CHINA’S REFORM AND OPENING UP, ECONOMIC GROWTH AND THE DEVELOPMENT OF ITS ACCOUNTANCY PROFESSION

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An overview of China’s accountancy profession

Establishment and rejuvenation

China’s accountancy profession was established nearly a century ago in 1918. The accountancy profession played a crucial role in the recovery and transition of China’s economy after 1949. However, following the subsequent institution of the planned economy, the accountancy profession took a back seat for a period of time.

In 1978, during its Third Plenary Session, the Eleventh Central Committee of the Communist Party of China (CPC) made a historic decision to reform and open up China. In order to improve China’s investment environment and attract foreign capital, in December of 1980, the Ministry of Finance promulgated the “Interim Provisions on the Establishment of the Accounting Advisory Office” and rejuvenated the country’s accountancy profession through the adoption of international best practices in order to enable accounting firms to provide quality capital verification, audit and liquidation services to foreign-funded enterprises. Since then, China’s accountancy profession has grown from strength to strength and played an integral part in the country’s transition to a market economy over the past 35 years.

Certified Public Accountants (CPAs)

China currently has 98,207 practising CPAs, 98,162 non-practising CPAs. Since the establishment of the CPA examination scheme in 1991, up to the end of 2013, around 4.15 million trainee accountants have registered and sat the examination, out of which around 178,000 candidates passed all subjects and admitted to the CPAs rank. CPA nurturing programs have been established and operated at 19 tertiary educational institutions that have thus far generated nearly 30,000 accountancy graduates and potential CPAs, at the same time, three National Accounting Institutes have been established in Beijing, Shanghai and Xiamen.
Accounting firms

China presently has 8,238 accounting firms, out of which 39 of them are approved to provide securities and futures related assurance services and 11 of them are approved to provide H-share related assurance services. These accounting firms provide professional services to over 3.5 million clients, covering enterprises, governmental bodies and non-profit organisations, as well as assurance services to over 2,500 listed companies.

The “Big Four” international networks have established member firms in China. The top 10 accounting firms in China currently are PwC, Deloitte, Ruihua, Lixin, EY, KPMG, Pan-China, Da Hua, ShineWing and Daxin. Overall, 19 Chinese accounting firms join international networks. ShineWing and Reanda have established their own international networks, which were ranked 19th and 21st respectively in the 2014 global ranking by the International Accounting Bulletin.

Professional standards

China has converged with international professional standards, covering aspects such as auditing standards, accounting standards, code of ethics, continuing professional development (CPD), and threshold competency standard. The International Auditing and Assurance Standards Board (IAASB) and the World Bank have highly praised China’s efforts and achievements in converging with international professional standards and consider it “a sound model for developing countries and economy-transforming countries to emulate”.

Supervision of the profession

China has adopted a quality review system that is of independent oversight of the accountancy profession in terms of disciplinary process, by which, firms that are approved to provide securities and futures related assurance services are visited on a 3-year cycle basis and other firms on a 5-year cycle basis. In January of 2011, the European Commission passed a resolution recognising China’s supervisory regime for its accountancy profession as equivalent to that of the European Union.

The Chinese Institute of Certified Public Accountants

The Chinese Institute of Certified public Accountants (CICPA) was established in 1988, and local provincial CPA institutes were formed soon after that. The national and local CPA institutes have been empowered by the law to supervise the accountancy profession. The World Bank has considered the CICPA well equipped to supervise the accountancy profession in the modern era.
The CICPA joined the Confederation of Asian and Pacific Accountants (CAPA) in 1996 and the International Federation of Accountants (IFAC) in 1997, and has since been Board members of these international bodies. The CICPA is currently an active participant in the IFAC, CAPA, International Auditing and Assurance Standards Board (IAASB), International Ethics Standards Board for Accountants (IESBA), Small and Medium Practices Committee (SMPC) and other global or regional bodies. Furthermore, the CICPA has established relationships with over 50 accountancy professional bodies across the world, signed over 30 co-operation agreements and memorandums of understanding with over 20 of them, and on average received around 80 delegations of international dignitaries and visitors each year.

A synopsis of the development of China’s accountancy profession

The development of China’s accountancy profession in recent years is closely connected to the country’s reform and opening up and economic development, which can be broadly categorised into 4 phases, namely rejuvenation, professional formalisation, structural enhancement and internationalisation.

Rejuvenation (1980—1991)

The rejuvenation of China’s accountancy profession occurred during the 80s and early 90s of the twentieth century when the nation decided to reform and open up the country. During the early days of the reform and opening up, in order to attract foreign investments, accelerate economic development and accumulate experience in opening the country up, the Chinese government established 4 special economic zones in Shenzhen, Shantou, Zhuhai and Xiamen. These were followed by the opening up of cities in the Yangtze Delta and Zhujiang Delta areas. The result was a large number of wholly-foreign-owned enterprises (WFOEs), sino-foreign joint venture companies and sino-foreign economic joint ventures began to establish themselves in these locations. The emergence of these enterprises led the way in China’s transition to a market oriented economy and prompted the necessary demand for proper accounting and independent audit.

China’s opening up, economic development, and reform of its state-owned enterprises prompted the Chinese government to rejuvenate the accountancy profession, institute professional practising standards, establish accounting standards for sino-foreign economic joint ventures, revise the accounting standards for state-owned enterprises, most of which were drawn from international best practises. These endeavours were carried out to support the development of foreign-invested enterprises, the trial introduction of the share capital funded enterprises, and the reform of the state-owned enterprise sector. A few landmark events that took place in the process that worth a mention are: Firstly, the promulgation of the “Interim Provisions on the Establishment
of the Accounting Advisory Office” by the Ministry of Finance in December of 1980 signified the official rejuvenation of the accountancy profession. Secondly, the promulgation of the “Certified Public Accountants Regulations” by the State Council in July of 1986 represented the first of a series of administrative regulations on the accountancy profession following the founding of P. R. China. Thirdly, in November of 1988, the CICPA was formed to become the national body of the accountancy profession and the subsequent establishment of local CPA institutes at the provincial level laid the foundation for the reconstitution and development of the accountancy profession at the grass root level.


The Shanghai and Shenzhen Stock Exchanges were established in November of 1990 and July of 1991 respectively. In the spring of 1992, Mr. Deng Xiaoping delivered his historic speech on economic reform during his visit to southern China. At the end of 1992, the Fourteenth National Congress of the CPC proclaimed the objective of China’s economic reform was to establish a socialist market economy, at the same time put forward the strategy of “keeping public ownership as the bastion of the economy, complemented by private and foreign-funded enterprises, and promoting the sustainable growth of all these sectors”. The resulting reform of the state-owned enterprise system and the development of the capital market posed new challenges to the accountancy profession and prompted the need to raise the standard of professionalism to meet the demands of economic reform as indicated in the following paragraphs.

Establishment of the National Uniform CPA Examination Scheme - In 1991, the CICPA established and ran the first National Uniform CPA Examination. From 1994 onwards, some 23 universities have introduced and run accountancy degree courses with CICPA related curriculum. In 1995, the CICPA implemented the “CPA Continuing Professional Education Scheme (Trial Edition)” with the aims of promoting CPAs’ continuing professional education and enhancing CPAs’ competency and standard of conducts.

Reformation of accounting standards – The primary focus was the transformation from accounting standards for a planned economy to those for a market economy, which resulted in the promulgation of the Accounting Standards for Business Enterprises (ASBE), auditing standards and code of ethics.

Institution of the Law on Certified Public Accountants – In October of 1993, the People’s Congress of China passed the Law on Certified Public Accountants, setting and formalising the legal requirements for the attainment of the CPA qualification, establishment of accounting firms, scope of professional services, professional conducts, legal responsibilities and the roles of the CICPA etc. The Law on Certified
Public Accountants was the first of many laws on the professional service providers sector.

**Consolidation of the accountancy and audit professions** – In 1995, the State Council approved the merger of the Chinese Institute of Certified Auditors into the Chinese Institute of Certified Public Accountants. Most part of the time between 1993 and 1998 was spent on reforming the accountancy professional to meet new demands.

**Structural enhancement (1998—2004)**

At the end of 1997, the Fifteenth National Congress of the CPC motioned the continued development and enhancement of the socialist market economy with public ownership as the bastion of the economy, complemented by private and foreign-funded enterprises, and with all three sectors supporting the nation’s macro-economic resource allocation policy. The National Congress further called for further opening up of the country and encouraged China to participate actively in international co-operations as well as raise its global competitiveness. To achieve these objectives, the National Congress put forward further requirements on strengthening market infrastructure, enhancing market rules and regulations, and maintaining an orderly market.

In this backdrop, private and foreign-funded enterprises flourished in great numbers, and the capital market matured in leaps and bounds resulting in a greater demand for information and disclosures on the part of management, investors, creditors and regulators. At the same time, China intensified its opening up resulting in Chinese enterprises beginning to seek funding through listings on overseas stock exchanges. A few notable events are: In 1990, CITIC Pacific was listed on the Hong Kong Stock Exchange through backdoor listing, opening the chapter on overseas listings by Chinese enterprises. In 1992, Brilliance China Automotive (CBA) became the first Chinese company listed on the New York Stock Exchange. These were followed by a whole host of Chinese companies listed on the Hong Kong and USA stock exchanges that played an essential role in linking the Chinese market with the international community. In 2001, China joined the World Trade Organisation (WTO), opened up the country’s services sector to the international community, lowered tariffs, introduced non-tariff measures, and established intellectual property protection regulations and other relevant undertakings that paved China’s participation in the global economy. As a result, greater disclosure of accounting information was required, quality of financial audit needed enhancing, investors’ interests needed to be protected with fairness and integrity, all of which prompted the introduction of a whole series of related laws, rules and regulations that presented a comprehensive transformation in the service environment faced by the accountancy profession. The accountancy profession responded by undertaking the following structural enhancement efforts.
Reformation of accounting firms’ ownership structure – Since opening up, accounting firms were established and operated as extended units of governmental bodies. In the light of preparing to meet market needs posted by China’s joining the WTO, this semi-government connection was progressively discontinued in 1998 and 1999, separating the then “human resource, finance, services, and firm name” connection between the accounting firms and the related governmental bodies. Accounting firms became independent professional services firms, either in corporate form or partnership form, where they independently determine and provide their services and bear the related risks.

Establishment of a supervisory framework for the accountancy profession – This included the annual inspection of CPA certificate, oversight on listed company audit, quality review system, disciplinary process, etc.

Establishment of an integrity driven profession – In 2002, it was campaigned that the accountancy profession should be founded on integrity. The result was the establishment of a professional integrity framework that encompassed aspects such as attracting and nurturing talents, formulation of professional standards, continuing professional education, service quality supervision etc. An integrity monitoring system was established that contains a public access section on CPAs’ individual careers, rewards, fines and other information relevant to the general public. The principles of “Integrity, diligence, compliant, and never do false accounting” were introduced. At the same time, in order to promote an “independent, objective, fair” professional image, the “Integrity Building Guideline” was published, and newly qualified CPAs were required to undertake an integrity oath prior to being presented with their CPA practising certificate.

Internationalisation (Since 2005)

The Third Plenary Session of the Sixteenth Central Committee of CPC decided on taking China’s economic reform into a new era by: (1) creating a unified, open, competitive and sustainable modern market system, (2) increasing the awareness of social integrity nationally that is based on ethics, intellectual property rights and legal protection, (3) furthering reform of relevant laws, rules and regulations in order to enable foreign-funded enterprises to perform more effectively and to improve China’s competitiveness and participation in the global economy.

China’s joining the WTO in 2001 has greatly enhanced its convergence with the global economy. Many large state-owned enterprises ventured overseas and “go abroad” became a consensus amongst businessmen, academics and policy makers. Overseas listings became a common route for many Chinese enterprises venturing into the global market. The advent of the global financial crisis also brought new insights about the global economy for the Chinese accountancy profession.
In light of the above developments, the Chinese accountancy profession embarked on the following internationalisation initiatives.

**Creating large and robust Chinese accounting firms** – Through domestic mergers, joining or creation of international networks, and promoting brands internationally, large and robust accounting firms were formed to meet the “go abroad” demands of large state-owned enterprises. At the same time, small and medium-sized accounting firms were encouraged to specialise with the aim to enhance the quality of their services.

**Nurturing talents** – A Champions Scheme has been established where selected champions are entrusted with the role to lead their fellow practising CPAs to higher standards of professional competency and judgement. The CPA examination scheme was revised to compose of 6 specialist papers and 1 combined paper and conducted in an electronic format. At the same time, an International Internship Scheme has been established to enable students who attend universities that run CPA degree courses to take up overseas internships at accounting firms in developed countries or regions.

**Convergence with international professional standards** – China has taken the position to comprehensively converge with international professional standards. International professional standards have been enshrined into the “Accounting Standards for Business Enterprises”, “Chinese Standards on Auditing”, “The Code of Ethics for Chinese CPAs” etc. Worth noting is that the IASB and IAASB have stated that China’s accounting standards and auditing standards are equivalent to their respective international professional standards. China’s efforts and achievements in converging with international professional standards have been praised by the IFAC and World Bank as providing a sound model for developing countries to emulate.

**Taking accountants into new realms of professional services** – Through the establishment of professional trial sites and pilot projects, accountants work to expand their range of service offerings and capabilities. A guideline is published on an annual basis to guide professional accountants to develop new services.

**Promoting the use of technology** – The profession is working to develop and implement an audit technology framework for large accounting firms that meets auditing standards and is risk-based. The CICPA has established an IT system for managing the accountancy profession that is knowledge-based and accessible to CPAs and the general public.
A key decision by the Eighteenth Central Committee of the CPC

The overall objective of comprehensive and deepening reform and opening up – During its Third Plenary Session, the Eighteenth Central Committee of the CPC decided on a comprehensive and deepening reform and opening up of the country. Reflecting on the country’s endeavours to date in developing socialism with Chinese characteristics and modernising the governance framework and capabilities of the state, the overall consensus was that the focus should now be on making the reform more holistic, comprehensive and synergistic, at the same time accelerating the development of the socialist market economy, and political, social, cultural and environmental reforms through the collective deployment of the nation’s labour, knowledge, technical, management and financial resources in order to generate greater social wealth and attain better allocation of the nation’s wealth amongst its people.

The key emphases of comprehensive and deepening reform and opening up – The crucial aspect of the reform is managing the inter-relationships between the government and the market, so that the market can play a decisive role in resource allocation and the government can exercise its roles effectively. Economic development shall act as the heart of the engine in driving the nation’s “five-in-one” reform, i.e. reforming the nation’s economic, political, cultural, social and environmental domains in a cohesive manner with the aim to developing a sustainable and harmonious socialist market economy.

The key emphases of economic reform – These consist of working to enable the market to play a decisive role in resource allocation, ensure sustainable economic fundamentals, accelerate the modernisation of the market infrastructure, modifications of the macro-economic policies, develop an open-economy framework, fast-track the deployment of economic reform methodology, and build a modern nation with the aim to developing a more effective, fairer and sustainable economy.

Comprehensive and deepening reform provides added momentum for China’s accountancy profession

Every major step in China’s reform and opening up has provided unparalleled opportunities to the accountancy profession to advance its development and playing an increasingly critical role in the reform process. The comprehensive and deepening reform this time round undoubtedly will provide the accountancy profession another major opportunity to drive the profession to further its achievements in the following areas/aspects.
The role of the accountancy profession will be brought into full play – With market mechanism increasingly coming to the fore, accounting information will also become increasingly important, because accounting information is a principal driver of the market mechanism. The government’s economic decisions need accounting information, and the market mechanism plays an even greater emphasis on accounting information.

The accountancy profession will be a source of outsourced services to the government – The government is reforming itself and is looking to outsource non-core activities, such as social management and other administrative activities, to competent third party service providers.

Audit services relating to information disclosures made by non-profit organisations – Regulations on disclosures by governmental bodies and non-profit organisations and related independent audit are being introduced which will draw on the accountancy profession’s expertise.

Consulting services – With the country’s transition from extensive to intensive mode of economic development, there will be a great need on the part of enterprises and organisations in enlisting the advice and support of experts in assisting them to succeed in the transformation process. Accountants are well placed to play a key role in the process.

The prospects for China’s accountancy profession in the coming decade

In embracing the requirements and deployment of the comprehensive and deepening reform, as well as with reference to the twelfth national five year plan, the accountancy profession has set its mind and heart on accomplishing the followings:

Continuing the country’s convergence with international standards – Proactively support and participate in convergence with international professional standards in order to ensure accounting standards, auditing standards, professional ethics, continuing professional education abreast with international standards continuously.

Fostering large and robust accounting firms – Nurturing around 10 major accounting firms whose networks, service capabilities, turnovers and market influence are at par with the big firms and other international networks, with at least 3 of these accounting firms ranked in the global top 20.

Putting nurturing talents at the forefront of the profession – Fostering around 350 CPAs to champion the profession, 600 internationally recognised CPAs, and 5,000 CPAs with extensive capabilities in providing non-audit services.
Expanding service scope and product mix – Finally, over the twelfth national economic plan implementation period (2011 – 2015), the accountancy profession collectively shall works to grow at a rate of at least 15% per annum, with fees from advisory and consulting services taking an increasing proportion of the overall turnover. Doing so will double the accountancy sector’s overall turnover in 5 years.

Ladies and gentlemen,

Association of US-China Professional Accountants (AUCPA), with its mission of enhancing dialogue and collaboration for professional accountants in the US and China, will play a crucial role in the bilateral economic activities between the US and China. Standing in the context, I think that we should have every reason to embrace a bright prospect, as the US and Chinese economies become increasingly interconnected.

Thank the AUCPA for its warm hospitality. As an old Chinese saying goes, a bosom friend afar brings a distant land near. I treasure this friendship and believe that our friendship have already brought and will bring the accountancy profession in the US and China in two continents together.

Thank you for your attention.