



Cover story

Braving the rain

In the second part of a series exploring the development of the Chinese accounting profession, Chinese Institute of CPAs Secretary-General Chen Yugui talks to *Accounting Today* in Beijing about overcoming the obstacles mainland accountants face in going international

Photography by Ricky Wong

Looking across the big conference room in the Chinese Institute of CPAs' office in a new commercial building, Chen Yugui marvels at the breakneck pace of development of China's accountancy profession over the past decade – much like the speed at which high-rises have sprung up all over Beijing.

"I recently visited our former secretary-general and he told me that in 1993, the total revenue of the whole profession was only 80 million yuan," Chen tells *A Plus* in an interview. "That figure grew 100 times to eight billion yuan in 2000 and then soared to 32 billion yuan at the end of last year."

The staggering growth in numbers would be enough to celebrate this November – the 22nd anniversary of the Chinese institute's founding.

"At every key development stage, our profession played a facilitating role," says Chen.

"We were first set up to serve foreign enterprises, and then the state-owned enterprises that underwent corporatization. Many of them later sought listings on the Shanghai and Shenzhen stock exchanges, and we became their auditors, so that makes us an integral part of the state economy."

Going international

Despite the rapid progress the profession has made, mainland accounting firms remain geared towards the domestic market, and they now desperately need to internationalize for one purpose: to grow in tandem with mainland enterprises seeking accounting, consulting and advisory services for the exploding number of overseas investments and acquisitions they have been making in recent years.

"One of the challenges the profession faces is that our service capabilities cannot yet satisfy the demands imposed by the development of China's economy and enterprises," he says.



For one, Chen says the profession is too reliant on assurance, which brings in 90 percent of total revenue, as an income generator, and its 92,000 CPAs have yet to boost their ability to offer non-assurance services.

“We hope to equalize the ratio of assurance and non-assurance revenue to 50:50 in eight years,” he says.

“The government is demanding that domestic enterprises speed up their restructuring to cut down their reliance on resource consumption and achieve growth through high value-added services,” he says. “Correspondingly, our CPAs need to enable this change with our professional expertise by helping companies reduce costs and streamline management and production processes. But their capability in these areas is not yet strong enough.”

Under the existing mechanism, before an accounting firm can branch into services such as valuation, tax or construction audits, the accountants have to take more exams and obtain additional specialized professional qualifications and licences. The different service lines also come under the jurisdiction of different regulatory bodies, complicating compliance.

“This significantly hikes up a firm’s operating and compliance costs, which affects them in further developing their auditing services and increases the entry barrier,” Chen says. “We are actively exploring measures to solve this problem.”

Training talent

While many Chinese banks, manufacturers and other enterprises have already entered the international capital markets, Chen says “the quality of our CPAs remains uneven. We don’t have enough professionals who can offer international services, such as international accounting

and auditing, consulting, restructuring and international trade advisory.”

As a start, CICPA is planning to strengthen training to boost the number of accounting “leaders” (領軍人才) – top professionals who possess technical and management expertise – from 169 now to 1,000 in the next five to 10 years. These leaders will be pivotal in pushing forward the development of large Chinese accounting firms, elevating the quality of the whole profession and expanding business offerings.

“We have already done a lot in bringing our auditing and accounting standards as well as ethics code in line with international standards,” he says. “The second step is to train and monitor our CPAs in accordance with these standards. This is the most important policy for us. For example, all CPA firms now have to undergo practice review every five years and those auditing for listed companies will be reviewed every three years – this is in line with international practice.”

To broaden accounting practitioners’ horizons and cultivate high-quality professionals, CICPA sent 442 accounting students for training to firms in the U.S., the U.K., Australia, Singapore, Canada, Hong Kong and other developed countries and regions since 2006. It is also collaborating with top-tier accounting bodies such as the Hong Kong Institute of CPAs to help Chinese CPAs attain overseas practice licences, offering study subsidies to those who successfully pass the exams. So far, 193 are studying for the Hong Kong Institute’s qualification programme (with 11 of them qualified), and 394 are studying with The Institute of Chartered Accountants in England & Wales, 52 of whom have qualified as associates, or ACA.

Domestically, the Chinese institute has revamped its examination format this year, changing from five to six

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papers and introducing a final exam, after taking into consideration the practice of other developed countries and regions. Chen explains that the exam will focus more on the candidates’ professional judgment and on case studies, testing their ability to handle real-life auditing, accounting and other issues related to the profession – a departure from a strong emphasis on testing their knowledge of facts and policies in the past. “Our goal is to make our exam internationally recognized,” he says.

Chen acknowledges that English remains a great barrier for many Chinese CPAs hoping to gain overseas qualifications. In order to beef up their language proficiency, the Chinese institute has added some English questions to each of the six papers and the final exam: Candidates can score an additional five bonus points if they correctly complete the English multiple choice questions and another 10 points in the English comprehensive questions.

“We will gradually increase the proportion of English questions until they reach a significant level,” he says. “This is good news for the exam takers from Hong Kong.”

Strengthening ethics

Chen says there is growing awareness among mainland accountants of the importance of ethics. “Our CPAs now realize that without public trust, the profession will have no future,” he says.

CICPA has taken active steps to strengthen ethics education – revising its ethics code three times in recent years – and to tighten regulation by penalizing firms that violated practice rules.

“Overall, ethics awareness has risen a lot, but we still need to further improve our accountants’ understanding of ethical issues so that they won’t make a mistake because they don’t realize it’s a problem.

“Systemic accounting fraud, that is, actively helping clients to manipulate the numbers, is now very rare. But there are other cases where the accounting firms don’t follow all the proper auditing procedures required because they are rushing to complete a job within a short time as opposed to a more reasonable timeframe, or (where they) irresponsibly sign off audit reports. We need to tighten monitoring in this regard,” he says.

Chen says the Chinese institute has also cracked down on companies that replace auditors without sufficient grounds (what it calls 炒鱿鱼, 接下家).

“We have been monitoring situations where the client tells the auditor, ‘If you are not obedient, you are fired.’ We will observe the replacement audit firms and make sure that they will stand their ground like their predecessors. If they don’t follow the rules, we will monitor them. The

measure has so far been very effective in curbing these incidents,” he says.

During the January to April auditing period every year, Chen says CICPA publishes a weekly report called *Audit Express*, which lists the companies that have replaced auditors and names their new auditors.

“We make this public knowledge so that everybody can see it and the companies will know that we will penalize irresponsible behaviour,” he says.

CICPA found that among listed companies who replaced their auditors, the percentage of those receiving qualified audit opinion from their successor auditors (13.8 percent in 2008; 14.4 percent in 2009) was higher than the overall average percentage of listed companies receiving qualified audit reports (6.8 percent in 2008; 6.7 percent in 2009).

“There are many reasons for the listed companies to change their auditors, and clients’ attempt for opinion shopping from auditors is only one such reason. But the above percentage comparison shows that although pressured by the clients, the successor auditors persisted in adhering to the auditing and ethics principles, and still issued the same qualified audit report as their predecessors did,” Chen says.

Thinking big

China’s cabinet, the State Council, has outlined in a policy statement its big plans for the accounting profession: to build about 10 large and 200 medium-sized competitive home-grown accounting firms over the next five years (see *interview with the Ministry of Finance’s Liu Yuting in A Plus’ June issue*).

Achieving this goal, Chen acknowledges, is going to be an uphill battle. “Given the potential of China’s economic

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growth and the volume of its capital, the nation should be able to support its own international accounting network—maybe not in five to 10 years, but in 20 years, 30 years? China has the right conditions to make this happen, although the process of building an internationally recognized brand and an international network is going to be very tough, both in terms of initial investments and efforts in moving from a familiar market to an unfamiliar one,” he says.

One impetus that can propel this forward, he stresses, is support from Chinese entrepreneurs. “To drive the growth of a market, demand must be strong. Many Chinese enterprises don’t seek help from their accountants when they have financial reporting, foreign currency and other business development problems. It is not a common practice yet. We need to improve our service quality so that it becomes a necessity for entrepreneurs to bring along our accountants when they do business,” Chen says.

Expansion strategy

In the domestic market, the mainland accounting firms underwent rounds of mergers and acquisitions in recent years, leading to the emergence of a number of nationwide accounting firms. Many local firms, such as Zhongrui Yuehua and Shu Lun Pan CPAs, opted to join an international accounting alliance as part of their growth strategy, while ShineWing built its own brand.

Chen says either development model is fine as long as it can help the firms reach the eventual goal of providing international services to Chinese enterprises.

“While a local firm can leverage the support provided by an outside network to help it speed up its internationalization, it also needs to make sure it can contribute to the alliance by helping them build a stronger China presence,” he says. “This is what we hope to see.”

Chen says the Chinese institute is studying ways to help mainland firms grow “bigger and stronger” by giving them support in terms of, for example, staff training and market opportunities if they reach a certain scale and meet certain requirements. “We will be very cautious in deciding what support the firms will get in order not to upset the level playing field,” he says.

While the Big Four still dominate the international services market in China, he says this phenomenon is changing. Though still uncommon, some local Chinese accounting firms are following their clients overseas, offering them auditing, and mergers and acquisitions advisory services.

“In 2009, 16 of our local firms’ annual revenue exceeded 300 million yuan and the best local firm raked in 872 million yuan. The top international firm had revenue of around 2.6 billion yuan. So the gap is narrowing,” he says.

The Big Four are operating in China under joint venture licences, which will expire in 2012. The Chinese government is keen to push all CPA firms to switch to a limited liability partnership model widely practised in the West.

“Moving to a limited liability model will facilitate further consolidation among China’s accounting firms and boost their competitiveness,” Chen says. **A**