

# Profile: Chen Yugui, head of the Chinese Institute of CPAs



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Orient express: CICPA's head is confident Chinese accounting will catch up with the rest of the world quickly

**CHINA MAY SOON** add its own voice to a global accounting scene dominated by the big four, according to Chen Yugui, head of the Chinese Institute of Certified Public Accountants (CICPA).

“Internationally and nationally we don’t think it’s a good phenomenon that the Big Four take a dominant position, as it will harm the sustainability of the profession,” Chen says. “We don’t want to see just a few accounting firms dominate... We want to see better competition, a competitive market.”

Speaking at the CICPA’s spacious new offices on Beijing’s west side, Chen described how within the next ten years China wants to have around five local accounting firms take a bigger share “with a Chinese name, based on a Chinese market.” Similarly, he wants to see Chinese accountants playing bigger role in international issues or in the boardroom.

Chen acknowledges the Big Four played a very important role with regards to the progress of the Chinese market and with regard to the establishment of securities market, and with regard to restructuring of state-owned enterprises. But, given the scale of the Chinese economy, he does not think the Big Four are big enough to meet the requirements of the market. “We want more big firms to have a bigger share, and for the markets to have a better choice.”

An emblematic sign of how far local accountants feel they have come in applying international accounting standards came in January when mainland corporation Tsingtao Beer dropped its international auditors for its subsidiary listed in Hong Kong. The firm explained the move as a cost-saving measure possible given mainland China’s implementation of international accounting standards. Chen believes the Tsingtao switch is a logical result with regard to Chinese companies listed in Hong Kong. He cautioned that the CICPA doesn’t think all the accountants in China have a good understanding and use of international standards but believes “generally speaking in China we have a good base to adopt international standards or Chinese standards which are merged with international ones.”

Chen has spent two decades helping merge local standards with IFRS. Recalling his earlier work as an official at the accounting regulatory department at the finance ministry, he says: “The first

step was to adopt the general framework of international accounting, for example, we changed the objective of the accounting to not only meet the needs of the government and the regulators but, more importantly, to meet the needs of the market players... After ten years, we moved to change the accounting standards for specific events to move the Chinese standards to international ones, transaction by transaction. That's taken another ten years."

## **Global reach**

While grooming local talent and improving standards of local CPA firms, Chen sees a much weightier role for accounting firms in China, helping the world's second largest economy expand globally. Pointing to the importance of protecting and using the country's massive foreign exchange reserves smartly, Chen says: "We need big accounting firms not only to provide auditing, but also to advise our manager on strategy formation and risk avoidance."

Growing China's economic clout is obviously a good motivation to groom domestic champions, a task the CICPA is accomplishing by giving more information and encouragement to local firms while also drawing more input from regulators and accounting bodies globally. "We are training accountants and merging standards and providing guidance on how to emerge our accounting firms," he explained. "We also encourage Chinese firms to join international networks to learn and get win-win co-operation."

While learning from international peers, Chinese accountants struggle with applying the western-centric nature of international accounting and auditing standards to Chinese realities. "All these are developed markets," explains Chen. "All those market players, information users, regulators and preparers of the information are trained for a long time and have played a long time in those markets".

The Chinese market by contrast is a maximum of three decades old, points out Chen. "How to put the general standards to specific issues... when we move to the Chinese market all those cases are not the same in form and substance with regard to the western world... That's one of the most difficult areas in which we have to train our accountants."

And training is indeed the key here. Having spent a decade striving to improve the education and quality of local CPAs, Chen reckons he has plenty more to do: "In particular we want to pay more attention to the training of accountants in how to combine international auditing and ethics standards with practice."

Overseas experience is clearly a priority for Chen in getting local talent up to speed. The CICPA helps send young Chinese accountants abroad for secondment with international accounting bodies while it has also encouraged local CPAs to train in the UK and Australia. Revising curricula at local universities is another priority for Chen. His efforts seem to have the confidence of CICPA members, whose members are growing fast: the organisation has 500,000 members, up on 420,000 two years ago (see box).

## THE NEW WAVE

Chen's organisation has focused on the quality as much as the quantity of its members. A new exam curriculum, based on Hong Kong and UK equivalents, proved a challenging transition for members: only 1,000 out of 20,000 applicants passed the exam first time out. Still, China is in the curious situation of having a new wave of accounting graduates leaving university, yet a shortage of CPAs. Chen explains: "We have more graduates but a shortage of trained or sophisticated graduates, especially graduates trained in international market instruments."



### **New kids on the block**

Newly qualified accountants will have to work in an increasingly complex commercial environment, where they must make judgment calls about whistleblowing, a thorny issue in China given the continued dominance of the state in key areas of the economy. Chen believes accountants should speak out when they encounter problems in clients' books. But he is also keen for "more understanding" among legislators and society about the precise role of accountants.

While calling for a balance between protecting the profession and the public interest Chen wants the accountant's role in the market to be well understood by the public, especially regulators. "Legislators need more understanding, accountants are not public servants, they're market players though they are different from other players. So how to get a balance for the regulators with regard to responsibility is a key question..."

Indeed, Chen says accountants need to be delegated more powers and a "more favourable position" in terms of deciding whether the accountant should take more responsibility while facing a specific issue or legal case.

Chen also believes that accountants internationally need to be more willing to speak out on the economy, "especially on the risk". He says: "A part of the accounting profession thinks we just set standards... the accountant follows standards. The problem is on what base we set standards. If we are just aiming at protecting ourselves to exempt us from a legal case we are doing it the wrong way."

Looking ahead, Chen is clearly determined to improve local skills but he also points to another goal for the coming years – branding, or raising the profile of Chinese accounting firms. “The market economy is one of brands. If you have a good brand, you’ll have more customers. You’ll ask a better price.”

The country’s accounting industry is young, stresses Chen. “Thirty years is not enough for an accounting firm to get a good brand and have it widely recognised.” Their comparative youth means local CPA firms are not well recognised for their quality and integrity “but actually we do a good job, many of our accounting firms do good quality work”.

Chen himself could be emblematic of how far Chinese accounting has progressed. He recalls his university days three decades ago as part a small but pioneering class of accounting majors, on a campus more populated by engineering and science students. “When I was asked by other students what major I was their reaction was ‘oh, do we have a major in this university for accounting?’” Today, by contrast, accounting is a “very, very hot major”, as the country’s officials seek accountants to spearhead corporate expansion overseas. Being popular is progress, believes Chen. But he will not rest till China has quality accountants and a global accounting player.