

Opinions on Promoting More Competitive and Bigger Chinese Accounting Firms

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Since its restoration and re-construction, CICPA has been continuously making pioneering innovations and moving forward with keen determination in self improvement in terms of legal system construction, membership development, professional growth, quality enhancement, marketing exploration and expansion. To meet the needs for faster development of market economy, implement the points on the accountancy profession set forth in the 11th Five-Year Plan, serve the strategy of the Chinese enterprises' "going global," further push forward the construction of the Chinese accountancy profession, accomplish the objectives of promoting more competitive and larger accounting firms and their internationalization, comprehensively enhance the ability of the Chinese accountancy profession in supporting China's reforms, opening-up and social-economic progress, CICPA has made the following opinions:

I. Promoting more competitive and larger Chinese accounting firms is the inevitable need for supporting the growth of Chinese enterprises and their "going global" efforts along with the development of the market economy

1. To promote more competitive and larger Chinese accounting firms is a realistic need of the faster development of the market economy and the growth of enterprise scales. Since the introduction of reforms and opening-up policy, the Chinese economy has been on the rapid growth and a large number of Chinese enterprises have been developing more competitive and larger in terms of their size and financial strength. Such developments call for accounting firms to provide more and better professional accounting services.

2. To promote more competitive and larger accounting firms is the objective need of increasingly dynamic market deepening and diversifications. For the sake of expanded enterprises scale, diversification of business practices and diversified demands of market services, enterprises may require professional accounting assistances that should exceed conventional audit of financial statements and include a variety of professional services such as internal control assurance, business valuation, tax assurance and consultancy, forensic accounting assurance, bankruptcy liquidation management, financial consulting, management counseling, and strategic planning. Therefore, the objective needs are forcing accounting firms to become more competitive and larger as well as constantly enhancing professional R&D capability, resources integration capability, data processing capability and the capability of professional service scope expansion.

3. To promote more competitive and larger accounting firms is the need for internationalization of the Chinese enterprises and their participation in the international market competitions. Attraction of foreign investment and Chinese enterprises' "going global" are parallel steps that

help integrate Chinese enterprises with the international market. These are important characteristics of China's opening-up policy. To facilitate Chinese enterprises' "going global", Chinese accounting firms also need to make use of their professional advantages, keep abreast of the steps of Chinese enterprises' "going global", internationalize their professional practices and give a full play to their merit in information orientation, international assurance and strategic consultations. Meanwhile, the accelerated internalization of the Chinese economy has also made the Chinese accounting service market as a part of global accounting market and also made it an inevitable demand for Chinese accounting firms to participate in competition outside China. Therefore, "going global" is an inevitable trend for Chinese accounting firms to seek international operations for provision of better services to Chinese enterprises' "going global" efforts and to help them successfully face the international accounting market competition.

II. Overall goals of promoting more competitive and larger Chinese accounting firms

4. The overall goals of promoting more competitive and larger accounting firms are to achieve the scale growth, logical geographic distribution and comprehensive quality advancement of the accounting firms as well as developing about 100 accounting firms with significant scale in 5 to 10 years that are capable of providing the full range of services to large enterprises. Among them, about 10 accounting firms should become internationalized ones capable of serving the strategy of the Chinese enterprises' "going global" and providing the full range of services to Chinese enterprises with global operations.

5. "Going global" is an important symbol of a more competitive and larger accounting firm. For an accounting firm, to grow bigger is the foundation, to become more competitive is the core, and to operate internationally is a symbol of being more competitive and larger. Efforts should be made to encourage, support and foster a number of accounting firms that are large in scale and strong in competitiveness to consolidate their outstanding performance in domestic market. At the same time, starting by providing services to Chinese enterprises in the global markets, accounting firms should work vigorously to explore ways and channels for "going global", strive to explore and provide services in the international market, and be involved in the overseas accounting competition on all fronts, so that new strides can be made in the internationalization of the accountancy profession in the course of serving Chinese enterprises' "going global".

III. Actively adjust the restructuring of accounting firms and constantly explore ways and channels for scale growth and internationalization

6. Self-improvement and outbound expansion are effective and efficient means to achieve scale growth of accounting firms. While accounting firms should be provided with every facility to seek self-improvement in scale, they should also be encouraged to pursue outbound expansion. Efforts should be made to explore and summarize effective ways of scale growth and internationalization. They should endeavor to build partnerships between and among themselves or with other professional service providers. Associations with overseas counterparts and/or with other overseas professional service providers are also encouraged. Moreover, they are encouraged to work together with Chinese enterprises' "going global" and set up overseas branch offices to establish

global networks.

7. More competitive and larger accounting firms should not only increase the scale, but also improve professional service ability, quality control and professional competitiveness. While achieving scale growth, efforts should also be made to re-develop and accept new cultures and ideas. Efforts should be made in line with international standards to integrate internal management system and introduce unitary brand, unified practice network, identical quality control, unified HRs management, comprehensive financial system and shared IT platform support.

8. Policy coordination should be boosted to create a favorable condition for accounting firms to become more competitive, larger and internationalized. Institutes of CPAs at all levels should research and analyze the scale development of accounting firms, actively support accounting firms to achieve scale growth through mergers and acquisitions on the basis of complying with laws and regulations, help coordinate relevant policies during the process of promoting more competitive, larger and internationalized accounting firms, and timely and effectively solve their problems. Constraints shall not be set to restrict accounting firms from operating and developing across regions.

IV. Partnerships should be promoted vigorously to improve governance, quality control and sustainability

9. An excellent partnership culture is the foundation for accounting firms to develop more competitive and larger. As scale matters for an accounting firm to grow bigger, creating the good partnership culture that suits the characteristics of “combination of people and combination of knowledge” can bring forth a truly competitive accounting firm. In the course of seeking scale growth of an accounting firm, great attention should be attached to the construction of partnership culture. Teamwork, macro perspective, a sense of responsibility, tolerance, inclusiveness and equal footing sense should be initiated and built up. Only when the partnership concept is really in place to form the constantly enhanced partnership culture, can synergy effect be achieved and make it possible for the birth of an internationally competitive accounting firm.

10. The construction of a governance system with quality control is the foundation and manifestation of the partnership culture. In line with *Partnership Business Law* and *Company Law*, efforts should be made to set up and improve the governance and internal control systems as well as decision making process, risk control, employee training, income distribution and practice network coordination. A large accounting firm should have its special technical support department, risk control department and IT department, establish and effectively implement necessary regulations on quality control.

11. Standardization and guidance on the governance system should be boosted to actively improve the governance level of accounting firms. An accounting firm should formulate a complete governance system with the governance guidance, the template articles of association, and the governance assessment system. With the help of necessary supervision and examination,

its governance can be moved forward with features of clear-cut responsibility-obligation division, scientific decision-making, strict management and harmonious growth.

V. Promotion of international convergence and mutual recognition of professional standards among countries

12. Efforts should be made to further converge international professional standards and to achieve mutual recognition of professional standards adopted by different countries. The already released accounting and auditing standards have marked the international convergence of Chinese standards and obtained extensive acclaim and appreciation from the international community. They have contributed to China's integration with the global economic system. Communications and negotiations with professional accounting organizations and standard setters of the EU, the US and Hong Kong should pick up speed so as to create favorable technical conditions for Chinese CPAs to enter the global markets.

13. Cooperation and collaboration should be further sought with overseas securities regulatory authorities to give Chinese CPAs a good auditing play in the overseas listing of Chinese enterprises. With Chinese enterprise listing abroad and expanding globally, serving their "going global" strategy meets both the interest of China's opening-up and the great opportunity for the Chinese CPAs to explore the international accounting market and participate in these significant competitions. Further communication and cooperation should be promoted with overseas securities regulators for constant improvement of auditing services that Chinese CPAs may provide to Chinese enterprises' "going global", and for the advancement of international recognition of Chinese CPAs practice qualifications so as to move forward Chinese CPAs to compete in a broader and higher international level.

14. Development of and participation in international networks is important channels for accounting firms to achieve internationalized growth. Considering various background scenarios and cultural identities, an accounting firm may vigorously seek internalization and global operations, open up international market, provide high quality professional services to Chinese enterprises' "going global" efforts by establishing representative offices abroad, becoming an international member firm and/or an international affiliated firm, and participating in an international network.

VI. Comprehensively implement talent strategy and quickening the pace of the cultivation of professional accounting leaders

15. Talents are key to promote more competitive and larger Chinese accounting firms. Efforts should be made for fully implement *CICPA Guiding Opinions on Enhancing the Cultivation of Professional Talents*, and on the basis of the conversion and improvement of continuing professional development system and mechanism, the comprehensive enhancement of CPA professional quality, practice capability and professional ethics, efforts should be focused on the cultivation of professional leaders and reserve talents to support CPA internationalization. It is hoped that in 5 to 10 years, about 1,000 high-level professional talents and senior managers of

accounting firms who are competent for international engagements could be cultivated.

16. Formulation and publication of *Guidance on Competence of Chinese CPAs*. While drawing on international experiences, CICPA has put forward requirements on CPA professional knowledge, professional skills, professional experiences and ethics for comprehensive guidance of CPA talent development. The implementation of the Guidance should maintain closer relationship between accounting education and professional talent cultivation, improve the professional education practices of the CPA undergraduate program, CPA examination system, practice recognition system, continuing professional development system and CPA practice competence education, so that lifetime learning concept can be formulated and internationalized talent cultivation for CPA can be achieved at an early date.

17. More efforts should be made in terms of leadership cultivation. The practice of leadership selection and development should be constantly summarized and improved. Various measures such as open selection, key talent follow up, domestic and overseas training should be adopted. Communication and cooperation with overseas professional accounting organizations should be strengthened in training programs, professional standards and examinations. Chinese CPAs are encouraged and supported to obtain practicing qualifications of overseas professional accounting organizations.

18. Accounting firms should work hard to achieve excellent talent cultivation and reserve. Scientific planning, massive input, and perfect talent cultivation, attraction, retention and advancement scheme should be adopted for the creation of a favorable talent cultivation climate. Graduates and professionals holding overseas accounting and auditing degrees and/or qualifications should be vigorously invited to join Chinese accountancy profession and to provide accounting firms engaged in international businesses with professional capacity assurance.

VII. Improve practicing environment, including legal system, policy development and market regulations of the accountancy profession

19. Efforts should be continuously made to improve CPA legal system. Assistance and help should be further given to legislatures for improving related CPA laws and regulations to provide solid legal assurance for defining CPA's market position, clarifying responsibilities and obligations, and regulating practices. *Company Law*, *Securities Law*, *Partnership Business Law*, *Bankruptcy Law* and other legal instruments related to statutory audit of enterprises, audit of listed company, audit and assurance of partnership business and bankruptcy managers should be further studied, coordinated and promoted for balanced implementation of business development and market expansion.

20. Research should be made on the implementation of limited liability partnership for fundamental solutions to intellectual combination between/among accounting firms and for assurance of system innovations. Research should also be further made on organizational integration among/between accounting firms in accordance with *Partnership Business Law*, *Company Law* and the *Law of the PRC on CPAs* so as to create favorable conditions for conversion

of various organizational forms. Guidance should be provided for effective and efficient implementation of “Template Agreement for Partnership Accounting Firms” and “Template Articles of Association for Partnership Accounting Firms.” Amendment and modification of the Agreement and the Article of Associations should be seen as an opportunity to facilitate improvement of accounting firms to achieve the conversion of organizational system and governance system.

21. Research should be made to promote the formulation and improvement of policies and measures of the accountancy profession. National treatment principle should be respected for further opening-up of the accounting market. Reasonable auditing service price system should be set up. Efforts should be made to improve career risk fund system and career insurance system, and in turn to improve risk-fighting capability of accounting firms. Practice liability system and liability evaluation system should also be improved to safeguard fairness in the accountancy profession. Public bidding system should be well regulated in and improper competitive actions such as desperately lowering price, seeking kick-back, bribery-taking, should be eliminated. Publicity and communication of the accountancy profession should be promoted. CPA hiring system in state banks should be improved, so as to set up an even playing field for CPAs to compete in the high-end market.

22. Information disclosure system for accounting firms should be improved. The comprehensive evaluation system should be established for constantly improving the objective reflection of accounting firms’ service quality and performance capability, delivering guidance and directions to accounting firms for their scale-based and well regulated professional growth, on the basis of in-depth analysis of inherent accountancy profession features and social effect.

VIII. Improvement of service awareness and skills to better support CICPA members

23. Institutes of CPAs at all levels play a critically important role in cultivating more competitive and larger accounting firms. Institutes of CPAs at all level should be eager to meet members’ needs and make all possible efforts to help CICPA members overcome problems and barriers in the course of promoting more competitive and larger and being internationalized accounting firms. In the event that a solution cannot be immediately worked out and provided to the accounting firms, a right solution should be continuously explored until it is identified.

Institutes of CPAs at all levels should deliver right directions and guidance to the growth of local accounting firms. A reasonable setup and distribution of large, small and medium sized accounting firms should be earnestly studied so that positive services can be given to help accounting firms develop. Efforts should be made to seek solutions to professional mobility, license recognition and business registration that accounting firms encounter in mergers and acquisitions. Institutes of CPAs in some provinces where there are good conditions can take proactive policies to encourage local accounting firms to develop more competitive, larger and internationalized. The successful experience in the above course should be timely summarized and shared with the media for publicity and communications. Proactive coordination and collaboration should be promoted with other public institutions to create a more friendly operation climate for accounting firms.

24. Member service and management system should be constantly improved. Institutes of CPAs at all levels should establish and improve a comprehensive supervision system for member's conducts with registration as the focus. Efforts should be made to well regulate market competition and correct improper competitive actions. Behaviors damaging the reputation of the accountancy profession should be resolutely punished, so that a sound and orderly accountancy profession can be established and maintained.

While helping accounting firms grow more competitive and larger, Institutes of CPAs at all levels should also boost their services to small and medium-sized accounting firms.

25. Auditing technology system should be studied, developed and promoted. Auditing technology computerization is the practical demand to meet the practical requirement of computer information system environment and to improve auditing quality. Therefore, R&D should be made in continuous auditing, computer-information-system-environment-based auditing, computer-assisted auditing, and extensible business reporting language (XBRL). Accounting firms are encouraged to introduce application and popularization of highly advanced auditing software. At the same time, efforts should be made to provide technical consultancy and to serve large accounting firms in the application and popularization of computer based auditing technology.

The informatization of the accountancy profession should be reinforced for establishment of smooth information flow, provision of better service and management to the profession, including providing comprehensive information services to the accounting firms' provision of CPA laws, regulations, market development, and talent supply, etc..

26. The development of the accountancy profession depends on theoretical guidance and directions. Scale growth features, including its growth pattern, internal growth driving force and external conditions, as well as experiences of international development for accounting firms should be deeply studied. In this regard, experiences both at home and abroad should be studied and analyzed with focus on new trends and characteristics of our accounting firms developing more competitive and larger and seeking internationalization, so that corresponding timely and helpful directions and guidance can be sorted out.

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