) with Chinese characteristics and deepening the reform, which are determined by the 18th National Congress of CPC.

An important institutional arrangement of market supervision system

The accountancy profession has exercised its statutory supervision power vested in Chinese laws and regulations, including *Law of PRC on CPAs*, *Company Law*, *Securities Law*, *Bankruptcy Law*, *State Owned Capitals Law* and *Law of the PRC on Supervision over the Banking Industry*. For the financial report audits of listed companies from 2001 to 2015, audit adjustments by CPAs covered RMB 615.8 billion of profits, RMB 4,145.3 billion of assets, and RMB 184.7 billion of tax payable. It has a critical role in ensuring the stability of the capital market and the quality of the accounting information.

Year	Number of Listed Companies	Total Adjusted Assets Audited (100million Yuan)	Total Adjusted Profits Audited (100million Yuan)	Total Adjusted Tax Payable Audited (100million Yuan)
2001	1128	1731	440	40
2002	1199	1843	520	58
2003	1241	2181	368	62
2004	1376	2645	640	52
2005	1371	1790	563	69
2006	1456	2371	462	88
2007	1570	4179	711	133
2008	1624	2266	457	114
2009	1774	1963	182	93
2010	2129	3006	286	137

2011	2362	2912	210	150
2012	2493	4109	231	162
2013	2537	3791	354	234
2014	2667	2937	371	178
2015	2842	3729	363	277
Total	/	41453	6158	1847

Table 2 Overall Audit Adjustment of Listed Companies from 2001 to 2015

An important support in decision making in economic and social development strategy

An important provider of high-end services possesses a unique advantage of accounting, decision making, analysis and use of data, all solutions in industrial renewal, design of low carbon economy, adjustment of business strategy and process reengineering. Especially during the period of 2001-2015, the accountancy profession, such as assurance and consultancy services, provided