

Guidance on Competence of Chinese CPAs

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Chapter I General Provisions

Article 1 The Guidance is formulated in order to meet the increasing need regarding the competence of Certified Public Accountants (CPAs), define the qualification and practical experience that CPAs should possess, clarify standards to train and select CPAs and guide the education, examination, training and other talent cultivation.

Article 2 This Guidance applies to any individuals who have already becomes CPAs or aspire to become CPAs, and any organizations or entities that are obliged to train CPAs.

Article 3 The terminologies involved in this Guidance are interpreted as the following:

- (a) Professional competence: the ability to perform roles in a professional context to a defined standard. Competence is based on the qualification of CPAs;
- (b) Professional qualification: necessary professional knowledge, skills and professional values, ethics and attitudes to achieve competence. The qualification of CPAs differs at different stages of professional careers. The qualification needs to be developed, maintained and improved with lifelong learning.
- (c) Professional knowledge: major knowledge CPAs should have, including accounting, audit, finance, taxation, relevant laws, organizations and enterprises, IT and knowledge in related areas.
- (d) Professional skills: various types of abilities required to apply professional knowledge appropriately and effectively, and maintain professional values, ethics and attitudes in a professional context, including intellectual skills, technologies and application skills, personal skills, interpersonal and communication skills, organization and business management skills.
- (e) Professional values, ethics and attitudes: specific professional behaviors and characteristics, including ethical principles which can obviously represent the professional behaviors and characteristics.
- (f) Practical experience: experience relevant to CPA work before or after CPAs obtain their qualification. It is necessary for CPAs to develop and demonstrate

their competence.

- (g) Candidates: individuals who intend to apply to be CPAs.
- (h) Engagement partners: chief accountants of accounting firms or authorized CPAs in accounting firms who are responsible for performing audit engagements or other engagements on behalf of the firms and signing on the audit reports or other engagement reports on behalf of the firms.
- (i) Academic education: education that is received either by national educational examination or by alternative approaches stipulated by authorities concerned, and conducted in universities and colleges or educational institutions approved by authorities concerned with the issuance of nationally recognized diplomas.
- (j) Professional education: profession-related pre-qualification education that candidates attend and Continuing Professional Development that CPAs attend.
- (k) Continuing professional development: learning activities of CPAs for maintaining and improving qualification to perform competently within their professional environments after obtaining CPA qualification.

Chapter II Professional Knowledge

Section I General Requirements

Article 4 CPAs should have sufficient professional knowledge to be competent for the job in an increasingly complex and ever-changing environment.

Article 5 The professional knowledge that CPAs need to possess includes:

- (a) accounting, auditing, finance, taxation, relevant laws and knowledge in related areas;
- (b) organization and enterprise knowledge; and
- (c) IT knowledge.

Article 6 The professional knowledge can be used to develop professional skills. It is equally important to foster skills, attitudes and values of lifelong learning.

Article 7 The professional knowledge CPAs need to possess is constantly changing and expanding and differs depending on specific environment and industries. CPAs should constantly update their knowledge.

CPAs should pursue academic education to gain professional knowledge.

Section II Knowledge of Accounting, Audit, Finance, Taxation, Relevant Laws and Knowledge in Related Areas

Article 8 CPAs should possess knowledge of accounting, audit, finance, taxation, relevant laws and knowledge in related areas, so as to form the foundation essential to successful careers.

Article 9 Knowledge of accounting, audit, finance, taxation, relevant laws and knowledge in related areas should at least cover the following areas:

- (a) financial accounting and reporting;
- (b) management accounting and internal control;
- (c) taxation;
- (d) economic and business laws;
- (e) audit, review and other assurance engagements;
- (f) finance and financial management;
- (g) evaluation of assets and liabilities; and
- (h) professional values and ethics.

Article 10 Knowledge of accounting, audit, finance, taxation, relevant laws and knowledge in related are at least includes:

- (a) history of the accountancy profession and accounting thoughts;
- (b) content, concepts, structures and meaning of reports regarding organization and operations. The reports can be for internal and external use;
- (c) Chinese Accounting Standards and Chinese Standards on Auditing as well as International Financial Report Standards and International Standards on Auditing;
- (d) regulation of accounting industry;
- (e) management accounting, including planning, budgeting, cost management, quality control, performance measurement and review;

- (f) knowledge on internal control, including the concept, methods and processes of control;
- (g) taxation and its impacts on finance and management decisions;
- (h) economic and business legal environment;
- (i) audit, review and other assurance services, including risk assessment and fraud investigation, and the processes of performing them;
- (j) finance and financial management, including financial report analysis, financial instruments, domestic and international capital markets and resource management;
- (k) evaluation of assets and liabilities;
- (l) professional responsibilities of CPAs, including ethical and legal responsibilities;
- (m) accounting on government and not-for-profit organization; and
- (n) the use of non-financial performance indicators in enterprises.

Section III Organization and Enterprise Knowledge

Article 11 Knowledge on organization and enterprises equips CPAs with knowledge of client operation and operation environment, and provides background for applying professional skills.

Organization and enterprise knowledge includes how enterprises, governments and not-for-profit organizations are organized, financed and managed, and their operation environment.

Possession of organization and enterprise knowledge does not necessarily require CPAs to have abilities and experience in management.

Article 12 Organization and enterprise knowledge should at least cover following areas:

- (a) economics;
- (b) business environment;
- (c) corporate governance;

- (d) business ethics;
- (e) financial markets;
- (f) quantitative methods;
- (g) organizational behaviors;
- (h) management and strategic decision making;
- (i) marketing; and
- (j) international business and globalization.

Article 13 Organization and enterprise knowledge should at least includes:

- (a) macro and micro economics;
- (b) business and financial markets and how they operate;
- (c) the application of quantitative methods and statistics to business;
- (d) corporate governance and business ethics;
- (e) organizations and their operation environment, including the major economic, legal, political, social, technical, international and cultural factors and their influences and roles;
- (f) environment protection problems and sustainable development;
- (g) interpersonal and group coordination in organizations, including the methods of launching and responding to organizational changes;
- (h) human resources;
- (i) project management;
- (j) decision support and strategy, including business advice, strategic management and general management;
- (k) organizational and operational risk;
- (l) marketing;

(m) international trade, international finance, international business and globalization; and

(n) how to integrate the above knowledge under strategic objectives.

Section IV IT Knowledge

Article 14 IT has transformed the role of CPAs.

CPAs should not only possess the skills to use IT systems and exercising IT controls but should also contribute to the evaluation, design and management of such systems with their teams.

Article 15 IT knowledge should at least cover following areas:

- (a) general knowledge;
- (b) internal control;
- (c) applied information technologies; and
- (d) evaluation, design, and management of IT systems.

Article 16 IT knowledge should at least include:

- (a) organization and accounting information system;
- (b) controls of personal system applications;
- (c) application of IT systems in organization and accounting, especially IT systems for financial accounting and reporting, their problems and developments;
- (d) frameworks for evaluating controls and assessing risks in IT systems for financial accounting and reporting.

Chapter III Professional Skills

Article 17 CPAs should possess various professional skills to apply professional knowledge appropriately and effectively in a professional context and to maintain professional values, ethics and attitudes.

Article 18 The professional skills CPAs should possess are grouped as follows:

- (a) intellectual skills;

- (b) technical and application skills;
- (c) personal skills;
- (d) interpersonal and communication skills; and
- (e) organizational and corporate management skills.

Article 19 Professional skills can be developed through regular education, professional education and practical experience, and can be expanded through lifelong learning.

Article 20 Intellectual skills are often divided into six levels. In ascending order, these are:

- (a) knowing;
- (b) understanding;
- (c) application;
- (d) analysis;
- (e) synthesis ;and
- (f) evaluation.

Candidates should reach the highest level when obtaining CPA qualification.

Article 21 Intellectual skills are conducive to solving problems, making decisions and exercising judgment in complex organizational environment.

The intellectual skills CPAs should possess include the following:

- (a) to identify, obtain, organize and understand information from all types of sources;
- (b) to investigate, research, think and analyze logically, reason and question; and
- (c) to identify and solve problems without a fixed model.

Article 22 Technical and application skills consist of general skills and skills related to accounting. They include:

- (a) numeracy;

- (b) IT skills, which refer to not only the ability to apply and control IT systems but also the ability to evaluate, design and manage such systems;
- (c) decision modeling and risk analysis;
- (d) measurement;
- (e) reporting; and
- (f) compliance with laws and regulations.

Article 23 Personal skills are related to attitudes and behaviors of CPAs. Developing these skills is conducive to learning and personal progressing of CPAs. The skills include:

- (a) self-management;
- (b) initiative, influence and self-learning;
- (c) to select and assign priorities with limited resources, and organize and complete work before defined deadlines;
- (d) to anticipate and adapt to changes;
- (e) to take into account the implications of professional values, ethics and attitudes in decision making; and
- (f) to maintain professional skepticism.

Article 24 Interpersonal and communication skills help CPAs work with others, receive and transmit information, make reasonable judgments and make decisions effectively for the common interest of organizations.

The interpersonal and communication skills include the ability to:

- (a) work with others and withstand and resolve conflicts;
- (b) work in teams;
- (c) interact with culturally and intellectually diverse people;
- (d) negotiate acceptable solutions and agreements in a professional context;
- (e) effectively present, discuss, report and defend views in written or spoken forms

formally or informally;

- (f) listen and read effectively, including a sensitivity to cultural and language differences; and
- (g) work effectively in cross-cultural environment.

Article 25 Organization and enterprise management skills could help CPAs develop a broad business perspective, management consciousness and a global view.

Organization and enterprise management skills include:

- (a) strategic planning, project management, human resource management, resource management and decision making;
- (b) to organize and assign tasks, motivate staff and explore potentials of people;
- (c) leadership; and
- (d) professional judgment and insight.

Article 26 The following advanced professional skills should be prioritized during audit engagements:

- (a) applying relevant audit standards;
- (b) evaluating applications of relevant financial reporting standards by audited units;
- (c) investigating and thinking abstractly, and analyzing questionably;
- (d) professional skepticism;
- (e) applying professional judgment; and
- (f) withstanding and resolving conflicts.

Article 27 Regular education contributes significantly to acquisition of professional skills, and focuses on the development of non-professional knowledge, intellectual skills, personal skills, interpersonal and communication skills and organization and enterprise management skills.

Regular education should at least include:

- (a) an understanding of the views and events in history, the different cultures in the world and an international perspective;
- (b) basic knowledge of human behaviors;
- (c) awareness of the thoughts, problems and contrasting economic, political and social forces in the world;
- (d) experience in data survey and evaluation;
- (e) the ability to investigate and think logically and questionably;
- (f) an appreciation of art, literature and science;
- (g) an awareness of personal and social values; and
- (h) to make value judgments.

Chapter IV Professional Values, Ethics and Attitudes

Article 28 Accepting and complying with professional values, ethics and attitudes of CPA profession is conducive to exercising professional judgment and considering the interest of the accounting industry and the public in a professional context.

It is an important symbol to distinguish CPAs and others by whether to accept and abide by professional values, ethics and attitudes of CPA profession.

Article 29 The fundamental professional values, ethics and attitudes CPAs should comply with include:

- (a) to defend public interest and observe the principle of independence, objectiveness and fairness in audit, review and other assurance engagements;
- (b) to develop, maintain and improve the competence by lifelong learning and keep due diligence;
- (c) to keep confidential of customer information acquired in a professional context;
- (d) to conduct proper professional activities, including but not limited to: reasonably charges, not taking or paying commissions, avoiding activities incompatible with assurance engagements, maintaining good relationships with peers, not advertising on own abilities, and soliciting and marketing in appropriate approaches.

Article 30 Development of professional values, ethics and attitudes requires both course study (especially special courses) and practical experience.

Development of professional values, ethics and attitudes goes throughout lifelong careers of CPAs and is part of lifelong learning.

Article 31 Developing professional values and attitudes should lead to a commitment to:

- (a) the public interest and sensitivity to social responsibilities;
- (b) continual improvement and lifelong learning;
- (c) cherishing own reputation, shouldering responsibility, keeping on time, maintaining courtesy and respect; and
- (d) abiding by laws and regulations.

Article 32 Professional values, ethics and attitudes should at least include:

- (a) the meaning of ethics;
- (b) principle-based ethics, rule-based ethics and their differences, including their advantages and disadvantages;
- (c) compliance with fundamental ethical principles, including independence, objectiveness, and fairness; developing, maintaining and improving competence; keep due diligence; keep confidential of customer information acquired during a professional context;
- (d) professional behaviors and compliance with practical standards;
- (e) meaning concepts, including independence, skepticism, accountability and public expectations;
- (f) professional ethics and social responsibility;
- (g) relationship between ethics and law, including the relationship between laws, regulations and the public interest;
- (h) consequences of unethical behaviors to individuals, profession and society;
- (i) ethics in relation to business and corporate governance; and
- (j) ethics of individual CPAs.

Article 33 In audit, review, and other assurance engagements, CPAs should pay particular attention to the approaches to apply basic ethical principles in a professional context, the consequences of unethical behaviors and the solutions of ethical issues.

Article 34 CPAs should always be aware of potential conflicts caused by new ethical requirements in work, and stay fully aware of the latest expectations by their professional accounting organizations and the public.

Chapter V Practical Experience

Article 35 CPAs should complete a period of relevant practical experience before obtaining CPA qualification (hereinafter referred to as “pre-qualification practical experience”), and the experience should be long and intensive enough to demonstrate candidates’ necessary professional knowledge, professional skills and professional values, ethics and attitudes.

Article 36 The period of pre-qualification practical experience should be not less than two years and the experience should be in the area of historical financial information audit.

Article 37 Pre-qualification practical experience provides a favorable environment for candidates to develop competence.

The environment of pre-qualification practical experience should foster candidates in the following areas:

- (a) enhancing understanding of operations of organizations and enterprises and relationships in work;
- (b) being able to link accounting work to other business functions and activities;
- (c) becoming sensitive to environment in which services are provided;
- (d) developing abilities to exercise professional knowledge and skills in a professional context and maintain professional values, ethics and attitudes; and
- (e) having opportunities to undertake more responsibility gradually.

Article 38 The accounting firms where candidates work should present opinions on whether the pre-qualification practical experience of the candidate meet application requirements and report to local institutes of CPAs for approval.

The pre-qualification practical experience should be obtained under the supervision of a project head of the accounting firms where candidates work.

Article 39 A plan on pre-qualification practical experience should be developed for candidates according to rules by local institutes of CPAs and should be reported to local institutes of CPAs for record.

The accounting firm should assess internship record of pre-qualification practical experience regularly, compare it with the developed plans and evaluate the progress and adjust the plan if necessary.

Article 40 The mentor should provide necessary guidance and supervision for the candidates and evaluate the performance of candidates.

Chapter VI Competence Requirements for the Audit Engagement Partner

Article 41 Audit project heads should possess relevant higher levels of professional knowledge, professional skills, professional values, ethics and attitudes and practical experience.

Article 42 Audit engagement partner should at least possess competence in the following areas:

- (a) leadership awareness for audit quality;
- (b) formation of conclusions when complying with applicable independence requirements;
- (c) acceptance and continuation of clients and specific audit engagements;
- (d) ability to reasonably assign engagements within teams to complete the engagements and issue audit reports;
- (e) ability to direct, supervise and perform audit engagement in compliance with audit standards and relevant laws and regulations;
- (f) ability to consult, review and discuss audit performed;
- (g) ability to issue appropriate audit reports on basis of sufficient evidence.

Chapter VII Competence Required for CPAs in Specific Environment and Industries

Article 43 In historical financial information audit under special environment (such as cross-border audit services) or in special industries (such as the finance industry),

CPAs should possess professional knowledge and practical experience related to that special environment or special industries.

Article 44 CPAs involved in cross-border audits need to possess the professional knowledge covering at least the following areas:

- (a) applicable accounting and auditing standards;
- (b) methods of multi-location and group audits;
- (c) applicable listing requirements;
- (d) applicable corporate governance requirements;
- (e) applicable national regulatory frameworks; and
- (f) global and local economic and business environments.

CPAs engaged in cross-border audits should be aware that the application of professional values, ethics and attitudes can be complicated under multi-cultural backgrounds.

Article 45 The financial accounting and report standards vary considerably in specific audited units in different industries, and CPAs should possess relevant professional knowledge according to concrete circumstances of specific industries.

Article 46 CPAs should possess practical audit experience in a specific environment or industry before conducting historical financial information audit in that environment or industry. This experience should be long and intensive enough to demonstrate that CPAs already possess necessary professional knowledge, professional skills, professional values, ethics and attitudes.

Chapter VIII Continuing Professional Development

Section I General Requirements

Article 47 CPAs should maintain and constantly improve their competence and keep the professional concept of lifelong learning after obtaining practical qualification.

Continuing professional development (CPD) is an extension of the pre-qualification professional education. The CPAs should maintain and constantly improve competence through CPD to provide high quality services.

Article 48 The responsibilities for maintaining and improving competence rest primarily with

CPAs.

Institutes of CPAs should provide appropriate opportunities and resources to assist CPAs in meeting their responsibilities, and regulate, guide and assess the opportunities and resources.

Accounting firms should provide appropriate opportunities and resources to assist CPAs in obtaining CPD, and also regulate and guide the opportunities and resources.

Article 49 CPD should differ according to professional development goals, industries and the phase of careers of CPAs, and changes of professional environments.

Article 50 CPAs could participate in organized CPD and other forms of CPD.

Article 51 If they are suspended from practicing and are willing to continue, they should, in the suspension period, receive CPD to maintain their competence according to requirements of institutes of CPAs.

Section II Qualitative Characteristics of CPD

Article 52 CPD should be relevant, measurable and verifiable learning activities and outcomes, and it should be assessed.

Article 53 CPD should be relevant, namely professional knowledge, professional skills and professional values, ethics and attitudes of CPAs developed through CPD should be relevant to current and future work and responsibilities of CPAs.

Article 54 CPD should be measurable, namely learning activities can be measured by learning intensity or time, or through an assessment of learning outcome.

Article 55 CPD should be verifiable, namely learning activities should be able to be objectively verified by a reliable source.

Article 56 CPD should be assessed by institutes of CPAs to ensure it meets requirement of the institutes of CPAs.

Section III Assessment of CPD

Article 57 When assessing CPD of CPAs, input and output of CPD should be comprehensively considered.

Article 58 The input of CPD is assessed by setting up certain amount of learning activities. The amount should ensure the maintenance and improvement of the competence of CPAs.

This amount of learning activities should be measured by hours, including hours converted from other measurement units according to the conversion standards set by institutes of CPAs.

Article 59 CPAs should provide various CPD outcomes to institutes of CPAs to demonstrate their maintenance and improvement of relevant competence.

The forms of CPD outcomes which demonstrate the maintenance and improvement of relevant competence include outcomes of specific learning activities, the performance made and so on.

Article 60 CPAs should truly and completely preserve records and documents related to the input and output of their CPD and, upon request by institutes of CPAs, provide these records and documents.

Article 61 CPAs should be prepared for regular or irregular inspections on CPD by institutes of CPAs.

Chapter IX Supplementary Provisions

Article 62 The Chinese Institute of Certified Public Accountants (CICPA) is in charge of the interpretation of this guidance.

(CICPA organized translation of the Guidance into English. The Chinese text is the official version and this English text is for reference only.)