

Overview of the Accountancy Profession in China

(CICPA, Updated on January 20, 2015)

Chapter I Overview and Milestones

As China experienced dramatic changes in the past few decades, so has the Chinese accountancy profession. The accountancy profession was established in China in 1918; along with China's historical economic reform and opening up policies, the accountancy profession was revitalized and reconstructed and grew steadily. With over 30 years of development and growth, the accountancy profession in China is now a widely recognized and respectable profession. Accountants are an important link in building China's vigorous economy and they are entrusted to safeguard the public interest.

Milestones in the revitalization of the profession:

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

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

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

1993, *the Law of PRC on CPAs* was issued, making the Chinese accountancy profession the first intermediary profession to have special legislation.

2002, CICPA decided on INTEGRITY-BUILDING as the main focus in developing the profession.

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

In October 2009, State Council endorsed the *Policy Statements of MOF 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 in its new phase in the new era.

In November 2010, CICPA'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 IT system construction.

In September 2011, CICPA issued *Development Plan of the Chinese Accountancy Profession (2011-2015)*.

In 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 raised new expectations and requirements on the profession to achieve a leap in scientific development, which directed the profession's future development.

As of December 31, 2014, CICPA has 8,295 accounting firms as group members (accounting firms), 40 of them are qualified to conduct security and future-related business and 11 firms are authorized to conduct H-share audit; CICPA has had over 200,000 individual members: 99,045 are practicing members and 103,566 are non-practicing members. The CPAs provide professional services to over 4.2 million entities and provide audit and assurance services to over 2,500 public companies. The revenue of the Chinese accountancy profession in 2013 reached RMB 56.32 billion. Over the past few years, the growth rate of the profession has consistently surpassed its global counterparts.

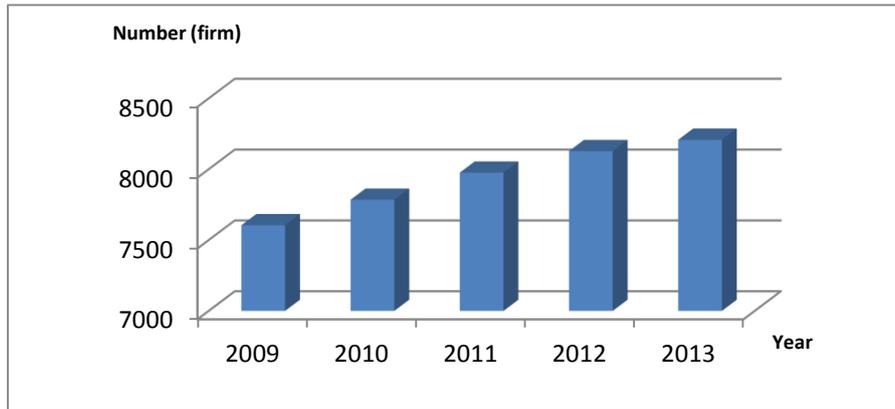


Figure 1 Number of Accounting Firms from 2009 to 2013

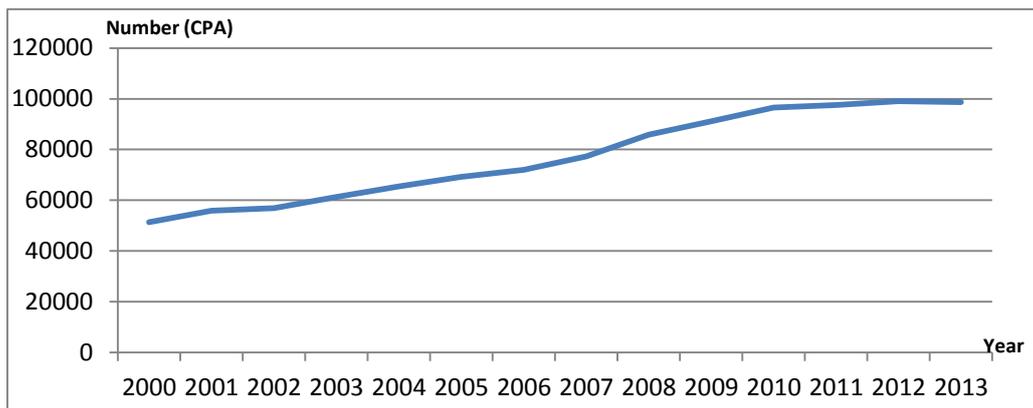


Figure 2 Number of CPAs from 2009 to 2013

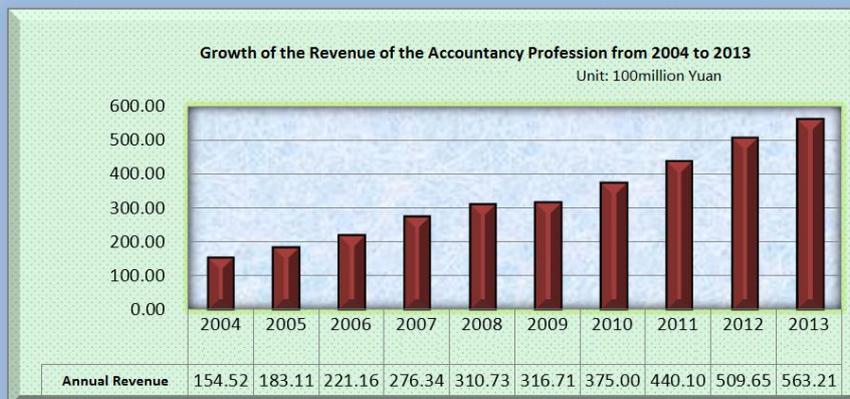


Figure 3 Growth of the Revenue of the Accountancy Profession from 2004 to 2013

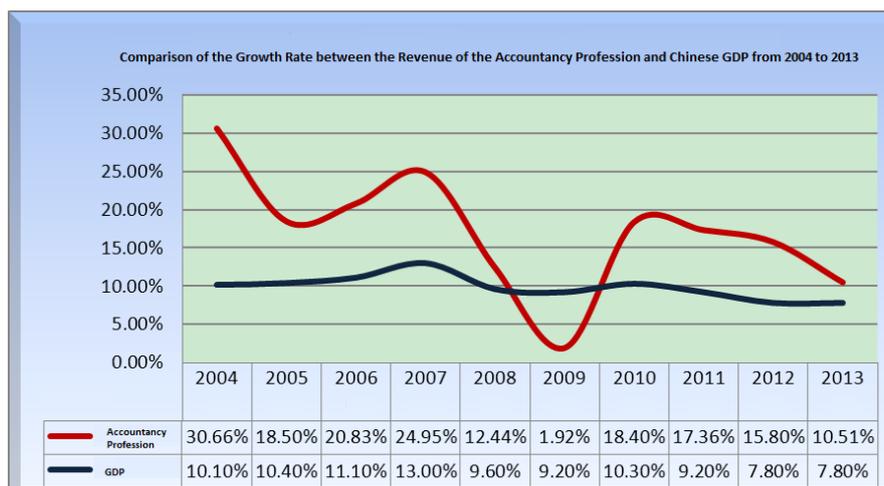


Figure 4 Comparison of the Growth Rate between the Revenue of the Accountancy Profession and Chinese GDP from 2004 to 2013

Chapter II Building Integrity in the Accountancy Profession

Professional integrity is highly important to CICPA and the institute continuously explores ways to increase credibility of the profession. In 2002, putting forward building integrity in developing the profession, CICPA formulated guidance 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 monitoring system starting with the “certification” of a member, capable of fully recording, timely monitoring and effectively disclosing information on integrity of CICPA members and firms. Today, relevant information of all Chinese accounting firms and CPAs are online, transparent and accessible for public to review and scrutinize.

Professional ethics is another core value of CICPA as it builds the profession’s integrity. From 1992, CICPA released the tentative version of *Code of Ethics*, then *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, both codes 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, including concept framework, firm networks, requirements of audit and assurance services on independence, Code of Ethics for Non-Practicing Members and so on. Its detailed guidance and tips help CPAs properly understand code of ethics and solve problems encountered in practice.

In the process of building a trustworthy profession, CICPA is making great efforts to promote the initiatives and to engage CICPA members. CICPA conducts an annual ranking of top 100 accounting firms through a comprehensive evaluation; it supports firms to strengthen internal governance, it reminds members to take personal responsibility in professional integrity and objectivity, it encourages members to take a professional pledge to operate with honesty as CPAs. The 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 priority in CPA exams, continuing professional development and curbing unfair low-price competition tactics. Local institutes and accounting firms also carried out their own integrity-building activities. They raised province-wide and public awareness of professional integrity by hosting seminars, sharing firm-wide pledge of honest operations, agreeing on declaration of governance by self-discipline. The initiatives from the “Year of Building Professional Integrity” helped to instill the core principle of trustworthiness across the accountancy profession.

Chapter III Strategy of CPA Talent Training

Understanding talent sustains the growth of any profession, in 2005, CICPA released the *CICPA Guiding Opinions on Reinforcing Cultivation of Professional Talents*, listing out 30 key points in talent training. In December 2011, CICPA released the *Five-year Plan of Professional Talent Training*, formally setting the course for comprehensive talent development. It was the first talent training strategy of its kind in Chinese professional organizations. Using the 30 key points as the guide and *Guidance on Competence of Chinese CPAs* as theoretical foundation, *Continuing Professional Development System for Chinese CPAs* and *Interim Method on CPD for Non-Practicing Members* as its policy basis, CICPA formed a talent training mechanism. The mechanism focuses on training leading talents and internationally orientated talents with reserve talent training as an important supplement and provides training in stages and at various levels which is supplemented by joint training by the firm and other units.

One must pass the CICPA examinations in order to qualify as a CPA in China. To date, CICPA has successfully held 24 annual national CPA examinations. Over 4 million people have registered for those examinations and 193,000 people passed all subjects of the examination. In 2012, CICPA examinations became computer-based. The upgrades and reforms significantly improved the security, efficiency and quality of the examinations. The examinations were opened up to residents in Hong Kong S.A.R., Macau S.A.R. and Chinese Taiwan and foreign citizens in 1994. From 1999 onwards, CICPA successively set up cross-border and international examination sites in Hong Kong S.A.R., Brussels and Macau S.A.R. Records show 591 residents from Hong Kong S.A.R., Macau S.A.R. and Chinese Taiwan and foreign citizens have passed the examinations. To advance exchanges and internationalization of the profession, CICPA signed agreements of mutual exemptions on certain subjects with HKICPA and ICAEW.

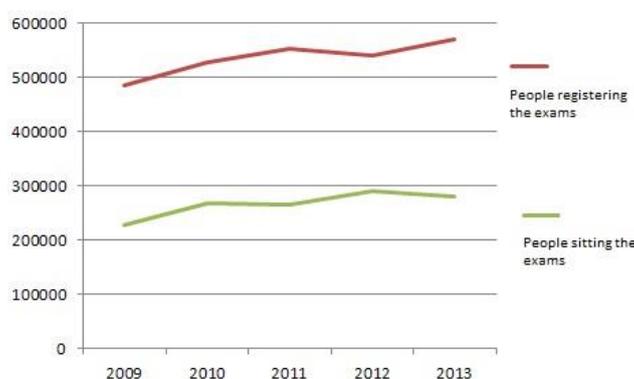


Figure 5 Number of Candidates of National Uniform CPA Examinations from 2009 to 2013

Since CICPA launched the leading talent training initiative in 2005, 314 Chinese CPAs have been selected in 11 batches, of whom, from 2012, 138 CPAs in five batches successfully completed six years of guided training. CICPA has also collaborated with ICAEW, CPA Australia and HKICPA for

joint training and qualification programs. Thus far, 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 and have to take no less than 30 hours of CPD in each year, while the non-practicing members have to take no less than 40 hours of CPD in each year.

Distance learning is an important part of talent training for the Chinese profession. A strong and established network now exists across China for distance learning after CICPA began to utilize the platform in 2005 with 16,000 people being trained each year. Today, it is the main mode of large-scale training. Local institutes of CPAs jointly play an important role in professional development, carrying out over 60% of total training programs. The Beijing, Shanghai and Xiamen National Accounting Institutes training bases are put to great use. Over 6,000 CPAs are trained at the 3 sites each year. 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.

In 2013, CICPA began to research on how to best serve its non-practicing members. The institute created E-journals and sent out to all members. CICPA held symposiums for its non-practicing members who work in large enterprises, and actively sought out high-end management accounting talents; 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 designed a new curriculum system and continued to improve its classified training and its joint training with Beijing, Shanghai and Xiamen Institutes.

Nurturing reserve talents for the profession is an equally important part of the CICPA talent training strategy. In 1994, CICPA set up CPA major in 23 Chinese universities and colleges, and provided technical guidance and special funding in its effort to increase interest in accounting and awareness of the accountancy profession. Over the past 20 years, CPA major has become a highlight of higher education. Today, there are 19 Chinese universities and colleges receiving special funding, 6,000 CPA major students currently enrolled and 30,000 accounting graduates since 1994. From 2005 onwards, 848 Chinese college students in ten cohorts have participated in overseas internships in global accounting firms arranged by the CICPA. Meanwhile, over 280 college teachers in ten cohorts have participated in faculty training sessions on core curricula. In 2011, CICPA adjusted the objectives of overseas internship project, building a platform between CPA major students and the accountancy profession. CICPA maintains regular contact with over 600 Chinese universities and colleges in the effort to build up next generation of accountancy professionals.

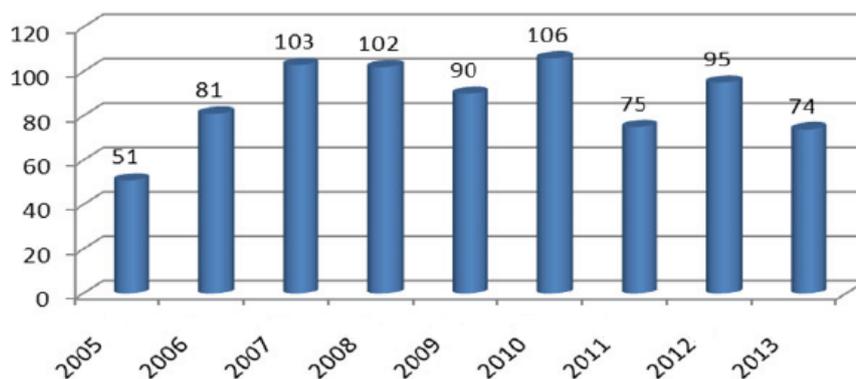


Figure 6 Number of Students Participating in Overseas Internships from 2005 to 2013

Chapter IV Strategy of International Convergence of Standards

According to *Law of PRC on CPAs*, CICPA is responsible for setting professional standards and rules and the Ministry of Finance is responsible for final approval and release. CICPA's purpose as an institute is to uphold high regards for professional standards since its beginning. With the guidance of strategy of international convergence of standards, CICPA released its auditing standards in 2006. According to the clarity project, CICPA revised and released its new auditing standards in October 2010, and implemented them on January 1, 2012. The progressive and responsive changes by CICPA over the last few years helped to firmly establish a set of professional standards that conform to both the demands of market economy and international convergence.

In 2009, CICPA formulated and released *Code of Ethics for CPAs* that converged with the international code. Meanwhile, CICPA released joint statements with HKICPA, which stated the *Chinese Standards on Auditing* and *Code of Ethics for Chinese CPAs* are equivalent to those of Hong Kong S.A.R.

In 2013, CICPA translated and published Chinese versions of *International Standards on Audit* and *Code of Ethics for Professional Accountants*, promoting the accounting language in Greater China to be precise, standard and common.

IAASB highly praised China's efforts and achievements in the convergence of international accounting and auditing standards, and believed that "China sets up a good example for developing countries and economies in transition." In 2009, World Bank published Reports on the Observance of Standards and Codes, saying, "China's strategy of convergence of international standards can be one for other countries to follow".

CICPA recently produced several 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*, and *Guide for Audit of Commercial Banks*. Q&As on 78 questions related to *Chinese Standards on Auditing* and 30 questions related to *Code of Ethics for Chinese CPAs* have also been issued. A set of practice standard system covering new services and meeting new technical demands has been established.

In October 2014, *Guidance on Professional Judgment of CPAs* was released at Cross-straits, Hong Kong S.A.R. and Macau S.A.R. Accountancy Profession Conference in Macau S.A.R. and accounting organizations of the four sides at the conference were encouraged to adopt the guidance or refer

to the guidance when developing relevant guidance.

Chapter V Strategy of Promoting More Competitive and Bigger Accounting Firms

In 2006, CICPA launched the strategy of promoting more competitive and bigger accounting firms to readily compete globally. CICPA's ambitious decision was then followed by successive release of guides on *model constitution for partnerships* and *corporate governance guidance of accounting firms*. In 2007, CICPA formulated *Opinions on Promoting More Competitive and Bigger Accounting Firms* and *Guidance of Merger and Acquisition Procedures of Accounting Firms* and released *Opinions on Supporting Accounting Firms in Expanding Exports of Accounting Services* together with nine ministries and commissions, including the Ministry of Commerce, to promote accounting firms to become more competitive and bigger to serve the international market. In 2012, CICPA released *Policy Measures on Advancing the Promotion of More Competitive and Bigger Accounting Firms*. In 2013, CICPA released *Opinions on Enhancing the Capacity of Accounting Firms to Serve Financial Industry* in support of the accountancy profession to provide high-end services, such as financial sector audits and consultation. At the same time, CICPA also released *Opinions on Regulating the Development of SMPs* to encourage SMPs to provide more specialized services.

Information on top 100 Chinese accounting firms has been released for 12 consecutive years since the *Initiatives of Comprehensive Evaluation of Accounting Firms of China* was established. In 2013, revenue of top 100 accounting firms reached RMB 34.756 billion, accounting for 61.81% of the total revenue of the whole profession. Of top 100 firms, 46 accounting firms' revenue surpassed RMB 100 million; 11 accounting firms' revenue exceeded RMB one billion; and 6 accounting firms' revenue exceeded RMB two billion. At the same time, transnational service ability of big firms has been greatly improved. 19 firms joined international accounting networks; 70 firms set up over 90 branches or professional liaisons throughout various parts of the world, expanding service scope to overseas market, including Hong Kong S.A.R., USA, ASEAN and West Asia.

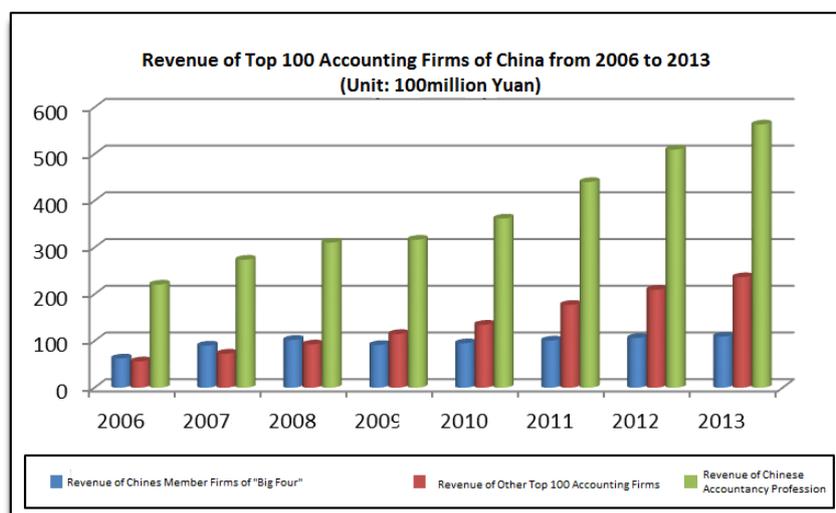


Figure 7 Revenue of Top 100 Accounting Firms of China from 2006 to 2013

Chapter VI Strategy of Developing Non-Audit Services

In 2010, CICPA fully deployed the strategy of developing non-audit services and successively formulated a series of guiding documents, including *Opinions on Implementing Strategy of Developing Non-Audit Services*, *Work Plan of Developing Non-Audit Services in New Areas of Economic and Social Development*, *Services Directory*, and *Planning for Building Model*

Accounting Service Bases. Centering on the all-encompassing strategy of serving national economic and social development, regional development and industrial restructuring, CICPA set up 11 model bases, including Suzhou Accounting Service Outsourcing Industrial Park, and three pilot accounting service programs, including Hebei Province of assurance services for agricultural and farm-related financial investment projects.

As the strategy was implemented, immediate opportunity in categories and scope of non-audit services were found and new types of audit and assurance services emerged. Examples of new assurance services developed include disclosure of financial information in rural areas, and social responsibility reports, internal control, energy conservation, emission reduction and insolvency services. A series of new non-audit services were developed, such as consultancy services of internal control, strategy management, mergers and acquisitions, credit investigation, and investment decisions for business enterprises and NGOs. CICPA also guided SMPs to develop professional services for SMEs, such as corporation secretarial service, credit certificate, registration agent, bookkeeping services and accounting, and custom clearance. The service clients expanded to include governments, public institutions and non-profit organizations. These initiatives helped to optimize the revenue structure of the accountancy profession, and revenue from non-audit services has increased for several consecutive years.

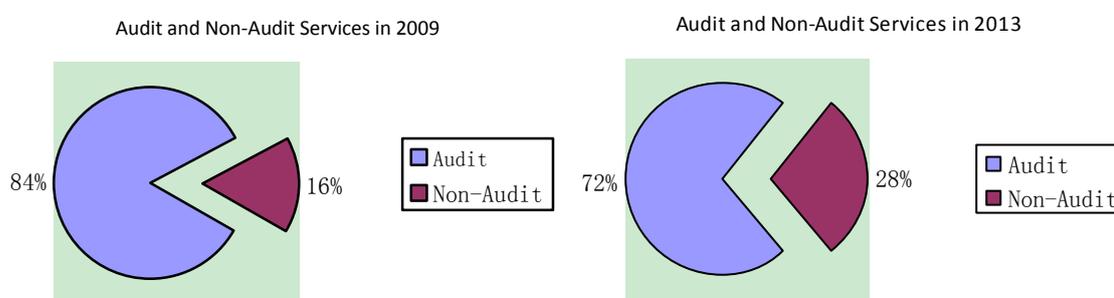


Figure 8 Comparison of Audit and Non-Audit Services in 2009 and 2013

Chapter VII IT System Construction for the Accountancy Profession

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 computerized its examination management, member management, training management, and practice quality review. Based on those systems, the profession's integrity monitoring system was established, starting with a member's certification with CICPA.

In 2011, CICPA released *Overall Planning for IT System Constructions for Chinese Accountancy Profession* to launch the strategy of IT system construction. Over the past three years, CICPA unified the professional resources of Chinese accountancy profession and made initial achievements. A series of projects have been accomplished, 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 system and network information security system up-grade completed.

In 2014, the Leadership Group of IT System Construction for Chinese Accountancy Profession is established to advance the constructions. In order to promote the audit software, the Committee for Use of Audit Software in Large Firms was set up to promote the use of audit software in large accounting firms and the Committee for Improvement of Audit Software in SMPs was prepared to set up to improve the functions of audit software in SMPs. *Rewarding Measures for Accounting*

Firms in Advancing IT System Construction is released to encourage and support accounting firms to advance IT system constructions.

In the principles of “comprehensive top level design, synchronized implementation of projects and integration of functions,” CICPA will next improve top level design, enhance organizational backing, advance system development and make clear responsibilities of related parties. A professional management and service information system will be developed, a cooperative management information system within CICPA and between CICPA and local institutes will be established and all the systems will be integrated to form a vivid, comprehensive, up-to-date and interconnected professional information system.

Chapter VIII Quality Assurance of the Accountancy Profession

At present, CICPA has established an annual report of listed companies audit monitoring system with the focus on audit quality, a practice quality inspection, discipline and appeal system with the goal of improvement and disciplinary warning, an integrity information monitoring system with the “certification” of a member and a qualification inspection system oriented to professional competence. Accountancy profession regulatory system has been consistently improved. In January 2011, the European Commission recognized Chinese audit regulatory system as equivalent to the European system.

In 2004, CICPA released *Rules on Accounting Firm Practice Quality Inspection* which is an all-round inspection system of accounting firms with qualification to conduct security and future-related businesses in a three-year cycle and of other firms in a five-year cycle. In 2011, CICPA reformed comprehensively the system, to focus on systemic risk prevention, to conform to independent regulation requirements and to converge with globally recognized regulation systems on the basis of cyclical inspections. From 2004 to 2013, CICPA and local institutes inspected accounting firms 14,080 times, punishing 2,198 firms and 4,245 CPAs.

In regulation of audits of listed companies, CICPA developed and improved specifications of regulation of annual financial report audits of listed companies, paying particular attention to the cycle of reminding before audit, supervising during audit and reporting for record after audit. CICPA does not tolerate opinion-shopping, cracks down on unfair competition through dumping, and imposes strict investigations on abnormalities. CICPA also implemented a “regulatory talk” mechanism, warning accounting firms of risks. From 2010 to 2013, CICPA has talked to firms with qualification to conduct security-related businesses 59 times in 45 occasions, involving 62 listed companies.

Inspecting the qualifications of CPAs is taken seriously by CICPA. The institute works hard to ensure professionalism and continuously improving its measures for better inspection quality. From 2005 to 2013, over 21,925 CPAs who did not passed inspections have been punished with revocation or cancellation of qualifications.

Chapter IX International 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, the CICPA has made great efforts to reach out to international counterparts and draw on international experiences for the growth of the Chinese profession, and for the development of the international accountancy 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 international standards development and revision, hosted

international and regional conferences, and visibly promoted international accounting and auditing profession development. Thus far, seven delegates recommended by CICPA have worked in global and regional accounting organizations, including IFAC, CAPA, IAASB, IESBA 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 80 international delegations annually, and regularly organizes accounting firms to conduct field study in Africa, ASEAN, Europe and Hong Kong S.A.R. Recently, the 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 Chinese firms explore the global market. Concurrently, CICPA regularly translates advanced profession research materials from around the world and invites international profession experts as guest presenters to help members learn the latest development trends and achievements of global counterparts.

Chapter X Institution Building

CICPA was established according to *The Law of PRC on CPAs* and *The Regulations for the Registration and Administration of Social Organizations*. It exercises the professional regulation and service functions by virtue of the powers vested in *The Law of PRC on CPAs*, stipulated by The Charter of The Chinese Institute of Certified Public Accountants and the duties assigned by the Ministry of Finance. CICPA proactively explores the laws of professional regulation to establish and improve its professional regulation and service systems. Namely, the assurance services system oriented to serve the economy and society; the examination assessment system for competence; the registration system for high entry standards; the professional standards system for international convergence; the continuing professional development system for lifelong learning; the supervision and inspection system for moral integrity and quality of services; the international cooperation system for accounting firms developing global relationships and operations; the development strategy system for the promotion of more competitive and bigger accounting firms and the profession organization system for better service, management, regulation and coordination.

CICPA is under the dual directions of the Ministry of Finance and the Council. There are 12 Special Committees and 2 Professional Committees under the Council. CICPA has 15 departments and over 140 staff. At present, 31 Chinese provinces, Autonomous Regions and Municipalities directly under the Central Government are set up with 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

At present, the accountancy profession has exercised its statutory supervision power vested in Chinese laws and regulations, including *Law of PRC on CPAs*, *Company Law*, *Security 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 2013, the overall audit adjustment by CPAs amounted to RMB 542.4 billion of profits, RMB 3478.7 billion of assets, and RMB 139.2 billion of tax payable. It has a critical role in guaranteeing stability of capital market and quality of the accounting information.

Year	Number of Listed Companies	Overall Audit Adjustment of Total Assets (100million Yuan)	Overall Audit Adjustment of Profits (100million Yuan)	Overall Audit Adjustment of Tax Payable (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
Total	/	34787	5424	1392

Table 1 Overall Audit Adjustment of Listed Companies from 2001 to 2013

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

An important provider of high-end services, the accountancy profession possesses a unique advantage of accounting, decision making, analysis and use of data, all of which can provide solutions in industrial renewal, design of low carbon economy, adjustment of business strategy and process reengineering. Especially during the financial crisis, the high-end services of the accountancy profession, such as assurance and consultancy services, provided support and guarantee for the implementation of national macroeconomic policies, which effectively enhanced market confidence. The progress in accounting service model bases and pilot programs has proven the ability of the profession to ensure and transform national economic and regional economic development.

An important organizational support in social management innovation and transformation of government functions

With its business scope gradually expanding to areas of fiscal regulation and performance evaluation, medical and health system reform, high and new technology enterprise certification and financial supervision of non-profit organizations, and its involvement in social welfare, such as community management, subsistence allowance, relocation compensation and taxi fare adjustment, the accountancy profession will be involved in coordinating social interests, reconciling conflicts and advancing the transformation of government functions. All of which are important exploration of the future of social management innovation.