

Opinions on Implementing Strategy of Developing Non-Audit Services

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The Fifth National Assembly of Delegates of the Chinese Institute of Certified Public Accountants (hereinafter referred to as CICPA) put forward its Strategy of Developing Non-Audit Services for the accountancy profession, objectives, tasks and measures of which have been further clarified in the Development Planning of the Chinese Accountancy Profession (2011-2015) (hereinafter referred to as the 12th Five-Year Plan). In order to fully implement the strategy, we formulate these Implementation Opinions based on a thorough summarization of the Work Plan on Accounting Firms Developing Non-Audit Services to Serve New Economic and Social Areas.

1 The significance of the Strategy of Developing Non-Audit Services

Implementing the Strategy of Developing Non-Audit Services is a realistic need to facilitate the accountancy profession to serve the transformation of Chinese economic development mode. The national 12th Five-Year Plan put forward major policies for transformation of China's economic development mode. The development and transformation measures focus on expanding domestic demand, transforming to an open economic model which simultaneously emphasizes "going globally" and "attracting foreign investment", in-depth implementation of the master strategy for regional development, optimizing and adjusting the structure of the three industries, transformation and upgrading of companies as well as development of low carbon circular economy, which created a huge demand for the accountancy profession and offer more development opportunities. Meanwhile, it also poses a higher requirement for the accountancy profession to enhance its ability and expand its service areas.

Implementing the Strategy of Developing Non-Audit Services is a necessary path to deepen the service offerings of the accountancy profession for social management innovation. The Chinese government has been transforming innovatively its way of handling social affairs from "management" to "service". By delegating certain monitoring responsibilities to CPAs and support them to engage in social affairs management, the government not only makes full use of their professional expertise, but also links the demand and supply of professional services through market mechanisms and reduces its monitoring costs. This requires the accountancy profession to expand its service areas to extend into the management of social affairs.

Implementing the Strategy of Developing Non-Audit Services is an important means to solve the over-competition and low-balling. Developing new service areas, including new types of assurance services and strategic consulting services, and expanding the market volume for professional services can at a certain extent, ease the over-competition and low-balling and fundamentally change the concepts and approaches of service offerings, optimize service structures, expand service areas and bring the function and role of the accountancy profession into full play, which are significant for the accountancy profession to realize its transformation and new leap-forward development.

2 Clearly defining the overall thoughts

Local institutes of CPAs at all levels, accounting firms (hereinafter referred to as the firms) and accounting professionals shall, from the perspective of serving national constructions, further enhance the sense of mission, responsibility and urgency, further emancipate the minds, deepen the understanding, strive to be realistic and pragmatic, and fully implement the Strategy of Developing Non-Audit Services by focusing on the overall thoughts of “creating mechanisms, establishing relevant systems, building up platforms, strengthening safeguard measures and expanding promotion initiatives”.

Creating an interactive working mechanism

Initiative and creativity of all parties shall be brought into play to establish a “hub” style working mechanism, which centers on serving the transformation of economic development mode, focusing on meeting the demands for professional services, and where the local institutes of CPAs at all levels, the firms, the accounting professionals and the relevant parties related to the Strategy of Developing Non-Audit Services support each other and work interactively.

Establishing robust policies and systems

Focusing on serving national 12th Five-Year Plan and on the basis of the 12th Five-Year Plan of the accountancy profession, relevant supporting policies and guiding opinions should be formulated to set up a framework for the Strategy of Developing Non-Audit Services and to steadily push forward the Strategy.

Build up an innovative service platform

On the basis of deeply researching China’s economic and social development strategies, strategic layout of regional development, industrial structure adjustment and company transformation and upgrading as well as the policy of “going globally”, “Accounting Service Demonstrative Bases” should be constructed to serve as an important carrier for developing non-audit services and specialized, high-end, high-tech and high added value (one specialized and three highs) services and as the corresponding platform for aligning service demands.

Strengthening the safeguard for professional services

Vigorous specialized training in new service areas should be conducted to provide talents for implementing the Strategy; relevant guidelines for new service areas should be developed to provide guidance on implementing the Strategy; research on the key topics of new services should be conducted to provide the theoretical support for implementing the Strategy.

Expanding the platform for exchange and promotion

Summarization and exchange on experience of developing non-audit services should be made. Discussions, exchanges, facilitation and promotion activities should be organized. The efforts to promote the results of implementing the Strategy should be enhanced through the newspapers and magazines with “Webpage for Developing Non-audit Services”, “Online Service Platform of Accounting Service Demonstrative Base”, websites of local institutes of CPAs and informatization platforms as the main platform.

3 Setting major objectives

According to the overall objectives for implementing the Strategy as established in the 12th Five-Year Plan of the accountancy profession, traditional audit and assurance services will grow at a stable pace, whilst new audit and assurance services will grow at a faster rate; annual growth rate of audit income will remain at above 10%. Non-audit income achieves a high growth rate with an annual average growth rate at around 25%; in 2015, the total revenue of the accounting profession should double

compared to that in 2010, reaching RMB 75 billion, of which RMB 31.4 billion comes from non-audit services, accounting for 42% of the total income. The key progress is as follows:

Ensuring that the Strategy start successfully in 2011. The overall thoughts of implementing the Strategy should be clearly defined and the implementation work should commence based on the five aspects of “creating a mechanism, establishing relevant systems, building up platforms, strengthening safeguard measures and expanding promotion initiatives” so that multi-party cooperation mechanism can be initially established and operates smoothly. Making sure that the Strategy starts at a high level and accomplishes prominent results within a short period of time. **The firms** shall grasp the golden opportunity of implementing the Strategy to actively expand their category and scope of new services based on the local reality and their market position, service types and development direction. **CICPA** will formulate supporting systems and rules to establish and improve the informatization platform and mechanisms for the development of non-audit services, including overall plan and implementation opinions of the Strategy, business guidance inventory, regulations on the establishment and management of the Accounting Service Demonstrative Bases. Practical standards and guidelines, the guidance of talent training and research for the Strategy should be strengthened. **Local institutes of CPAs** shall see the Strategy as the key initiative for the promulgation and implementation of the 12th Five-Year Plan of the local accountancy profession, and based on the local circumstances, create an interactive mechanism, develop relevant working plans, undertake key new services and conduct talent training.

2013 marks the “completion of half of the tasks as half of the time goes by” in respect of implementing the Strategy. **More than half of the tasks for the structural layout development of new services should be completed.** By 2013, the structure of audit and non-audit services, the structure of service area layouts and the structure of industrial layouts should be obviously optimized; a batch of Accounting Service Demonstrative Bases should be established in national key economic zones, major industries and key companies at a steady pace; comprehensive evaluation mechanism of the firms should be utilized to recommend half of 1,000 firms that have good professional practice quality, strong professionalism and can provide high-end services to enter into the Demonstrative Bases. This significantly enhances the overall ability of the accountancy profession in serving the national, regional and company development strategies and initiatives. New type of audit services and non-audit services should grow quickly with revenue from new type of services exceeding RMB 21 billion, accounting for more than 37% of the total income. **The task of talent training program for the new services should be completed halfway.** All relevant sectors should be mobilized to integrate CPD and training resources from CICPA, local institutes of CPAs, the firms, national accounting institutes, universities and colleges (departments) majoring in CPA accounting and professional institutes in the community. By 2013, the task of training leading talents, internationally recognized CPAs and inter-disciplinary professionals specialized in the new services will be 60%-70% accomplished. **The task of the firms’ fostering key non-audit services shall be implemented.** Through various measures including policy guidelines, comprehensive evaluation mechanisms and other key supporting services, the task of the firms’ fostering key non-audit services shall be ensured to be implemented. Making sure the structures of the small, medium and large-sized firms defined by the 12th Five-Year Plan of the accountancy profession matches their key service tasks, i.e. about 10 large-sized firms provide services to clients from industries and sectors that are crucial to the national economy, multinational corporations and super large-scale groups; about 200 medium-sized firms provide services to listed companies and large-and-medium-sized companies and institutions and a batch of smaller firms provide services mainly to small companies and institutions, grassroots units and companies related to rural development. **The safeguard measures for developing non-audit services will be fully established.** A framework for developing non-audit services should be basically set up; the practice standards and guidance for developing non-audit services will basically meet the

requirements of developing those key services.

By 2015, all the objectives and tasks of implementing the Strategy as defined in the 12th Five-Year Plan of the accountancy profession will be completely accomplished. By implementing the Strategy, the development structure of the accountancy profession basically meets with the national economic and social development structure. The role of the profession will be brought into full play, and the scale, diversification, internationalization, brand-building and informatization will all achieve fruitful results; regional layout structure of the profession, the structure of audit and non-audit services, the structure of domestic and international business, the structure of professional talents and the structure of large, medium and small-sized firms that drive the accountancy profession should be rational and the internal governance, branding and culture building within the firms will be greatly enhanced; the integrity, social reputation and professional status will be significantly improved and wide trust and respect from the public will be gained.

4 Implementing key tasks

(1) Continuing to expand audit and assurance services

Core services should continue to be expanded, strengthened and refined; traditional services such as audit, capital verification and tax assurance shall be further consolidated and deepened. The statutory audit of annual financial statements of companies will be promoted. The financial statements of not-for-profit organizations such as health care institutions, universities and colleges and foundations should be included into the scope of financial audit. financial disclosure assurance services in rural areas should be conducted actively.

Developing and undertaking new type of assurance services, such as corporate social responsibility report, internal control, energy saving and emission reduction, receivership, forensic accounting, investment performance assessment, market monitoring, corporate structural reform and social management, etc.

Extending audit services to “going globally” companies and companies that will “go globally”, for example, offering audit services to China mainland companies listed in Hong Kong stock market and other overseas markets, and to foreign companies listed in China after the establishment of the international capital market center.

(2) Vigorously developing non-audit services

Giving full play to the CPAs with regard to their advantages in providing assurance services throughout the entire enterprise capital operation processes, expanding non-audit services in the “one specialized and three highs” areas, actively expanding advisory services in areas such as internal control of enterprises and organizations, process design for enterprise resources planning (ERP) management systems, evaluation of overall corporate tax liabilities, tax planning, strategic management, merger & acquisition restructuring, credit investigation, performance evaluation, investment decision-making, government procurement services, engineering consulting, etc.

Guiding small and medium-sized firms, based on market demands, to develop advisory services in areas including secretarial services for small and medium enterprises, CFO outsourcing, credit verification, company registration agencies, bookkeeping, customs agencies, market research, due diligence reviews, social responsibility investigations, employee social security participation

investigations, generic technology transfers, human resource consulting, financial disclosure in rural areas, etc.

(3) Developing professional services for adjustment of industrial structure

Enhancing the capability of providing high-end services as required by the development of the service profession, developing high-end service products to provide professional support to key areas, focusing on expanding services in areas of finance, insurance, transportation, logistics and warehousing, culture, film and TV, design, tourism, education, medical and health care, information consulting as well as structural reform, management innovation and adjustment and upgrading of social welfare undertakings.

Exploring supporting services for structural adjustment of the industrial sector, actively developing professional supporting services to informatization of traditional industrial sector and development of strategic and emerging industrial sector, deeply exploring professional services that can help to reduce manufacturing costs in industrial chains of research, manufacturing, sales and marketing and service, and expanding the professional advisory services that can enhance the added value of industrial products in research, design, sales and marketing, brand development, technical service, supply chain management and specialized division of labor.

Developing and undertaking services that can support the constructions in the agricultural sector and the rural areas, exploring professional supporting services for agriculture industrialization, urbanization and disclosure of village affairs, providing services of investment guidance, development planning, bookkeeping, design of financial and accounting systems, etc., and actively taking part in audit and assurance services of investment and performance relating to the “agriculture, rural areas and farmers”.

(4) Services supporting the key layout of China for regional and industrial development

Developing and undertaking high-end services based on the master strategy for regional development, promoting coordinated regional development of the accountancy profession centering on Western Development, Revitalization of the Old Industrial Base in Northeast China, Rise of Middle Region, Leading Development of Eastern Region and supporting of Ethnic Frontier Regions. Focusing on strategic consulting, industrial planning and professional assurance based on the general strategic layout of regional development, coordinated development of different regions and their key profession layouts.

Developing and undertaking specialized professional services with a focus on supporting the key regional industrial development layout. Focusing on the key economic circles (zones and regions), national and provincial economic development zones, industrial parks, urban and rural integrated reform pilot areas, core financial areas, high-tech industrial parks, modern manufactory bases, rural land reform pilot areas etc., allocating professional resources in a preferential manner, innovating service models, improving service capabilities and implementing a focused layout for the development of the accountancy profession.

Developing and undertaking high-tech and high value added services on basis of concentration and leading role of central cities, continuing to speed up development in central cities to become the driving force for the concentration and leading development of the new and innovative services.

On basis of “bridgehead” services in frontier areas, actively developing accounting services for investment and trade in China-ASEAN “Two Corridors and One Ring” areas and between northeast China, Inner Mongolia, Xinjiang Uygur Autonomous Region and their neighboring countries, and constructing “bridgeheads” national key development and opening pilot areas and border areas.

(5) Establishing a batch of accounting service demonstrative bases and pilot programs

Establishing an important carrier of innovating non-audit services and a service platform to correspond to demands, and establishing around 30 accounting service demonstrative bases on basis of national economic and social development strategy, the strategic layout of regional development, the industrial structure adjustment and the transformation and upgrading of companies. For regions that have not yet met the standards for establishing demonstrative bases but have special demonstration significance, a batch of pilot programs will be launched.

6 Measures

(1) Establishing and improving mechanisms to implement the Strategy

Establishing and improving the coordinated mechanism that is led by the CICPA, connected with the local institutes of CPAs with the firms and members as the main parts and all the other relevant parties as supporting force.

The firms shall gradually set up and complete the mechanisms relevant to the development of non-audit services. According to the Guidance on the Competence of Chinese CPAs, competence evaluation system, training programs, performance assessments and promotion systems for various types and levels of professional talents should be put in place.

CICPA, together with local institutes of CPAs, shall establish and complete mechanisms to safeguard the implementation of Strategy. By relying on the National Secretary General Working Meeting and the Joint Meeting of Accounting Service Demonstrative Bases as well as the systems of the leading groups and taskforces of all the accounting service demonstrative bases, the arrangement and discussion mechanism of key tasks should be established and completed; based on the exchange and promotion activities for the Strategy, the relevant exchange and promotion mechanisms should be established and completed; based on IT measures including website for the Strategy, online service platform for the accounting service demonstrative bases as well as websites for local institutes of CPAs, networking service mechanisms should be established and completed; based on the key projects of the Strategy of local institutes of CPAs, the accountability system for the implementation of key projects should be established and completed; and based on the management system of the accounting service demonstrative bases, performance appraisal mechanism should be established and completed.

(2) Coordinating to formulate supporting policies and measures for the Strategy

The firms shall organize professional forces to research the local economic and social development strategy and the local reality, and enable the accounting professionals to fully play their influence, actively participate and promote the policies and measures related to professional services by the government or relevant authorities during the transformation and upgrading of companies, the monitoring and management of companies, the reform of administrative systems and the management of social affairs and actively participate and promote the supporting policies and

measures for the Strategy.

CICPA shall coordinate and promote relevant government departments to formulate policies and measures which enable the accountancy profession to provide services to the new economic and social development areas and gradually expand the functions and roles of the firms in the audit of annual financial reports of companies, government procurement services and the management and decision-making of entities, so as to create a favorable policy environment for implementing the Strategy.

Local institutes of CPAs shall, based on the local situation, actively strive for support from their superior departments, promote the local and other relevant authorities to formulate policies and measures supporting the Strategy; they will work with accounting service demonstrative bases and service requestors to establish a set of robust supporting policies to ensure the expansion of services in key areas and key projects.

(3) Implementing key projects for the Strategy

The firms shall actively participate in the expansion and development of non-audit services in different regions, actively participate in the building-up of accounting service demonstrative bases and pilot projects, research and undertake all types of non-audit engagements to optimize their service category and structure.

CICPA shall periodically compile the Service Guidance Inventory for CPAs and the Project List for Local Institutes of CPAs to Develop Non-audit Service, and conducts performance assessments based on local institutes of CPAs' undertaking key projects, construction of demonstrative bases, maintenance of online service platforms, experience sharing and promotion of the non-audit services, etc.

The local institutes of CPAs shall, taking the local reality into account, compile on a rolling basis the work plans on facilitating to undertake major projects of new service by local firms, actively apply the comprehensive evaluation system to organize and recommend firms with high practice quality, strong professionalism and the ability of providing high-end services to participate in key "one specialized and three highs" projects.

(4) Fully strengthening talents training for non-audit service areas

The firms shall train and reserve all kinds of talents and inter-disciplinary professionals by way of independent training, cooperative training and attraction of talents; they shall also develop and grow their talent force in the non-audit service areas by ways of selection, promotion and awards.

CICPA shall include the training of talents for the non-audit services into the overall plan of talent training for the accountancy profession, focus on strengthening the training of leading talents in the non-audit services, guide local institutes of CPAs to conduct the training of inter-disciplinary professionals specialized in the new services, and organize the training of the practice standards and business guidelines for the new services.

The local institutes of CPAs shall include the training of talents specialized in the new services into the 12th Five Year Plan of the local accountancy profession and strive to include it into the talent development plan of their respective regions. They will prepare and implement annual plans of the training of inter-disciplinary professionals specialized in the new services. They will strengthen the

training of talents in this area, in particular those in the “one specialized and three highs” areas as well as inter-disciplinary professionals through multiple ways with the help of the national accounting institutes, universities and colleges (departments) majoring in CPA accounting and professional institutes in the community, etc. The local institutes of CPAs shall proactively organize and guide the firms on the development of the different types and levels of training materials.

Universities and colleges (departments) majoring in CPA accounting shall actively research and promote to set courses of forensic accounting, investment performance evaluation, environmental accounting, enterprise strategic management, social responsibility evaluation, risk management and assessment, credit rating, etc., so as to train specialized talents in the non-audit services.

(5) Speeding up the development of professional standards and guidance on the non-audit services

The firms shall, taking the local reality into account, research and develop professional guidance and working papers on the new services that can meet with their own needs, establish robust independence management procedures for audit and assurance engagements, and set up quality and risk control systems for the development of the non-audit services.

CICPA shall, taking into account the implementation of the Strategy, organize to develop business guidance inventory, practice standards, guidelines and guiding opinions. It shall encourage local institutes of CPAs to cooperate with each other, integrate their resources and complement each other’s advantages, as well as to conduct research on the emerging issues relating to the undertaking of the non-audit services, risk management and independence management.

CICPA and the local institutes of CPAs shall, taking into account the reality of developing non-audit services, compile a local inventory of new services; they shall promote and guide the firms to research and develop professional guidelines and working papers for non-audit services and the independence management systems for audit and assurance engagements by organizing non-audit services development committee, key expansion project taskforce, non-audit service development interest groups and other platforms. They shall strengthen the monitoring and inspection of independence and service quality of audit and assurance engagements.

(6) Exploring multi-level and multi-channel platforms for the exchange and promotion of non-audit services

The firms shall, taking into account their market positioning, client requirements and direction of service offerings, proactively visit clients and users of reports, including government authorities, professional organizations and enterprises, and listen to their comments and advice on service requirements and outcomes.

CICPA shall organize branding exchange and promotion activities through platforms of the CPA Forum, China-ASEAN Forum, Joint Meeting of Accounting Service Demonstrative Bases and the Beijing International Fair for Trade in Services, etc. it will organize promotion tours of the non-audit services across the country. It will also launch promotion, business negotiations and information exchange on the implementation of the Strategy through designated websites and online service platform of accounting service demonstrative bases.

Local institutes of CPAs shall explore the ways and channels to exchange and promote the Strategy

and strengthen their communication and coordination with local governments (department, companies and professional organizations) through forums, trade talks and promotion seminars, etc., and by constructions of accounting service demonstrative bases and pilot projects. They shall actively encourage experience sharing on developing non-audit services, and give full play to the publicity, promotion, exchange and service functions and roles of the online service platforms of accounting service demonstrative bases.

CICPA, together with the local institutes of CPAs and the firms, shall make full use of various ways and channels, including relevant websites and webpages, newspapers and magazines, message platforms, advertisements and exchange and promotion platforms, to summarize, promote, deliver and propagate the results of the developing non-audit services in a timely manner, and showcase the function, role and capability of the accounting profession in serving national economic constructions.

(CICPA organizes the translation of the Opinions. The Chinese text is the official version and this English text is for reference only.)