Perspectives from mainland China, Hong Kong and the UK on the development of China's auditing firms: implications and a research agenda

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ABSTRACT

Based on gaining privileged access to interview senior representatives of audit firms, regulatory bodies, financial institutions, universities and other organizations in mainland China, Hong Kong and the UK, this exploratory study presents a range of informed views about the rapid development of China's auditing profession over the last 25 years. It explores the emerging roles of the firms in the 2nd-tier international networks and among the larger stand-alone firms as challengers to the Big 4, nationally and internationally. It identifies national and international institutional interactions that have shaped and are being shaped by this rapid growth, with particular reference to the overarching role of the State's shifting strategies to create a domestic profession in China that can compete internationally. The potential consequences, given China's unequalled size and its expanding global influence, could change the nature and structure of the global profession. A significant contribution of this exploratory empirical study has been to deconstruct the continuing conventional political and academic rhetoric that dichotomizes firms into 'foreign vs local' and 'Big 4 vs other'. It contributes new voices and alternative perspectives to the emerging literature on the glocalization of large professional services firms and suggests new opportunities for future auditing research.

KEYWORDS

Chinese auditing profession; International Auditing Standards (ISA); Big 4; 2nd-tier audit networks; international professional service firms (IPSFs); auditing research

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1. Introduction

Compared to knowledge about Western auditing firms there is relatively little knowledge about firms in China and how they differ (Suddaby *et al*., 2007; Empson *et al*., 2015). During the last 40 years or so the Chinese economy has been rapidly reinvented from being wholly state-planned to becoming today's 'socialist market economy'[1] (its unique combination of market autonomy and techno-scientific administrative regulation under the Communist Party's (CPC) overall direction), and it is already the second largest economy worldwide.[2] This exploratory study analyses the history and consequences of the government initiatives in China to create, develop and regulate a profession of accountants and auditors holding the CICPA qualification. It recognises various national and international institutional changes with which these initiatives have interacted—including the translation into China of international accounting and auditing standards and the continuing rapid growth in China's own stock-markets and in its international trade and investment. It suggests potential worldwide implications for the audit profession and opens up related auditing research issues.

Whereas in the UK, for example, the Big 4[3] are so much larger than the others and dominate listed company audits (e.g. Bhaskar *et al*., 2019), in China the disparity is not so marked, as a significant number of non-Big 4 firms are licensed as auditors of companies listed on the huge domestic stock exchanges (Shanghai and Shenzhen), which include many State Owned Enterprises (SOE) where the government (including both the central and the various provincial governments) still holds the majority stake (e.g. Wong, 2014; Al-Natour *et al*., 2017). Some of these firms are also now licensed to audit companies listed in Hong Kong (see Appendix III). Could this provide the

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[1] *shèhuìzhǔyì shìchǎng jīngjì* [社会主义市场经济]

[2] First if measured in purchasing power parity terms (ppp): http://statisticstimes.com/economy/projected-world-gdp-ranking.php (accessed 14.2.2020)

[3] Since the 1990s the set of the largest international firms has gone from the 'Big 6', to the 'Big 5' to the 'Big 4' (referred to in Chinese as 四大 [*sì dà*]). Like Suddaby *et al.* (2007) this study generally uses this term even when the actual number was greater, unless the specific context requires a more exact usage. In China auditing firms are generally referred to as accounting firms since the 1995 consolidation into one institute (see Figure 1) and in this study the terms are used interchangeably.

springboard for one or more of these firms to rival the dominance of the Big 4 not just in China but in auditing companies listed on other international stock exchanges? The Big 4 firms have themselves grown so rapidly in China that their offices there now match their staff numbers in the UK. Similarly for the other international networks, their Chinese offices are already, or are rapidly becoming, the largest. How could this affect the future development of these firms worldwide?

To open up questions about how the ongoing changes in the hitherto mainly Anglo-American dominated—and studied—worldwide profession (e.g. Cooper & Robson, 2006; Suddaby *et al*., 2007; Empson *et al*., 2015) might be further changed by rising Chinese influence, one therefore needs to explore a range of interlinked questions about how the newly-created Chinese profession has been rapidly developing since the 'opening up' ushered in by Deng Xiaoping's economic reforms (starting in 1978 and accelerating after 1992). There has been only 25 years experience, i.e. since 1995, of building a professional CICPA institute from 'the top down' against some 150 years of (mainly 'bottom up') development in the Anglo-American world.[4]

The major English-language histories currently available are Li (2007) and Gillis (2014a).[5] The former is a formal 'official history' by a former head of China's National Audit Office [CNAO], while Gillis focuses primarily on charting how the Big 4 gained their market position inside China, drawing largely on a Marxist framework derived from Gramsci (1935/1971) and from the memoirs[6] of the first Director-General of CICPA, Ding Pingzhun. He relates Ding's continued attempts, up to his retirement in 1999 in the course of the WTO negotiations, to build up a strong Chinese profession as 'counter-hegemonic' to those perceived 'foreign' firms, focussing on his failed 'dream', after disaffiliating several leading firms from their

4 Even since this research began research in 2011, while other leading countries have been virtually stagnating or even in recession, the Chinese economy has been rapidly growing even further: by November 2014 by about 37%, and by 2018 by about 80% http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG (accessed 26.9.2019).

5 Early stages are also reviewed in Hao, 1999 but overlooking the episode of the rival CICA (cf. Macve & Liu, 1995; Yee, 2012). See also http://www.cicpa.org.cn/BNIE/201602/W020160218362809274905.pdf (accessed 1.10.17).

6 Which Gillis (p.7) accuses of 'often exhibiting an extreme bias' (i.e. against the Big 4)—cf. Wen *et al.*, 2018. Gillis (pp. vii; 270) himself equivocates on whether what he labels as the 'hegemonic' dominance of the Big 4 has overall been good or bad for China.

government/university sponsors, to merge them to create a Chinese 'Big One' (Gillis, 2014a: 184-5;190).[7]

This paper's overall contribution to understanding the potential consequences of the rapid growth of the Chinese profession is quite simple, even though it may appear quite surprising to 'Western' eyes that have become accustomed to the neoliberal world order of the Washington consensus that underpins the current international dominance of the Big 4. It emphasises how accounting and audit firms in China remain subject, probably to an almost unique degree, to direction by a government that has a vision and a strategic plan for the role it wants them to play domestically and internationally (and in particular the members of the second-tier international networks and the leading stand-alone firms). There are no such strategies in the US or UK. Given the sheer size of the firms in China (again almost unique and which is still rapidly growing) it seems inevitable that this will alter the balance of the structure, management and culture of the current leading firms worldwide and may also alter the structure and processes of international regulation and standard setting. Indeed, the government has a longstanding aim (as explored in the paper) for a recognizably 'Chinese' firm or firms to join the current international leaders and become a 'Big N' firm.

However, the path the government is pursuing has to navigate the various institutional structures that it has to try to influence but that may in turn reshape it. These include, inter alia, developments in domestic and international markets, developments in domestic and international stock exchanges and other arenas of financial infrastructure, developments in transnational regulation and in varying third-party liability regimes, developments in links with universities and other professional bodies, and ongoing changes internationally in the challenges facing the current leading international professional services firms (IPSFs). There are also contested agendas within the government itself.

For researchers this means that, on China's present trajectory, work that deepens understanding of auditing in China will be significant for understanding the ways in which the global profession and global standards are increasingly being reshaped. This work will be vital if we are to more fully explain the changes that occur and make meaningful comparisons and contrasts with developments in other countries and

[7] Gillis (an American former PwC partner in China now on the faculty of Peking University) also draws on some correspondence and undocumented interviews, apparently mainly with those who have also been Big 4 partners there—particularly other expatriate PwC partners—but does not refer to Li (2007).

worldwide (and some potential avenues for exploration are outlined in Section 6.1).

As called for by Gillis (2014a: 302), this study therefore broadens the histories given by Gillis and by Li (2007) by exploring in greater depth the roles of the 2nd-tier networks and of stand-alone Chinese firms in developing their reputations and markets, and their interrelationships with the State's continuing proactive strategies nationally and internationally; and by looking beyond mainland China to understand international perceptions of the developments there and their possible implications.

The major innovative features of this study have been, first, the privileged access given to interview a wide range of very senior auditors, regulators, academics and others in mainland China, Hong Kong and the UK over several years; and, second, that the study has benefitted from collaboration between two interviewers with contrasting UK (Macve) and Chinese (Deng) backgrounds. These complementary perspectives have enabled a fuller understanding of the many internal contradictions that China and its audit firms face. Although the resulting interpretations necessarily often remain tentative, the attempt is important as the developments in China have potentially worldwide ramifications, given China's size and continuing rapid growth and influence.

This, primarily descriptive and exploratory, study therefore assembles a wide range of expert voices in building an understanding of the current Chinese situation and possible future developments. The outcome may in turn suggest a need for re-interpreting currently theorized understandings of the roles and power of international professional service firms (IPSFs) (cf. Gillis *et al*., 2014; Empson *et al*., 2015).

A significant contribution from the empirical investigation has been to deconstruct the continuing conventional political and academic rhetoric that dichotomizes firms into 'foreign' and 'local' and into 'Big 4' and 'other' and to show how changes in China itself as a consequence of 'opening up'—including not only the re-creation of an accounting and auditing profession but also the more general expansion of higher education after the repression of the Cultural Revolution of 1966-76,[8] together with revolutions in the 'mindsets' of successive generations exposed to the changing forms of symbolic, cultural and social capital engineered by the State (cf. Smart,

[8] which some of the interviewees had lived through.

1993)—have shaped the spectrum of interrelationships of homegrown Chinese firms with the Big 4 and, more recently, with the 2nd-tier international audit firm networks.

Section 2 briefly sets out some major features of the institutional environment within which the Chinese profession has developed and outlines the theoretical lens through which we have chosen to view them.

Section 3 covers the history since end of the Mao era when all accounting and auditing had been part of the centrally planned economy (as it had been in Communist Russia—Mennicken, 2008; 2010) and outlines three main stages in the development of the current profession and the growth of the audit markets in China. Section 4 explores some key background cultural elements in understanding the context of these rapid developments; and Section 5 evaluates the present situation and its possible future trajectories.[9] In the light of the empirical material from the interviews / conversations undertaken,[10] a tentative understanding is offered of the major national and international institutional factors currently shaping the profession that have led to the changing position of the Big 4 relative to homegrown firms, including both those that have joined the 2nd tier international networks and some large stand-alone Chinese CPA firms (see Appendix III). And even while the current Big 4 retain their worldwide dominance as IPSFs they, like the other firms, seem likely to reflect significant organizational changes in the balance of their management structure and control as the preponderance of their Chinese member firms accelerates.

Section 6 concludes and suggests some potential future research avenues that arise from the findings of this study's initial explorations of experts' perceptions in mainland China, Hong Kong and the UK.

2. Theoretical approach to mapping the institutional background

Neo-institutional theory seeks to link changes in culture and beliefs, in institutions, in

[9] *This paper generally reflects information obtained by the end of November 2014, with some selective updates from publicly available sources up to the end of 2019. It was set up before the recent counterchallenges to China's rise that have been deployed by the Trump administration in the US but which, among others, the UK and several other European countries appear reluctant to endorse. (Despite the US efforts, China's economy still reportedly grew by over 6% in 2019 as compared to the US (2.3%) and the UK (1.2%):* http://statisticstimes.com/economy/countries-by-projected-gdp-growth.php *(accessed 20.1.2020).) It also predates the recent political turbulence in Hong Kong and the outbreak of Covid-19.*

[10] Details of how we collected the interview material and other empirical data underlying our interpretation of the Chinese developments, and of how interviewees' roles are coded in quotations, are given in Appendix IV.

organizations, and in individuals’ discourses and practices (e.g. Lounsbury and Zhao, 2013). Suddaby and Muzio (2015) trace the development, building on Abbott (1988; 2005), of a general ‘ecological-institutional’ theory of organizational change as a helpful lens through which to analyse the transnational growth and regulation of IPSFs. On the partial analogy of biological ecosystems and their subsystems and how their internal and external linkages co-evolve (competitively or symbiotically; tending to equilibria or disequilibria) the theory focuses on the professions as subsystems of institutional ecosystems and on their co-evolving internal and external linkages (but differing from biological evolution in recognising human agency throughout).

As an example, Mennicken (2008, 2010), investigates the introduction and implementation of international auditing standards [ISAs] in post-Soviet Russia, replacing the traditional state audit mentality and procedures ‘as it faces up to the challenges of international harmonisation’. She focuses on the ‘connecting worlds’ of the networked interrelations of the various actors and other factors involved in the development and conceptualisation of fields and arenas of institutional activity that comprise ever-changing ‘linked ecologies’.

As Suddaby and Muzio (2015, p.39) summarize, one is looking at how far the processes of institutional work result in stability or disequilibrium, and in an environment of competition or symbiosis with other institutions, to attempt ‘to understand the dynamic interaction between professions and other social institutions and how these mutually inform, reinforce, and complement each other’.

There are significant differences between the trajectory of the changes in Russia and in China (e.g. Harrison and Ma, 2013) and this study therefore explores how significant institutional roles and their (self)conceptualizations among China’s newly created auditing professionals and their firms have been rapidly changing and interacting with their changing connections—both within China and in their international linkages—with a changing constellation of linked actors and forces. As illustrated below, these ‘linked ecologies’ include most importantly the State, i.e. the Chinese government controlled by the CPC, which continues as the most significant actor both within China and in developing China’s international roles. Within China it directs accounting and auditing development and shapes its changing interactions with other arenas and fields, primarily through its direction of higher education and through the (sometimes conflicting) mediation of MoF, CSRC and CICPA[11] and their vigorous promotion of mergers and 'localization' of audit firms, of development of these firms' NAS skills, and of their convergence with IFRS and IAS, alongside the enhancement of corporate governance practices in their client companies.

Internationally it frames Chinese accounting institutions' international relations, especially through increased influence within IASB and IAASB and its promotion of integration with Hong Kong's profession and stock market. Its relations with overseas professional accounting bodies, together with its encouragement to CICPA firms to integrate with international professional networks of audit firms overseas, complement its encouragement and support of the expansion of Chinese overseas investment (for example recently through the 'Belt and Road' initiative)[12] and of strengthening China's wider global influence in an increasing variety of arenas. In turn these emerging linkages and influences have served to shape and reshape the government's own agendas.

However, one must also recognise (as analysed further in Sections 4 and 5) continuing potential barriers to integration within the prevailing neo-liberal world order and its institutions, resulting from the underlying 'Chinese characteristics' of a culture of control and *guānxì*, alongside the continuing strength of the different incentive structures around and within the domestic SOEs in the economy (e.g. Wang *et al*., 2008) and some growing political antipathy to 'Western values'. There are also complex interrelationships between different organs of the State including the relative spheres of the central and provincial governments, and of a range of ministries, as well as of the 'rule of law' that is exercised primarily as an administrative arena of the government and Party.[13] On the other hand, the growth of the Chinese economy has been so rapid over the last 40 years of the 'reform and open' policy that there have been accompanying intergenerational transformations in education levels and cultural

[11] The CICPA remains 'under the guidance of the Ministry of Finance *[MoF]* and the Council': http://www.cicpa.org.cn/introcicpa/about/201407/t20140708_45449.html (accessed 14.2.20). The State Council is the chief administrative authority of the PRC, chaired by the Premier. The China Securities Regulatory Commission (CSRC) has the status of a ministry and reports to the Premier. (See Appendix II.)

[12] https://www.accaglobal.com/uk/en/technical-activities/technical-resources-search/2017/july/the-belt-and-road-initiative-.html ; http://english.gov.cn/beltAndRoad/ (accessed 19.09.2018).

[13] Brandt *et al.* (2014) point out that under the Emperors, as now, the dispensation of law was primarily a responsibility of the administration (central and/or local), rather than of an independent judiciary so there is a different understanding of what is meant by the 'rule of law' (e.g. Feuchtwang & Steinmüller (2017), Chapter 16). However, one of our most senior UK interviewees commented that the settlement of commercial disputes nowadays through arbitration is very efficient *[4RGL, pp.22-4]*.

values that will continue to shape and reshape successive generations' orientation to and influence on China's international roles.[14]

As well as the Chinese State there are other significant market and regulatory arenas with which China's accounting developments have been rapidly co-evolving, including the huge stockmarkets in Shanghai, Shenzhen and Hong Kong; the increasing presence of the international networks of auditing and accounting firms and their educational and training provision to China's new auditors (e.g. Stuttard, 2009); the import of international accounting and auditing standards alongside Western models of professional bodies; and the impact from cross-listings of Chinese companies on overseas stock exchanges (especially in the US) following IPOs both of giant SOEs (especially banks and energy companies) and of private start-ups (especially new technology companies) with resulting interactions with overseas national regulators. China's development of its auditing profession has also brought about changes in these arenas as well as being influenced by them. This study therefore necessarily sets out to open up a range of 'linked ecologies', national and international, and the interactions between them as a basis for more specifically focussed questions for future research.

Probably the outstanding feature of the Chinese environment is the remarkable speed with which these changes have taken—and are still taking—place. Within this interactive framework the study seeks to deconstruct the political and academic rhetoric that adopts the anachronistic dichotomies of continuing to label the accounting and auditing firms as 'foreign / Chinese', or as 'Big 4 / the rest', and to relate the changes in these Chinese institutions to world-wide changes in the 'connecting worlds' of IPSFs (e.g. Suddaby *et al*., 2007; Empson *et al*., 2015).

3. Stages in the development of the Chinese profession

Broadly three stages of development can be traced: first, from 1978 laying the foundations by bringing in foreign expertise; second from 1995 building a unified profession and developing the capability to challenge foreign competitors; third (and currently) turning the foreign competitors into 'Chinese' firms. This government strategy has broadly matched the ambitions of the UK-American firms themselves, especially the Big 4, as their strategy worldwide has generally been to establish a

[14] See e.g. Brandt *et al.* (2014) and Feuchtwang & Steinmüller (2017) for comprehensive reviews of recent developments in China and their historical economic, political and cultural roots.

presence that is initially managed by expatriates (who are expensive to maintain and compensate), but with the longer-term aim of 'naturalizing' / 'localizing' the firm to be run by local nationals, a process which would normally require some 20-30 years or more of building up sufficient numbers of sufficiently experienced local partners who, as far as possible, have acquired sufficient 'tacit' knowledge and internalized the firm's culture (e.g. Stuttard, 2009; Faulconbridge, 2015: 428-9).

3.1 Stage 1: Laying the foundations

Following the centrally planned economy of the Mao era, from 1978 the 'reform and opening' of China under Deng Xiaoping introduced a new vertical alignment of economic incentives from top to bottom (Brandt *et al.*, 2014, p.9). As the ideology of the new approach was being worked out within a continuing Communist political framework (e.g. Gewirtz, 2017), the Chinese audit profession had to be (re)created from scratch (e.g. Yee, 2012), so it required international support, including provision of advice, training and also overseas experience, primarily in the UK and US, to selected young recruits. A senior Chinese professor, also involved in regulation, commented:

> Li Yong, who is the chairman now -- current chairman [of CICPA].[15] He's also the Deputy Minister of the Ministry of Finance at this time still. He is one of four -- I, myself -- the other one is the chairman of Ernst & Young -- still Chinese joint venture. And still the other one is former deputy secretary general of the CICPA. Four of us went to US in 1981. The first batch of people. Then second group go to Coopers & Lybrand and third group go to the other accounting firms. *[16JSM, p.7]*

To stimulate technology transfer into the 'reformed and opened' economy, many licenses to foreign companies wanting to establish subsidiaries in China were originally only granted if they established Sino-foreign 'joint ventures' (JV) between the overseas company and a Chinese partner (e.g. Dai, 2011). Correspondingly their audits were required to be conducted by (normally) their overseas group auditor working together with a local Chinese audit firm. And so the leading accounting firms, and in particular those that still survive as the Big 4 today, who had begun entering China through representative offices in the 1980s, were given special permission to

[15] Subsequently succeeded by Feng Shuping from October 2014: http://www.cicpa.org.cn/leaders/xhldcy/201410/t20141028_46007.html (accessed 6.1.15)

establish their own Sino-foreign JVs with local firms for 20 years starting in 1992 and were required to provide education and training more widely (e.g. Stuttard, 2009).

The local firms were then still all owned by government-sponsored entities and often consisted of just a sole practitioner CPA, for example a university professor or former MoF or state-audit (CNAO) employee. The JV provided a legal structure to allow foreign partners to be the auditors of Chinese companies. (The disaffiliation of all Chinese accounting/audit firms from their sponsoring state organisations was finally completed only in 1999—see Figure 1 which highlights some key developments among the national and international actors.)

*****Insert Figure 1 about here*****

In the view of a leading Chinese Big 4 practitioner (who had been one of the first cohort of students re-admitted to university after the Cultural Revolution (1966-76) and had also been on such an overseas visit in 1985) at this stage China was just 'feeling its way', for example in how to set up the initial JVs with the major international firms.

> …so a lot of time, just like -- I don't know if you know there was a famous saying from Deng Xiaoping, called 'touch the stone when you cross the river'[16]…So, we only do the start and then we found some new issues and then we start to solve those issues and go further. So, it's things like that, for example…So, that's something we didn't realize until you need to go the next step. *[114BM]*[17]

In many countries mergers with substantial local firms have secured the aim of becoming established there but in China such firms were still only embryonic and early attempts along this path by the Big 4 were often unsuccessful and were abandoned (cf. Gillis, 2014a: 198-202). Indeed, what is now perceived as one of the biggest wholly stand-alone Chinese firms, ShineWing, actually originated within Coopers & Lybrand and only became separate at the time of the 1998 merger that created PwC (Stuttard, 2009; cf. Gillis, 2014a: 185; 212).

Developing this intellectually-based service capacity in China has been more difficult than developing the manufacturing-based capabilities that have characterised most of China's boom, and has been more difficult than in many other countries, because it had to begin with a generation of young people who had been deprived of

[16] A widely used expression for China's pragmatic gradualism: *mōzhe shítou guòhé* [摸着石头过河].
[17] Other Big 4 firms were often also 'feeling their way' e.g. Stuttard, 2009 cf. Cooper *et al*., 1998.

normal higher education opportunities, as their families had often been banished to work in the countryside during the ten years of the Cultural Revolution. Moreover, for developing accounting the biggest problem was that before 1978 there had been about 30 years in the planned economy, established since the founding of the PRC, when there had been no need for CPAs and for accounting / audit firms (Ezzamel *et al.*, 2007). So unlike in many other countries, there was no pre-existing local profession to be swamped by the new foreign tide of globalization.

Yee (2012) explores how there were originally rival institutes, one (CICPA) sponsored by the Ministry of Finance and one (CICA) by the state audit organizations at national (China's National Audit Office [CNAO]) and provincial levels. They were unified into today's CICPA under the initiative of Vice-Premier (later Premier) Zhu Rongji in 1995.[18]

3.2 Stage 2 The new CICPA builds the unified profession to develop the capability to challenge foreign competitors

Wang Jun became Director of the Accounting Regulatory Department of MoF in 1987 and rose to be Vice-Minister of Finance from 2005 to 2013. He was Deputy Secretary-General of CICPA in 1993-4.[19] As one interviewee commented:

> The CICPA is actually very much based on the ICAEW model because Dr. Wang Jun actually set up the CICPA. He actually spent time in England and he is now an honorary member of the ICAEW[20]…He actually modelled the whole arrangement on the ICAEW, so it's very similar. And there's still this ongoing programme between the CICPA and the ICAEW. [32TL, p.23][21]

The choice of ICAEW as a model with its history of UK-American 'bottom-up' evolution of the profession (rather than say the Japanese or French institutes which are more creations of the state) probably indicates how China viewed the importance in international political terms at the time of being seen to be becoming a member of the international Anglophone financial community alongside the leading Western countries. (There was also the precedent of the long-established Hong Kong Institute

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18 For a contemporaneous analysis of the issues see Macve and Liu, 1995.

19 http://www.chinavitae.com/biography/Wang_Jun%7C2842/career [accessed 23.11.2014].

20 http://www.icaew.com/en/archive/about-icaew/newsroom/press-releases/2009-press-releases/chinese-vice-minister-of-finance-receives-icaew-honorary-membership-168932 [accessed 21.7.14].

21 The 'ongoing programme' now allows Chinese CPAs to add the ICAEW qualification by taking some additional steps https://www.icaew.com/membership/becoming-a-member/members-of-other-bodies/members-of-other-bodies-a-z (accessed 29.1.19).

of Certified Public Accountants (HKICPA).)[22]

The rapid development now needed as markets developed was supported by massive State investment in accounting training, both in the newly revitalised universities, which from the 1980s had begun to offer accounting degrees, and also when in 2002 (on the advice of Prime Minister Lee Kuan Yew of Singapore) Premier Zhu Rongji oversaw the creation of three huge 'National Accounting Institutes' under the MoF, in Beijing, Shanghai and Xiamen, which still continue to provide training on a large scale for a wide range of accounting and auditing work (Suzuki *et al*., 2007).

China joined the WTO in December 2001 with two consequences. Its new domestic audit profession would potentially have more access overseas, accompanying Chinese enterprises' own cross-border expansion (e.g. Reich & Lebow, 2014, Chapter 4). But also, as inhibitions on foreign firms would have to be relaxed, that domestic profession would need further strengthening if it was not to be swamped by the 'foreign' dominance of the Big 4 and other international firms as FDI poured in and giant Chinese SOEs and other major companies sought listings on US and other overseas capital markets, for which Big 4 advice and certification was an essential requirement.

3.2.1 Mergers—and their risks

A series of government policies to build up the profession, in the context of the increasing competition, directly resulted in a bottom-up merger tide within the domestic CPA industry from 2000 that has been continuing ever since. At first these mergers were partially compulsorily mandated by CICPA but after 2005 'soft' persuasion' was driven by exhortation from CICPA to embrace market opportunities. However, the mergers brought their own problems, at least initially (Gillis, 2014b, p.68), as often elsewhere in the world (e.g. Empson & Langley, 2015: 172-4; Mawdsley & Somaya, 2015: 225-7). This study's interviewees were asked to comment on apparent evidence from quantitative research in China (for example Deng, 2011) that these sometimes hastily 'arranged marriages' had led to an initial weakening of risk control within the firms and an increase in audit risks in the acquisition of new clients such that 'bigger' might not mean 'better'. A former senior regulator commented:

[22] Hong Kong had remained a British colony until it was returned to China in 1997.

> They [were] really created by the government, not mergers acquired them by themselves....This target not set up by yourself. It's a target by others. Just like your parents force you to get married to this girl no matter you like or not....So, in this generation if you really want to get the firm to become bigger and bigger, get the firm [to] become a very lot organized, and can meet the demand of these complicated business developments... [W]e have some -- several cases which show that these mergers is not a good foundation -- not just because the culture is different, just because the management competence is not sufficient to suddenly become a big firm. How can they control handling the daily management business? How can they handle some firm -- some office in other cities? How can they control the quality of those offices in doing some complicated, risky clients? So, this cause a lot of problems. Also, how internally to govern these people as a family -- focusing on the quality not just focus on the money. So this is a quite difficult issue faced by those big firms because they have to merge. *[16RGM, p6ff]*

This study's interviewees in audit firms were in larger firms that had generally resulted from mergers, as they generally have around the world, or were still growing that way, and the others were generally involved with listed companies who also used the bigger firms. So, perhaps not surprisingly, the overall view expressed was that, despite the difficulties of integrating risk control and quality procedures etc., this growth was necessary to meet clients' own expansion and to support the technical infrastructure for keeping up with and training staff in international accounting and auditing standards, for handling regulatory requirements etc. and for essential IT investment (e.g. Lombardi *et al*., 2015), as well as for creating a marketable brand.[23] However, some academics' doubts remained, e.g.:

> So now Chinese audit firms have a clever way to merge. They are separate firms in a law sense…So if one has a problem [it] will not influence the head office…So when they become one firm, they summarise their annual accounts together, but if one of them get penalised, get law suits, they will keep it to themselves. No business of others…So it's impossible for them to keep the same quality as they don't have the incentives to improve the quality after such a kind of merger. *[15JSM p.11]*

The rapid growth in the Chinese economy means also that potential new clients are always appearing and some could be very risky. All the firms have procedures for vetting clients and believe they can match their approach to the risks involved in those they take on. For example a senior Chinese Big 4 partner commented:

> I think you take the clients that are more risky -- we take the company with high risk as a client as well. I think it's more of a business decision, as long as you know it's something that's manageable. Or you can be better protected…you still take the high risk clients but you [have] got to have the procedures in place to manage those risks. *[11B4M p.80]*

So the risk control procedures of China's indigenous audit firms are still maturing and catching up with the international firms (Deng, 2011) and the problems that they face are similar to some of the obstacles previously faced by the Big 4 on the path of their

[23] Gong *et al*. (2016) offer evidence (based on information reported by merged firms to the CICPA) of improved efficiencies resulting from mergers.

own earlier international development. How to balance the risks and benefits of taking on both new partner firms, as well as new clients, is crucial as this is what will decide whether the expanded firm could survive the fierce competition for status and be rewarded with a good reputation.

3.2.2 'Document 56'

In 2009, MoF and CICPA, published their most ambitious targets yet for the Chinese profession.[24] The first target aimed to establish a tiered structure of '10-200-7000' firms, of which the largest 10 would be in a superleague of audit firms with multinational operations that could service large complex companies and potentially rival the worldwide international audit firms.[25] Although the government was no longer pursuing Ding's original dream to rival them through merger of the leading firms to create a wholly Chinese 'Big One', Wang Jun, as Vice-Minister of Finance, had already declared:

> 'Arm yourself with international thinking, international strategies and the spirit of international exploration. Aim to become the champion of accountancy who will one day be able to sign and issue audit reports for worldwide enterprises on the New York, London, Tokyo and Hong Kong Stock Exchanges.'[26]

The second target was to extend the service range of audit firms to include various non-audit consulting services (NAS); and the third, to improve the auditing environment (including the adoption of international accounting and auditing standards). Over the next few years there would be further developments in the corporate governance of listed companies; modifications in the nature of regulatory oversight and government influence; and changes in the auditor appointment process including new requirements for audit rotation. LLP status was imposed on audit firms (although in the event the structure finally required was the 'Special General Partnership' (SGP) imposing liability on individually responsible audit partners);[27]

[24] *Several Opinions on Accelerating the Development of China's CPA Industry* http://www.china.com.cn/policy/txt/2009-10/12/content_18686725.htm (*in Chinese*: accessed 29.1.2019)

[25] Cf. Appendix I where the 2011-15 target was: 'Develop 10 world-class firms, at least three [of] which will rank among the world's top 20 firms….'.

[26] From a speech by Wang Jun at the Inaugural Ceremony of the CPA Leadership Training Session, May 20, 2006 (reprinted as Chapter 4 in Wang, 2010).

[27] Wang & Dou (2015) offer some evidence that the increased personal liability of partners under the

and there were measures to further enhance CPAs' professional competence. Meanwhile CSRC held out the 'carrot' of licenses to audit companies listed on China's stock exchanges but only if firms could meet its qualifying criteria. As a result of mergers, the number of audit firms with such licenses for providing securities-related services decreased from 105 in 2002 to 40 in 2014.

3.2.3 Translation and development of IAS and ISA

Before 1978, accounting and financial reporting in China had been mainly designed to assist macro-economic planning and control over productive units. Accounting regulations were promulgated in the form of an 'accounting rule', a centrally determined manual with detailed, rigid journal entry requirements and a prescribed reporting format (Zhou, 1998).

For the development of market-oriented accounting and auditing standards, China had obtained advice from Big 4 firms and international professional bodies, alongside funding from the World Bank, and having moved through various interim stages following the initial issue of Chinese Accounting Standards (CAS) in 1992 (Gillis 2014a: 219; cf. Ezzamel & Xiao, 2015), 'on 15 February 2006, MoF formally announced the issuance of the long awaited revised Accounting Standards for Business Enterprises (ASBE)[28] which comprised a new Basic Standard and 38 Specific ASBEs. These…cover nearly all of the topics…[in] the current International Financial Reporting Standards (IFRS)…and [are] mandatory for listed Chinese enterprises from 1 January 2007. Other Chinese enterprises are also encouraged to apply them. These standards are substantially in line with IFRSs, except for certain modifications which reflect China's unique circumstances and environment' (Deloitte Touche Tohmatsu, 2006).[29] The intention to converge completely with IFRS was announced.[30] In parallel, China achieved full convergence with international auditing standards (ISA) with effect from 2011.[31]

change from limited company to LLP form increased their risk aversion to signing off on more aggressive reported earnings.

28 *qǐyè kuàijìzhǔnzé* [企业会计准则].

29 The remaining differences primarily relate to fair values, treatment of impairments and disclosures of 'related party' transactions (before IASB changed IAS24) and MoF and the Chairman of IASB signed a memorandum on November 8 2005 that, subject to these exceptions, these revised ASBEs are substantially in convergence with IFRS. Cf. Nobes (2019).

30 For the 'Roadmap of continuous convergence between China Accounting Standards and IFRS' (*available in Chinese only*) see KPMG (2011).

31

With the appointment from 2007 of a Chinese board member of IASB (and other international appointments—see Appendix II) China has begun to have reciprocal influence over IFRS and other international standards that will take account of China's own situation (Upson, n.d.; Macve, 2014). As a leading UK regulator commented:

> I mean it's been very striking, and actually quite impressive, the way that Chinese representatives on the international bodies have embraced their involvement with the international bodies, and the quality of their participation. *[4RGL pp.2-3]*

3.2.4 NAS

A major aspect of the worldwide growth of the Big 4 and other international networks has been the extension of their activity beyond auditing to offering a wide range of professional services, particularly management consulting services (including taxation and IT services) (e.g. Barrett & Hinings, 2015) and so becoming IPSFs. In the Chinese context CICPA included encouragement in Document 56 of 2009 for the Chinese firms to grow in this direction too in order to compete domestically and internationally, which is likely to increasingly raise issues such as how far its regulatory control should extend beyond the core auditing activity and potentially similar issues about maintaining audit independence to those that have increasingly been debated in the US and Europe (e.g. Zeff, 2003; Gwilliam, *et al*., 2014). (This is discussed further in Section 5.1(6).)

3.3 Stage 3: 'Localization' to turn the 'foreign competitors' into 'Chinese' firms

In 2012 the initial arrangements—whereby to sign audit reports in mainland China the Big 4 firms had to form a joint venture (JV) with a Chinese auditing firm, that was normally still affiliated to a government ministry or a university (e.g. Aiken *et al*., 1997)—expired. The Government now allowed the Big 4 firms to continue practising on condition that they 'localized' more rapidly than they had been planning to do themselves. While the firms argued that the localization trend would continue 'automatically' as it is driven by market forces (as in other areas of the world) they wanted it to follow the natural timescale it takes for people to become experienced enough to be trusted with the most senior positions. But CICPA and MoF wished to accelerate the change, in order that all partners who sign off on Chinese company

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https://www.ifac.org/news-events/2010-11/chinese-auditing-standards-board-and-international-auditing-and-assurance-standa (accessed 29.1.2019) audits are subject to CICPA regulation and discipline, and for this purpose—given the continuing maintenance of ‘one country, two systems’[32] for at least 50 years (i.e. until at least 2047)—those partners originating from Hong Kong who have only the HKICPA qualification do not yet count as indigenous Chinese CPAs.

In the 2012 MoF announcements, the ‘localization’ conditions required that by December 31, 2017 the firms could only have up to 20% ‘foreign partners’, i.e. with overseas qualifications but not the CICPA qualification, with at least ten years of experience, and with at least five years experience in China. The management committee could not have more than 20% ‘foreigners’ without the CICPA qualification and after 2015 the chairman/managing partner must be a Chinese national and a Chinese CPA.[33]

The argument over the speed of change is at one level an argument about the balance between ‘explicit knowledge’ (obtainable through examinations, studying IFRS etc.) and ‘tacit knowledge’ (knowing how to judge the appropriate application of explicit knowledge in differing and changing circumstances, which requires the ‘wisdom’ of experience) (e.g. Faulconbridge, 2015: 428-9). But the MoF also see it as a political issue of professional status and this guideline demonstrates its resolute promotion of CICPA’s qualification.

Existing partners who currently only have overseas certificates could remain in their post after the transition if they gain CICPA’s qualification. Many such partners, including the managing partners, came from Hong Kong, and the current exemption policy between HKICPA and CICPA, since December 2010, has made it much easier for both sides’ members to get the other’s qualification.[34] But the examination requirements remain a barrier to the older generation who are familiar with English and (mainly spoken) Cantonese and not with writing in the simplified characters used on the mainland for writing in Mandarin.[35]

As our top-level CICPA interviewee commented (in 2011):

> Not only today but in the future we need resources from Big 4 but I’m sure that local partners of Big 4 are ready to run the Big 4 in China. *[9PBM, p.9]*

Would this also help the more locally based firms, e.g. those in the 2nd-tier networks,

32 *yī guó liǎng zhì* [一国两制] http://www.info.gov.hk/info/sar5/e12.htm (accessed 29.1.2019).
33 MoF May 2nd 2012 Document #8: (财会[2012] 8 号) [*in Chinese*]
34 22.12.2010 [*in Chinese*]: http://news.xinhuanet.com/society/2010-12/22/c_13660384.htpm (accessed 14th May 2012).
35 Also all audit working papers have to be kept in (Mandarin) Chinese to facilitate regulatory inspections (Gillis, 2014a:147; confirmed in interview by *25B4M*).

to break the mould? One view from London (in 2011) was:

> [T]he fact that the JV arrangements, which are coming to an end, a lot of the mid-tier firms believe it's an opportunity. I'm a bit more cynical about that because I don't underestimate the Big 4. One thing they've been doing and boy, do we feel it, is they've been sucking up local talent, so that in the JV, all that's going to happen to them is they won't be a JV anymore. They'll be an indigenous firm, called [one of the Big 4] and they'll be full of indigenous experienced, trained accountants, here to improve their core system. *[32TL p4]*

Big 4 firms in China had seen the problem differently, fearing adverse consequences from over-hasty changes at the top. As a senior (mainland Chinese) partner interviewed in 2011 commented:

> Maybe I'm an old person. I'm not really fast. I don't trust the fast growing. I think everything - they have their own natural pace; you have to nurture them. You cannot just turn them around overnight. If you do that, it only just make a damage of---So, I think the localization is a trend but definitely you cannot just push, especially a push by the government, because they don't run the firm. They don't know all of the operations. They start to attack Big 4 saying they should be local. I think -- my belief -- I believe that the localization is not how many local firms you make, [or] you make them big; actually the quality is more important--in order to do that, you have to have a healthy environment, have a regulated or fair, competitive environment to maintain or retain those talented people to stay in this industry… So, then that's what I see in the Big 4 accounting firms. So, I think the localization, it's a trend; eventually we'll get there, but just how long? But now we have the foreseeable target and so any disturbance will just jeopardize the progress. *[11B4M p.22-5]*

Interviewed again in 2014, with a very senior and high-ranking colleague (also mainland Chinese) from outside the firm, and while recognising that MoF had helped smooth away many of the practical difficulties in the transition to the new SGP structure, and that the extra examination requirements for Hong Kong CPAs to obtain the CICPA qualification had been reduced, they remained concerned about the acceleration of the localization.

> [I]n China, the major - if you say the people are now senior or with management experience, it's not really the technical things; it's more, like, experience…So, if you bring them up to the - you expect those people - junior partner have an international view, it's pretty hard - because in the past 20 years, we were so focused on the [technical work] - had so many IPOs - so there's really just a focus on the project.
> I think in the next few years, those people will grow into the management. But still, that's the problem. If you look at us before - now the senior partners are local now. And even by next year, I would think that senior partner is still by title only.
> (Colleague: The Chinese citizen who may have the senior partner title, but not really function as…The transition should be longer than that.) *[25B4M with 24IBM, p. 18]*

So even if the audit firm itself is 'localized' there may be a firm above that in the international structure with a board or managing committee where Chinese CPAs still do not predominate (Gillis 2014b).

3.4 Implications of the historical development of the Chinese profession: What is a 'Chinese' firm and what is a 'foreign' firm?

Given the interactions between the auditing firms and the initiatives by the Chinese government (primarily enacted though MoF, CICPA and CSRC) that have been traced in this section, a major problem in the institutional analysis is how to distinguish a 'Chinese' from a 'foreign' firm. Moreover the ways in which the Big 4, rhetorically cast as 'foreign' firms, have recently had to accelerate the 'localization' of their firms—alongside the Chinese government's own drive for enhancing the homegrown firms' reputation as they adopt international accounting and auditing standards—further problematize any clear notion of what is now to be regarded as a 'local' Chinese firm. The categorisation is further complicated by the growth of the 2nd-tier international networks whose Chinese member firms are not regarded by the government as 'foreign'.[36]

However the embedded perceptions of which are 'foreign' and which are 'local' firms are still powerful in the political rhetoric as well as in the market discourses, both in China and internationally, and are still reflected in academic analyses such as those of Chan and Lau (2008), Gillis (2014a) and Samsonova-Taddei and Humphrey (2014), while most of the academic literature also continues to dichotomise the worldwide profession into the Big 4 and 'the rest'. Breaking down these stereotypes is consistent with Cooper *et al*. (1998) and Barrett *et al*. (2005) but to these must be added the focus on how this has played out specifically in China, which could be particularly significant given its potential worldwide impact.

With the aim of limiting potential legal liability the websites of all categories of firms emphasise that their firms in individual countries are 'independent'. But the extent of the actual differences in the degree of operational and management integration between, at one end of the spectrum, the Big 4 firms who promote their international brands[37] and, at the other end, stand-alone firms like ShineWing (but which belongs to the network Praxity)[38] is hard to pin down (e.g. Boussebaa & Morgan, 2015).

There are differing perceptions among Chinese professionals themselves of what being an 'independent' firm means. A partner in a leading stand-alone firm commented:

[36] This latter aspect is only briefly considered in Gillis, 2014a (pp.211-3; 292; 297-8).
[37] And there are also differences between individual Big 4 firms (e.g. Stuttard, 2009).
[38] Praxity is an international alliance which primarily assists cross-referrals of work between its independent member firms. They keep their own names but membership is subject to Praxity's quality criteria. https://www.praxity.com/about/overview/ (accessed 26.9.2019).

> We insist upon on our own will. We do not want to join BDO and Praxity, and we are our own brand. We insist upon on own brand. It had to be a Chinese firm. We are dominant. If we take on some network or new organization, we prefer to be dominant….keep control. [*22IFM, p.7*]

By contrast, a partner in a 2nd-tier audit network commented:

> So, the Big Four, they have a consistent system across all the world. But for BDO's relationship in China with *lìxìn*, *lìxìn* is totally independent from BDO.[39] [*26TM, p.3*]

Some confusion also persists about the criteria that the Chinese government itself uses to differentiate 'local' firms from 'foreign' firms. Formally now the crucial test is whether the partners hold the CICPA's qualification. But despite their increased localization since 2012 (see section 3.3 above) the perception has remained that the Big 4 are 'foreign' firms and the rhetoric about the Big 4 not being 'local' is hard to change. A senior Chinese professor commented:

> The market will do it. It will do it naturally—evolve to that situation. It is time—really a matter of time, right. I said if the accounting firms have high quality control, risk control all the management is like the international one, but they were local people, what's the difference between the international firm and local firm, right, but it is strange. The Ministry of Finance think that Big Four—those giants—they want to dominate the Chinese market and we should not let them to do that. I said, if later five, ten years later—all the local [people] promoted to the partner level, right, it's a local firm. But they are also following international standards. That's what you want to do, actually, internationalize, right…
> The Ministry of Finance says [that the firms in the 2nd-tier networks are] a member firm…The Big Four's not member firm because you dominate. See, they try to do something to restrict the Big Four from developing too big too fast. It's become a policy of the Ministry of Finance…*It's difficult for those people—Ministry of Finance people—to change. I talked many times to them.* That's—you want to have Chinese accounting firms internationalized. This is the way they help you to go to international, right. They said, 'No. That's the big international firm not our firm.' *[16JSM p.10-11]* (our *emphasis* added)

At least as perceived through Western eyes (e.g. Stuttard, 2009)—although a lot of younger Chinese would not agree—wariness of and even contempt for foreign influences remain as a residue of the history of various humiliations China suffered from Western powers and Japan from the mid-19th century until the founding of the PRC in 1949 (e.g. Bickers, 2017). The modern need to rely on access to Western technology and expertise to rebuild the economy has had to overcome an inherited psychological resistance, but as lagging behind the West had left China having to deal with massive and extreme poverty, Deng Xiaoping saw the 1978 'reform and opening up' as a clear imperative, provided this could be achieved while preserving essential 'Chinese characteristics' (see Section 4.1 below).

So in trying to define what is a 'Chinese' firm, ultimately one is left with simply problematizing the prevailing rhetorical stereotypes. One can focus on the (shifting)

[39] See Appendix III for BDO's branding in China.

nationalities and professional qualifications of the firms' staff and executives / partners but perhaps even more important is their culture (discussed further in Section 4).

The more ‘Westernized’ Hong Kong based CPA firms are another factor in this equation: Chinese mainland companies listed on the main London Stock Exchange include for example Air China and Zhejiang Expressway Company, both audited by Deloitte’s Hong Kong firm; US listed companies include for example Alibaba, audited by PwC’s Hong Kong firm.[40]

As seen from London:

> I think they are very different ball parks, but I do think they are a bridge. They do form the middle part of the bridge, particularly between China and London. Very rarely, do we go straight into Beijing without some discussion with the Hong Kong office. They’ve got that much more experience, and they are local (*sic*). [*52TL, p.28*]

The practical effect of the rhetoric about ‘foreign’ and ‘local’ is that the MoF / CICPA’s strategy to promote the national and international status of ‘Chinese’ as opposed to ‘foreign’ firms is focussed on boosting the position of the 2nd-tier network firms and the leading standalone firms (see Appendix III). So far these have secured dominant roles in attracting clients in the domestic market and in domestic IPOs (see Tables II.1, II.3 and II.5). But the strategy is complicated by the continuing preference of CSRC that the Big 4 firms should audit China’s giant internationally cross-listed SOEs (cf. Tables II.2 and II.4).

*****Insert Tables II:1-5 about here*******

3.5 Summary

Following the three stages of development and the government’s shifting and partly conflicting direction of it, as outlined above, the current pattern at the top of the Chinese profession reflects the interrelated roles of the Big 4 (recently ‘localized’), the 2nd-tier international networks that have embraced major domestic firms, and the leading stand-alone firms (see Appendix III). In this scenario the conventional stereotyping of ‘foreign’ vs ‘local’ firms now lacks substantive analytical content but instead reflects continuing political rhetoric, also reflected in conventional academic categorisation of firms as ‘Big4/other’. In the Chinese case one needs to look behind

[40] cf. http://www.chinaaccountingblog.com/weblog/who-audits-alibaba.html (accessed 17.09.18).

the labels and see how all leading firms incorporate and meld both ‘foreign’ and ‘local’ characteristics in a spectrum of degrees of ‘glocalization’,[41] but with differing political and market consequences.

Given this section’s outline of the history (see Figure 1), the next section discusses certain key aspects of the background cultural and institutional context of the development of the profession in China and of the roles played by the international firms, that help to interpret both the history and the current situation (which will be analysed further in Section 5).

4. Aspects of the cultural context of the development of China’s auditing profession

This section highlights some key features of Chinese culture and institutional background that have underpinned the development of its audit firms and are also reflected in other major aspects of its ‘socialist market economy with Chinese characteristics’. While the concept of ‘culture’ is debated (e.g. does it refer to national or ethnic characteristics?—Hofstede, 2003; Baskerville, 2003; how is its history related to institutional history or is it a just shorthand for the effects of an array of distinguishing institutions?—e.g. Alesina and Giuliano, 2015; cf. Brandt *et al.*, 2014; Feuchtwang and Steinmüller, 2017), the focus here is on aspects that are widely argued to be distinctive influences defining mainland Chinese economic, social and political behaviour and therefore also underlie the shaping of the Chinese auditing profession with consequential effects on market and regulatory interactions.

For example, traditionally-minded Chinese auditors do not believe in ‘perfect systems’ and prefer to focus their work on contact with and understanding of their clients’ senior executives. Western-style auditing primarily relies on confirming and documenting how a sound institutional mechanism has been built up and on verifying written ‘audit trails’ (of systems, minutes, contracts, transactions etc.). In practice both aspects are important but one should recognise that there is a very different cultural emphasis behind the two basic approaches to auditing.

A senior UK based auditor with considerable experience of working in China commented on some of these cultural differences in the following terms:

[41] Defined in 1997 by Roland Robertson as "the simultaneity—the co-presence—of both universalizing and particularizing tendencies."

> … the ways they do audits are quite different from the ways we do them. And I don't make that as a criticism. I think there are legitimate reasons why you would take a different approach to auditing in China from here. You would tend to do larger samples, more tick and bash, less reliance on controls, less reliance on analytics. And I think there are reasons why that's actually sensible.
>
> You seek different forms of evidence. Some of the hierarchies you have here about 'written evidence is better than oral evidence'—I'm not sure all that's true in China. Actually, people sign any old rubbish and give it to you, as confirmation. It's not—whereas if you talk to somebody and get to know them, the evidence can be quite strong.
>
> So, there are all sorts of differences, I think, between auditing there and auditing here. *[12TL, pp.39ff.]*

So the meaning on the ground of 'convergence with international auditing standards' is problematic and depends on the cultural and social context (e.g. Mennicken, 2008; 2010; Samsonova-Taddei, 2013).

4.1 'Chinese characteristics'

China exhibits a strong form of centralized top down control of the profession, as of other arenas of economic and social organization, with government initiatives alongside market forces driving change. However, the State does not only act through the MoF which oversees the CICPA (e.g. Zhu & Gao, 2009) (see Appendix II). As noted in Section 3.4, CSRC also plays a dominant role over audit firms albeit pursuing a rather different agenda focussed on its regulation of the Chinese stock exchanges, together with a policy that those state-owned enterprises (SOE) that are giant financial institutions with overseas listings should continue to have Big 4 auditors for their own international credibility.[42] Both MoF and CSRC, in addition to CICPA, conduct inspections of audit firms. These direct government connections, while hard to measure, are much stronger than conveyed in Samsonova-Taddei & Humphrey's (2014: 918-19; 922; 924) discussion of China in their analysis of the continuing power and influence of professional bodies of accountants and auditors vis-à-vis the firms (cf. Cooper & Robson, 2006).[43]

There has recently been a restrengthening of Government emphasis on building

[42] Three of China's state-owned banks, cross-listed in Hong Kong and including US investment banks as shareholders, are the top three in the latest Forbes list of the top-ten largest companies in the world. They have been audited by the Hong Kong offices of Big 4 firms. https://www.forbes.com/sites/steveschaefer/2016/05/25/the-worlds-largest-companies-2016/#6bdb5caf45a6 (accessed 30 August 2017).

[43] The portrayals in Aiken *et al*. (1997); Hao (1999); Ezzamel *et al*. (2007); Wang (2010); Yee (2012) [dealing with changes in 1995]; and Ezzamel & Xiao (2015) [dealing with changes between 1985-2000] also highlight the role of the State in Chinese accounting and audit regulation at those stages. More recently, Spence *et al*. (2019) do from the perspective of Bourdieu's theorisation of differing forms of 'capital'.

‘socialism with Chinese characteristics for a new era’,[44] by combining ‘market autonomy and technoscientific administrative regulation’ under the continuing direction of the CPC’s political ideology (Sigley, 2006: 495), and on opposition to certain ‘Western values’.[45]

With respect to accounting reforms, while Ezzamel & Xiao (2015) argue that by 2000 the term ‘Chinese characteristics’ had weakened to just referring to Chinese ‘national circumstances’ (*guóqíng* [国情]), the example of the change that China achieved in influencing one of its key international arenas through the November 2009 revision of IAS 24 *Related Party Disclosures* to partially exempt its SOEs (Ramanna, 2013) illustrates how the terms still overlap. At one level the revision was simply a pragmatic recognition of the impracticality of attempting to document and publicly disclose all transactions between SOEs in China’s unique ‘national circumstances’ and was necessary if China was to be able to converge with IFRS. But those ‘circumstances’ are not exogenous: the continuance of the economic significance of the SOEs endogenously reflects the deeper ‘Chinese characteristics’ of its unique ‘socialist market economy’.

One must see China’s claimed convergence with international accounting and auditing standards—driven by MoF and CICPA—as more than just a technical choice for reform and improvement consistent with Deng Xiaoping’s embrace of the ‘laws of economics’ (Gewirtz, 2017). It is equally a political statement in relation to the leading international status China perceives for itself (Reich & Lebow, 2014; Hughes, 2016)—a perception embedded in its history and culture (e.g. Bickers, 2017) and expressed in its name *zhōngguó* [中国]: literally ‘the central country’.

In a comparable manner to glocalization elsewhere, the rhetorical role of ‘Chinese characteristics’ may now be seen as continuing to mark an ever shifting boundary between what is perceived in China as ‘Western’ as distinct from what must be

[44] The title of President Xi Jinping’s ‘Thought’ (新时代中国特色社会主义思想 [*xīn shídài zhòngguó tèsè shèhuìzhǔyì*]) that is now part of the CPC constitution.

[45] Since coming to power in 2012, President Xi Jinping (known to his people as ‘Xí Dàdà’ [习大大] (‘Uncle Xi’)), has been encouraging a refocus on Confucian values to underpin China’s economic development path and mitigate some of its adverse consequences (e.g. *China Daily*, 18 April 2015, p4) alongside a renewed emphasis on the country’s and the CPC’s founding Marxism-Leninism and Mao Zedong Thought to achieve ‘the China Dream’ (e.g. https://www.nytimes.com/2018/02/26/world/asia/xi-jinping-thought-explained-a-new-ideology-for-a-new-era.html; https://www.scmp.com/news/china/article/1695524/chinese-universities-instructed-ban-textbooks-promote-western-values (both accessed 19 June 2019)).

maintained as distinctively 'Chinese'.[46]

4.2 guānxì

There is an emerging literature attempting to explain the significance of *guānxì* [关系] in China, which is hard to translate but refers to the social nexus of personal and business relationships that usually result in building up mutual reciprocal obligations (e.g. Wong, 2014). Building such social capital with business and government contacts is seen as a vital precondition to building reputational ('symbolic') and economic capital (e.g. Bourdieu and Wacquant, 1992) and has been captured in the label 'relationships are the law' (Osburg, 2013: Chapter 3). Because there may be no written evidence of agreements / understandings, the mutual obligations that are built up may not fit into Western definitions of 'related parties' and 'related party transactions', and because they are long-lasting but often non-specific they cannot be conventionally measured as accounting's 'assets' and 'liabilities' (e.g. Upson, n.d.).

A senior UK based auditor with considerable experience of working in China commented on some of the visible cultural differences of this Chinese characteristic in the following terms:

> I'm not really saying there's anything wrong with what is going on in China, it's just perceived by the West as not necessarily being how they would do it because in China, legal form means less than *guānxì*. So there's always a misunderstanding by Western auditors whenever it's a Chinese company, that there's something dodgy going on, or there's transaction flow with no evidence, or so and so has agreed with so and so to do that. It's not every day: but you need to appreciate that and understand it. You need to find an alternative procedure to gain comfort. It is an inherent issue for Western style audits…
>
> You need to really understand it, really understand what's going on. Let me give you one example. What is very, very common in China is where the government will give or sell a piece of land to a company to attract them to go there. And then instruct builders to build the complex. Something that happens very often in China is for tax reasons the bills are invoiced very, very late. Sometimes when you do audits, you've got the cost of the building, where half of it's accrued but it hasn't been invoiced yet, and it's a very common thing in China. Sometimes there might be a construction agreement, so you've got something to tick off, but otherwise, all you know is there's a building there. But you haven't got any invoices to prove it…
>
> You know they've got to pay something, so how do you get audit comfort on the accrual? And it's very, very common that you can't see it—you can see the issue. *[32TL pp25-6]*

So there may be further consequences for the practical substance of the convergence of Chinese and international accounting and auditing standards. However, the major analytical problem remains of identifying how far *guānxì* creates relationships in China that have a more powerful hidden influence than similar social bonds that

[46] They may be seen as playing the role of a 'boundary object' (e.g. Star, 2010; Clarke, 2010)—objects whose definitions change along with shifts in their linked ecologies.

prevail in Western societies (cf. Samsonova-Taddei, 2013).[47] Moreover, as markets extend wider and wider, with relationships based less and less on personal acquaintance, the need for more formal and specific contractual agreements is strengthening in China too, as it has in the West. This is an area for continuing comparative research.

[47] Du *et al*. (2015) explore in a laboratory experiment how *guānxì* might influence a Chinese auditor's reaction to earnings management where the stock-exchange rule that '3 years' losses' leads to automatic delisting would bite. However, they do not control for how far comparable connections might influence auditors in other countries in comparable situations, *mutatis mutandis*.

4.3 Control

The traditional structure of Chinese businesses, including Chinese auditing firms, also reflects the control characteristics of Chinese society, which remain as a legacy from the Mao era that goes back to the Emperors (Brandt *et al.*, 2014).[48] A senior Western interviewee with substantial experience of working there as managing partner of a Big 4 firm commented on the fundamental importance of understanding this aspect of China:

> And this goes back to something right at the heart of Chinese society. They wanted to control the control function. Now auditing is a sort of part of the control function…It's another control mechanism of business and of financial reporting. Now if you add onto that the extra dimension of China being a control society, where control is like a sixth sense...somebody has to control it. And you should think of Chinese society in that light…because auditing is part—was an integral part of the Chinese economy, which the Chinese government would not permit to be handled by a foreigner...I think it's important to make this control point because it influences the way that all Chinese governments think, and it is something very historical that they're reluctant to delegate authority to a subsidiary body, and then leave that subsidiary body completely free to do what it wants to do because they…have this in-built sense that we must control our destiny. And this comes out of Chinese history…But long Chinese history: if you lose control, then you're finished…You have to, I think, always bear this concept in mind. *[20B4L pp.11-12]*[49]

Correspondingly the nature of Chinese audit regulation is primarily the 'command and control' type of government regulation and it is not yet clear whether China will want or be able to move towards the 'enforced self-regulation' model that has become increasingly common in the West, based on the internalization by the regulated of the spirit and objective of the rules more than on compliance with their formal requirements (e.g. Ayres & Braithwaite, 1992), to allow more flexible responses aligned to market and other pressures 'on the ground'. Interviewees commented on the current burden on audit firms of being subject to overlapping inspections by CICPA, MoF and CSRC, albeit with some perception that the last is more effectively focussed on outcomes while the others are more focussed on procedural compliance (which may reflect the legacy of their inheritance from government auditing, e.g.

[48] MoF warnings about potential government influence over auditors were set out in Document 56 (see Section 4.2.2). Government control still extends not just over the press and media but, *inter alia*, into family life (e.g. the 'one-child policy'—now 'two-child policy'), religious practice, allocation of university places, political education, residence status and related social and welfare benefits (the *hùkǒu* [户口] system), and the developing 'social credit' system for scoring all individuals https://www.wired.co.uk/article/china-social-credit-system-explained [accessed 4.6.19]. See e.g Feuchtwang & Steinmüller (2017).

[49] An anonymous referee has helpfully pointed out that the government's instinctive emphasis on maintaining control can help explain why, despite localization, the Big 4 are still regarded as subject to 'foreign' control whereas the firms in the 2nd-tier networks and the stand-alone firms are seen as more independent and 'Chinese' and correspondingly as also remaining more malleable to government direction.

Aiken *et al.*, 1997).[50] A senior Chinese Big 4 partner commented:

> How many regulations is sufficient? How many regulations is efficient? That's the government's job to judge what's the degree, but for the regulators to our business---if we [self]regulate---I would rather they regulate the environment, not regulated our regulations. [*11B4M*, pp.39-42]

This 'top-down' control mentality is reflected at the audit firm level. While there are tensions in all 'global' IPSFs between federal 'integration' and 'independence' (Boussebaa & Morgan, 2015), and understanding of how 'leadership' operates in professional service firms is still relatively undeveloped in the literature (e.g. Empson & Langley, 2015), our interviewees commented that Chinese firms have traditionally had a 'big boss', who culturally inherits the role of a Confucian father figure (e.g. Feuchtwang and Steinmüller, 2017), so that adapting to a leadership model where the managing partner traditionally has a more collegial role (despite IPSFs adopting increasingly corporate structures—Suddaby & Muzio, 2015) may, at the least, take time (e.g. Gillis, 2014b, p.69; cf. Cheng *et al.*, 2004). This has been a constraint on effective mergers of firms and a Chinese senior partner commented that in his view one of the greatest risks for the future 'is whether the Chinese firms can finally find the core concept of the partnership model' *[262TM]*—i.e. he feared they would not.

Such differences imply that the simplified categories normally used to describe the auditing field (big versus small firms, international versus local) are flawed. There is a need for new categories and to draw attention to more different aspects than just size, including management and regulatory styles (see also Samsonova-Taddei, 2013). As Chinese firms continue to outgrow the Western firms in their linked international networks there will be a need to research how this far this has consequences for those networks' organizational structures.

4.4 Summary

The enduring 'Chinese characteristics' of the 'socialist market economy' include not only continuing government control of its SOEs (even where listed), but a pervasive control mentality that shapes the nature of regulation (in which the judicial structure plays only a subsidiary role) as well as the management style of both companies and audit firms. While there is an obsession with gaining professional reputation through

[50] For example all audit adjustments to the accounts as well as items left unadjusted have to be reported to CICPA *[9PBM p.22],* a practice which this interviewee regarded as a pointless attempt at micro-control. This would merit further research.

highly visible exam qualifications,[51] there is an underlying culture of business relationships, under the umbrella label of *guānxì*, that remains in many respects mysterious to Western eyes.

Suddaby *et al.* (2007) have seen recent decades of changes in professional services firms—and in particular accounting firms—and their regulation as characterised by 'shifting governance: from local monopoly to global cartel'(p. 337). But while this pattern identifies major changes that have emerged from the West[52] it is necessary to explore how closely this pattern fits a China whose 'socialist market economy with Chinese characteristics' remains outside the neoliberal 'Washington consensus' version of capitalism. Its biggest companies and financial institutions, although partly listed domestically and overseas, are still state controlled; and bank finance (in turn primarily supplied by the giant state controlled banks) has been more important than stockmarket finance (Allen *et al.* 2008)—with private finance by entrepreneurs and from their families and contacts having been even more significant.

Against this background to an understanding of Chinese institutions, and how their characteristics and linkages have been interactively changing both nationally and internationally (e.g. Lounsbury, 2008), one can ask how 'existing work on the transnational regulation of accounting [may be combined] with a contemporaneous understanding of the forces for regulatory and professional change, and insight into the roles that various actors have assumed historically and will likely play going forward…[given their multiple] agendas and strategies of influence' (Gillis *et al.* 2014: 894). It remains to be seen what the global outcome will be as the two economic and social 'tectonic plates' of China and the West increasingly collide and whether they will follow a path of productive collaboration or destructive competition (e.g. Suddaby and Muzio, 2015).

This section has highlighted how understanding important aspects of the cultural context in China further emphasises the need not to categorize its auditing firms as

[51] '[The CICPA exam] has always been very tough a qualification to obtain. You nearly need to die to get it…It has become more robust over the years, and however tough the exam is, it doesn't bother the Chinese because they're used to it. And however many qualifications there are, the Chinese will pursue them, so you see a lot of Chinese accountants, having not only CPA, but also ACA, also ACCA, also Australian CPA—whichever country is clever enough to promote their qualification or program, the Chinese will pursue them.' *[22TL, p.21]*

[52] However Quack & Schüßler (2015) contest the universality of this analysis; and Samsonova-Taddei & Humphrey (2015) comment on how the firms failed to secure an EU-wide resolution on the issue of auditor liability and 'the residing significance of the authority of the nation state in the European audit policy context'.

simply 'the foreign Big 4 and the domestic rest' but to understand the spectrum of types of firms and in particular the strategic role of the homegrown firms in the 2nd-tier international networks, together with some large stand-alone mainland firms, in the government's plans, now that they have shifted from building a 'Big One' to the multi-layered strategy of Document 56. In building up the Chinese profession's reputation domestically and internationally, and given the government's rhetoric about what firms are still regarded as 'foreign', the Hong Kong based firms are another element in this complex mix. All of them to a greater or lesser extent reflect 'Chinese characteristics', including the influence of *guānxì* and the 'control' mentality of organization, but also reflect the trends to glocalization, where they, alongside the government, can increasingly be seen to be both influenced by and influencing the international strategies of audit firms as IPSFs, together with the international standard setting and regulatory bodies such as IASB and PCAOB.

Given this background to the pattern of recent developments, the next section attempts to draw out interviewees' varied perceptions of the current position of China's auditing profession domestically and internationally and of its potential for the future.

This opens up a number of potential research avenues, as will be suggested in Section 6.1.

5. Challenges and opportunities facing audit firms in China

This section aims to bring out how the key recent changes within the rapidly recreated Chinese profession and related institutions are seen, by our interviewees and others, to have established the present patterns of firms' relative market strength—illustrated in Tables II:1-5—with potential consequences for the wider and ongoing changes in the global profession (e.g. Zeff, 2003; Empson *et al*., 2015).

5.1 Enhancement of the professional reputation of the non-Big 4 firms

China joined the WTO in 2001 and accession increased 'Westernizing' pressures (Arnold, 2005) and opened the door to greatly increased FDI[53] and to the rapid growth of China's own capital markets. On the Shanghai and Shenzhen stock

[53] FDI was originally into China but has increasingly been offset by outward flows as China expands investments overseas (Reich & Lebow, 2014, Chapter 4) see e.g. http://unctad.org/Sections/dite_fdistat/docs/webdiaeia2014d3_CHN.pdf (accessed 12.11.14).

exchanges domestic IPOs of SOEs and private companies have increasingly been handled by non-Big 4 firms (Al-Natour *et al*., 2017)—see Table II: 4-5.[54] Other Chinese companies, particularly giant SOEs, were obtaining listings, not only in Hong Kong (Hung *et al*., 2012), but more significantly abroad. In particular US listings (requiring expertise *inter alia* in US GAAP and SEC regulations) have constituted 'the most significant factor in the growth of the [Big 4] firms in China and an important factor that led to their domination (*sic*) of the accounting profession' (Gillis, 2014a: 115).

> I mean…the shareholding is more than just a case of raising capital. The listed State Owned Enterprises don't need the money, it's listing status. It's a badge: I'm listed in the US; I'm listed in London. *[32TL p.28]*

As emphasis has now swung more to facilitating Hong Kong and domestic listings, and given tensions between China and the PCAOB over audit inspections,[55] so the opportunities for non-Big 4 firms have increased.

The SSE and Hong Kong exchanges are also increasing their international presence. The flotation of high-technology companies, such as Alibaba's massive flotation in the US in 2014, brought out several difficulties with the required procedures for gaining listing in Shanghai or Hong Kong, and for attracting overseas finance.[56] The Hong Kong Exchange has been consulting on proposals to attract companies from such new economy sectors.[57] With the advent of the 'H-share' licenses in 2011 (see Appendix III) and potential greater internationalization of SSE, this in turn could also open up new incentives for China's non-Big 4 audit firms, that have so far been restricted to the much smaller domestic IPOs, to compete to acquire extremely large domestic clients that are currently listing overseas and thereby build a reputation that could lead to acting additionally for foreign listed companies too.[58]

[54] A preference confirmed in conversation with a representative of the investment banking arm of a securities firm specialising in domestic IPOs.
[55] There have been stand-offs between the US PCAOB and the international firms over demands for inspection of audit working papers relating to US listed companies which it has been argued would breach China's 'state secrets' laws: https://pcaobus.org/International/Inspections/pages/issuerclientswithoutaccess.aspx (accessed 16.9.2018). The Hong Kong FRC is in continuing negotiation with MoF over access to audit working papers in the mainland (Annual Report 2017, pp. 11, 57)
[56] Apparently Hong Kong's rules on ownership structure had prevented Alibaba's listing there: http://www.scmp.com/business/companies/article/1341457/jack-ma-hints-continued-interest-hong-kong-listing-alibaba (accessed 31.5.2015) but it has now made a secondary IPO there: https://fortune.com/2019/11/26/markets-alibaba-ipo-hong-kong/ (accessed 21.1.20).
[57] http://www.hkex.com.hk/eng/newsconsul/hkexnews/2017/170616news.htm (accessed 1.10.2017).
[58] Opportunities for investors in mainland China and in Hong Kong to invest in each others' stocks

The government had not only been strongly encouraging mergers of audit firms since 2000 to enhance their professional strength and market position (see section 4.2.1 above; cf. DeFond *et al*., 2000) but in December 2007 nine ministries and other top-level agencies of the State Council together announced several 'opinions' on support for audit firms' international expansion, encouraging them to go abroad, to set up international networks, and to establish their own international brands.[59]

It seems too early to say how the enforced localization of the Big 4 will affect perceptions of their strength relative to that of the other firms now that they are all formally 'Chinese'. On the one hand, even if the Big 4 retain the advantage of their brand they still do not match the government's own vision to see a recognizably 'Chinese' firm among the world leaders. On the other, if the localization has been too rapid, their reputation for quality may be tarnished. Either way this suggests that the government strategy will remain focussed on positioning the firms in the 2nd-tier networks and leading stand-alone firms to become not just domestically but also 'internationally' recognised.

The government has also been encouraging the large SOEs that it administers through the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) to favour domestic firms (including those in the 2nd-tier international networks) for appointment as auditors since mandatory periodic re-tendering was introduced, allegedly to reduce the risk of state secrets leaking abroad through 'foreign firms' (as the Big 4 are still perceived to be).[60] So far this initiative has had limited success partly due to CSRC still prioritizing its different agenda for the giant financial institutions (that are SOEs with foreign listings), wanting the Big 4 to remain as their auditors to underpin overseas confidence (Gillis, 2014a: 290; 296-7 [confirmed by our interviewees]).

While some of the firms that have joined the 2nd-tier international networks have

through the 'Stock Connect' initiative were jointly announced on April 10 2014, to begin on 17 November 2014 (http://www.chinadaily.com.cn/business/2014-11/10/content_18891935.htm [accessed 10.11.14]). The first Stock Connect link between SSE and the London Stock Exchange was announced on 14 June 2019 http://www.csrc.gov.cn/pub/csrc_en/newsfacts/release/201906/t20190617_357422.html [accessed 22.06.19).
If the legislation recently proposed by Senator Rubio is passed many Chinese companies may transfer from US listing to Hong Kong (or Shanghai) listing: https://www.chinaaccountingblog.com/weblog/rubio-proposes-to-delist.html (accessed 17.6.19)

[59] Document 507 http://www.law-lib.com/law/law_view.asp?id=247317 (*in Chinese*: accessed 9.6.2015).

[60] Big 4 representatives absolutely deny that any such breach of client confidentiality (and of Chinese law) could occur (e.g. *25B4M, p. 35*).

recently overtaken some of the Big 4 in terms of total revenue for the first time, and the two largest stand-alone firms are not far behind (see Appendix III) it seems unlikely that they have been as successful in gaining revenue from non-audit work or from 'international' work (i.e. from companies listed outside China); or even from 'multinational' work as their clients expand overseas (since it seems more likely that the work would be referred to the relevant countries' firms in each network). Given the size of China's population (about 18% of the world total compared to the US at about 4%)[61] it need be no surprise that domestic work alone can increasingly provide the largest source of revenue (as illustrated in Tables II: 1 and 3.)[62]

But revenue growth within China is not sufficient to create a reputation that matches the current Big 4. As seen from London:

> It will take a long process. You are not going to be able to become credible leading firms only because your revenue gets there. It takes a whole host of criteria – it takes a whole host of things for a firm to be a credible leading firm. *Having said that, China is probably the only economy in the world where this is possible*. *[22TL p.4]* (our *emphasis* added)

From our interviews six of the major factors in the present situation that are seen as likely to influence the outcome have emerged:

(1) firm strength—the non-Big 4 firms do not yet have sufficient capability to audit the giant SOEs, especially those that have overseas listings. So far it is mainly consulting and tax services that some of them can also manage to provide to big SOEs (in line with one strand of the MoF's 2009 'Document 56' strategy).

> One of the things that Wang Jun[63] mentioned is that we need the confidence of the other alliances, networks, to show us that you can resource, that you have the skills, that you have the quality, that you have the people to actually undertake this audit work outside of China. We're confident in China. ShineWing has 2800 people in China, but outside of China, can you really handle auditing Sinopec or whatever it is, and that is now up to all of us [in the 2nd-tier networks]…to actually show the Chinese government that outside of China, we all have the capability to take on the Big Four. [*52TL p.4 (interviewed in 2011)*]

A London Big 4 view was:

> I don't think it's realistic today to expect those Chinese firms to serve clients and provide quality service to clients, where those clients are beyond the scope and capability of those firms. It doesn't matter what the Chinese government's saying. [*6B4L p.3 (interviewed in 2011)*]

(2) reputational legacy and perceived independence. Having started from scratch with only about 40 years of development of the modern CPA industry since the 'opening and

61 http://en.wikipedia.org/wiki/List_of_countries_by_population (accessed 19.6.2019)

62 For the latest CICPA ranking see https://www.chinaaccountingblog.com/weblog/the-big-four-are-back-in.html (accessed 24.6.2019).

63 When Vice-Minister of Finance.

reform' started, only about 25 years since CICPA itself was finally established in 1995, and only about 20 years since audit firms were fully disaffiliated from their sponsoring government units (see Figure 1), the other firms cannot yet compete with the long-established reputations of the Big 4. In a still-emerging economy like China, the fact of being a client of a credible audit firm is much more important than the actual assurance effectiveness that the auditing service could provide, especially as there are few if any reliable measures of differences in assurance effectiveness between the Big 4 and other audit firms (e.g. Faulconbridge, 2015: 446). And in the case of overseas listings the Big 4 are part of the 'international brands' circle of the 'top grade' investment banks, lawyers and other advisers to whom companies around the world turn.

> You know, the Chinese love brands, but the Big Four are…really, the brands. Quite often, the only reason why indigenous firms do well is when the government gives them work. *[32TL p.9]*

Reminiscent perhaps of the handicap of the original government-affiliated background of Chinese indigenous audit firms (and consistent with the pattern of auditor choice found by Wang *et al*., 2008), MoF announced in 2009 (within 'Document 56') that no government department could limit the practices of audit firms or influence their audit opinions. Nothing can be totally transparent with respect to government influences in China but the announcement of this policy in itself suggests that there were still instances of interference from government organs occurring which might result in significant differences both between other countries and China and between some SOEs and non-SOEs in respect of corporate governance and business culture. As seen from London:

> I think the challenge of practicing in China, whether you're lawyers or accountants, is that where the public listed company ends and the state begins, is an incredibly difficult position to establish. And when push comes to shove, and the chips are on the table, it's pretty clear that it doesn't matter which set of CEOs or CFOs you're talking to, they're not completely clear that they're on their own, and that's a very difficult challenge. And it's a difficult challenge for the firms in conducting audit work, for example. *[4RGL p.10-14]*

Correspondingly audit judgements about 'going concern' status are rendered more complex. Again:

> I'm not sure in terms of government influence on audit firms. I think government influence on the SOEs – I mean, it's going to stay there for a long time. How does that then spill into audit – I'm not sure. *[7B4L p.16]*

However, some interviewees suggested that, while central government SOEs and those in the major cities are increasingly concerned to be transparent, the main problems may lie with provincial governments' incentives to promote the success of the SOEs they sponsor in their own region, leading some to apply pressure to show highly successful results (consistent with Chan *et al.*, 2012).

A senior former regulator remained concerned:

> But local government, in many cases it is in this level…Especially the performance assessment for the local government—one thing is how many listed companies you've got….So, that's why they have an incentive...To a certain extent this announcement is quite good just because they want to stop all these wrong ways. But, still, it depends on how to practice…How to undertake these rules seriously in their jurisdictions. If local governments didn't mind[64] the announcement—they didn't get serious on these announcement—they still do their ways…There is a bright future, but there's still a long way you have to go. *[14RGM p.33-36]*

Nevertheless, the foundation of legally independent status of firms since disaffiliation in 1999, together with MoF's 2009 declaration, has paved the way for strengthening their independence in fact as well as in appearance, and for enhancing their reputations.

(3) audit liability. Barret *et al*. (2005) highlight potential litigation risk (alongside increasing commercialization) as a key 'globalizing' driver in constructing the nature of 'local' audit work. In the Chinese situation, domestic legal risks have till now been generally ignored (although potential regulatory penalties can be very serious).

> The thing we worry more about is regulation, than about lawsuit. It's quite different from the UK, or USA. [*22IFM, p.26*][65]

There have also been procedural restrictions on the ability to sue:

> One regulation of the CSRC is very interesting: that if you want to sue the accounting firms [there is] only two years period window…..if you want to sue the accounting firms there is a preliminary procedure before the lawsuit…you have to [make a statement of claim] to the CSRC first. If you fail…you cannot sue. *[16JSM, pp.43-46]*

So seeking greater international exposure will bring the risk of facing much larger liability claims from international investors.[66]

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[64] 'didn't mind' = 'paid no attention to'

[65] CSRC in 2017 twice temporarily banned two 2nd-tier network firms—Ruihua and *lìxìn*—and also imposed a massive fine on ShineWing https://seekingalpha.com/article/4132674-shinewing-faces-huge-fine; cf. https://www.chinaaccountingblog.com/weblog/the-big-four-are-back-in.html (both accessed 17.6.2019).

[66] Chinese firms do now have to carry insurance: *'We now have the liability insurance as well and the price is usually one per cent of our operating revenue.' [262TM, p.24]*. Caution in entering into the Hong Kong audit market (cf. Appendix III) may reflect the much higher litigation risk in its well established international stock market.

(4) interaction with development of clients' corporate governance. China's listed companies (with the support of CSRC) have increasingly adopted forms of corporate governance that are recognised elsewhere, e.g. a two-tier board structure, non-executive directors (NEDs) and audit committees (Jun Lin *et al*., 2008; Yong Kang *et al*., 2008; Cho & Rui, 2009; World Bank, 2009; Zhang, 2016). Together with audit they form the control environment of mutually reinforcing 'gatekeepers' that help strengthen investor confidence (Sunder, 1996; Coffee, 2006) and they thereby enhance the power of the audit itself. But for entrepreneurs who have built up a business by themselves or with the aid of their family, having independent directors etc. is difficult and takes time to adapt to, while SOEs still have elements of government control.

> I think they're catching up, following almost a similar model as what we do in the West, and you will see quite a lot of the particularly publicly listed businesses, or the very large SOEs being a more stringent kind of governance structure. They will have an audit committee—well, arguably, their audit committee will be quite different to a Western audit committee. Their audit committee will have nominated government officials, who sit on it. *[22TL p17ff]*[67]

A former Chief Accountant of the CSRC commented to us on the need for NEDs to challenge management effectively and how CSRC, with input from the Big 4, are organizing training programmes for them. As audit committees must include some accounting expertise it is common—given the high esteem in which Chinese professors are held—to appoint an accounting professor as chairman. While this may help ensure independence he also had doubts about how effective they can be if the rest of the committee is not strong, given their limited experience of actual accounting and business practice.[68]

Again a professor commented:

> In the early years you said professors—famous professors serve on the board—gradually change —now the internal—the audit committees mainly by three kinds of people; one is the accounting professionals—senior accounting professionals or with the accounting experience. One is more experienced—the industry experience mainly by…now gradually change…Now we have less and less academics serve on the board. *[16JSM p.33-34]*

On the other hand the professors who have this role that we have interviewed clearly take very seriously their responsibilities as audit committee chairmen and their roles

[67] Interviewed in 2011. Since October 2013 only those retired officials (who include senior university professors) who meet strictly limited criteria are still allowed to sit on audit committees: http://baike.baidu.com/link?url=-mGfPzRRl8eCKp0oXsW4nZnmiZQrt1hcwQxIQYJ93iidMk_bbrzTQzgLAfQ-JYfYPzkK61M8Rho73IqDl4oG3K [*in Chinese*] (accessed 3.1.2015) (confirmed in July 2014 by *24IBM, p.51*).

[68] *[14RGM p.28-32]*. See also Jun Lin *et al.* (2008) for the situation a decade ago.

in the choice of auditors and in negotiating realistic audit fees—an audit committee chairman commented that fees can be problematic as perception of audit as a valuable service rather than just a regulatory imposition is still far from universal.

> An independent director has little influence in the decision of the remuneration plans of managers. But, they have significant influence on other aspects, such as internal control, information disclosure, transactions between related parties…In these aspects they have a very useful position to play. *[13JSM p.13]*

They are also aware that the financial press is increasingly vigilant. Two comments from those who preferred to remain completely anonymous were:

> I mean, transparency for listed company I think is no problem. Is similar to the western world…this is one of the famous Chinese financial newspapers, the '21st Century Business [Herald]' [*rustling of newspaper*]…One of the papers published here, it all indicates they are doing a fairly good job in monitoring the behaviour of Chinese companies…The newspaper – like this—is always…bad news for this company. Not the good news...Like your FT. *(in 2011)*[69]

And social media are also helping to raise awareness:

> Because of the Internet…and Chinese Twitter plays a great job in media. The government may want to influence media but they can't because of that and recently, information has become more public, more fair. Maybe the company should care [about] the media.

However, it is common to hold multiple NED appointments which may raise concerns over how much attention can be paid to each one and to getting behind the information provided by the executives.[70]

It should also be remembered that while corporate governance may as yet be regarded as 'good' in only a proportion of Chinese listed companies it may also be argued to be still patchy in much of the EU. A Big 4 view from London was:

> I would say, where does it differ from the UK? It's an emerging economy. All of this is very new, so inevitably, I would say corporate governance, quality of audit committees, effectiveness of oversight and so on, is just less mature in China than it is in the UK. I think it's very mature in the UK. I think it's probably the best in the world, in my unobjective, but reasonably experienced opinion. So, it's not a surprise that I would have that view…I could compare it with some mature economies in continental Europe, where perhaps all the building blocks are in place, but the reality of the effectiveness of corporate governance is actually not all that great...And I think in China…there's been rapid progress, I would say, along that way. *[6B4L p.5]*

(5) adoption of IFRS / ISAs. China's homegrown audit firms remain in a somewhat paradoxical situation. Even though formal adoption of international standards allows

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[69] However it was reported in September 2014 that the paper was being investigated for alleged corruption in taking bribes to 'doctor' its reporting on companies. http://www.reuters.com/article/2014/09/25/us-china-corruption-media-idUSKCN0HK17O20140925 (accessed 7.12.2012). The relevant individuals were suspended and the paper is still published.

[70] Apparently the CSRC currently allows a maximum of five concurrent appointments [*24IBFM, p.51*].

them all to claim they are now operating to the same standards as the Big 4 and 2nd-tier international networks, there is still a steep learning curve in matching the technical familiarity their international competitors have through long experience, and in catching up with their actual practices. Not all listed companies and their auditors can be expected to fully understand and consistently implement them since they are not a set of standards that has grown from within China's specific economic environment and culture (cf. Xiao and Hu, 2017). As our top-level interviewee at CICPA observed, having noted that in the US, EU etc. those countries had had input to the development of standards that would better fit their situation:

> But for China, we just adopt, we just introduced the whole set of standards to China. Just tell the people just 'from Heaven': please follow this. [You are u]sing lesser standards, now follow this. So, might be, how difficult—for China accountants to do that job…The thing is to teach, to train, to explain, to guide. Simply imagine… *[9PBM p.18]*

Clearly there are here similarly open questions relating not only to the literal translation of ISAs and IAS/IFRS (cf. Kettunen, 2017) into Chinese, where an English-speaking partner in a leading stand-alone firm commented:

> We have a Chinese version…Usually, we learn it in Chinese, not in English. There is no way for—even for us, we learn it in Chinese. Because although there is convergence between IFRS and Chinese…we learn, we use, we communicate in Chinese. [*22IFM, p.28*]

but also to translation into the Chinese business culture (where for example undocumented relationships—*guānxì*—remain important (see Section 4.2)). There are also wider performative translation issues, such as those that Mennicken (2008; 2010), Samsonova (2009) and Samsonova-Taddei (2013) have explored in the case of Russia, which problematize the very notion of converged 'international auditing standards'. More fundamental may be the consequences of a different cultural background and in particular a different approach to education and to the role of regulatory rules. As a leading UK regulator commented:

> So [at school] you don't learn [science] by experimentation, by error, and so forth. Now, why do I raise that? I raise that because the natural characteristic, natural cultural approach is to read the standards, apply the standards and move on again. So professional judgment, in the way that we understand it and expect it, and, bear in mind, the way we draft standards, in the expectation that professional judgment will be applied, means that there is a practical performance issue there, which as a regulator, I sit there and say, "I wonder where that's going to take us." *[4RGL, p.16]*

Nevertheless, despite the difficulties of unravelling precisely what convergence with international standards means, the very fact that China's businesses and their audit firms are now *officially* working to international standards means that (as in Russia: Mennicken, 2008: 394), the homegrown Chinese audit firms can now claim to understand and be working to the same standards as the Big 4 and the international network firms, which removes a major barrier to their ability to compete on reputation for technical expertise.

(6) development of non-audit services (NAS). One pillar of the 2009 'Document 56' strategy was extending the service range of China's CPA firms beyond audit. Internationally the leading firms have become 'IPSFs' offering a range of consultancy services to clients (Zeff, 2003; Suddaby *et al*., 2007; Empson *et al*., 2015) which in turn has raised concern about threats to their independence as auditors (e.g. Gwilliam *et al*., 2014). Expansion of the scope of non-audit services (NAS) to a 50:50 split between audit and NAS fees income is a MoF / CICPA target.[71] CICPA's perception appears to be that firms must claim the full range of skills of the international 'knowledge experts' (e.g. Covaleski *et al*., 2003; Barrett & Hinings, 2015) if they are to be seen as serious competitors to the Big 4 firms and the 2nd-tier international networks. However a professor who acts as a NED and Audit Committee chair for several listed companies commented in a conversation in July 2014 that the audit / NAS split is currently about 50/50 for the Big 4 but still 60-70 / 40-30 for other firms, and they are building up their services largely by recruiting talent from the Big 4 firms *[28JSM]*. A leading stand-alone firm's partner commented:

> We have a consulting service. We have a tax service. But maybe 90 percent or 80 percent is audit…. [CICPA] encourage the consulting business. They want to see more part of the consulting portion of the business. It's very difficult for Chinese firm to expand non-auditing services. It's very difficult. The clients just don't want to pay a lot of money. [*22IFM, p.14*][72]

Our senior CICPA interviewee pointed out *[9PBM]* that, despite CICPA's awareness of the debates in the US, Europe and elsewhere over potential conflicts of interest from NAS, at least at this stage of development it is the expansion of CPAs' consultancy capabilities that is seen as the priority. And a professor experienced in regulation commented

> And the Ministry of Finance is actually encouraging—they have encouraged it—those local firms to do the consulting even though the international firms they cannot do some of the consulting services because of independence issues, but in China people say, no, just do it—encourage that kind of accounting firm. But it will take time…[it's still] small scale and low level of service…Yes, they call—I saw this—they call it the multiple line of

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[71] See 'The Dragon and the Kangaroo' in *Charter* magazine, May 2011, based on an interview with Dr. Chen Yugui, Deputy President and Secretary-General of CICPA.

[72] CICPA has recently begun to publish the breakdown: https://www.chinaaccountingblog.com/weblog/the-big-four-are-back-in.html (accessed 24.6.2019)

service—something like that, that you promote this and currently the independence issue is not an issue at the time, but gradually if they develop they will find that probably have to pay attention to the independence. *[16JSM p.26-28]*

And of course it remains the view of the Western firms (as expressed to us by the Global Chairman of one of the Big 4)[73] that NAS are crucial for developing essential expert support skills for effective auditors and for their training (as well as for attracting the best talent into the profession).

5.2 Hurdles facing non-Big 4 firms

The factors identified in section 5.1 above reflect the interlinked developments through which the reputation and market strength of the second-tier and leading stand-alone firms are being strengthened in the Chinese context. However significant hurdles remain to equalising their competitive strength with the current Big 4 firms.

5.2.1 Unintended consequences of accelerated localization of the Big 4?

Many of the interviewees overall thought that the simplest way in which MoF's target of a '*Chinese* superleague' could be realised most quickly would be through accepting that the accelerated localization of the Big 4 has transformed them into genuinely 'Chinese' firms, complementing the bringing of homegrown firms into the international 2nd-tier networks.

The award of H-share licences (see Appendix III) to firms beyond the Big 4 is a first step towards those other Chinese firms becoming 'international' firms in the sense of auditing companies listed on international exchanges. But, paradoxically, despite concerns about the speed of change, localization may actually further strengthen the position of the Big 4 as the leading international Chinese firms. Their dominant partners will then be fluent in both Mandarin and in English, as well as having significant international experience. As a London Big 4 partner put it:

> This is where, at the end of the day, you have to have PRC partners. You have to have PRC partners who speak English, so that you have to have PRC partners who have done their international roles, and their English language at university, and have done their accounting, and speak Mandarin…And so they can operate in two languages. They can understand both cultures, both the domestic culture and the international culture. And you've got really only a few foreigners can achieve that, just a few. We have a few in our offices in China who would operate at that level, and very many PRC Nationals who operate at that level. *[20B4L, p.29]*

So will the government accept that the localized Big 4 firms are now 'Chinese' or still

[73] In interview *6B4L p.3*.

look for firms that have grown more directly from Chinese origins to be its domestic and international flag-bearers? This issue is linked to wider global concerns about the audit market as an oligopoly dominated by the Big 4.

5.2.2 How can competition in the market be increased?

CICPA is continuing to observe with interest the recent moves in the UK (by the House of Lords and the Competition and Markets Authority and its predecessors)[74] and in the EU to increase competition against the Big 4's market dominance there.[75] But will those moves ever be successful? Many in the UK remain doubtful, e.g.

> I think, coming back to concentration, coming back to this issue of—I would call it the build-up of interest, if not frustration—of it being around for a while. We've done studies. We've heard lots of people say, ideally we would like to reduce concentration. I said, well, why isn't anyone coming forward with any practical suggestions? Everyone's saying, ideally, you should avoid excessive concentration. How can it be that no one can put forward anything of a practical nature to achieve it? *[8PBL, p.17 (in 2011)]*

However the gap in China has not been as big as in the UK (and is rapidly narrowing—see Appendix III and Table II):

> In China, the situation is not quite as polarized as it is here. Here, for example, there's the Big Four and then there's a whopping great gap towards the likes of BDO and Grant Thornton, and then a significant gap to the rest of us. The gaps in China are not so great between the Big Four and the other top 10 players…. *[12TLP p.15 (in 2011)]*

CICPA has specified detailed plans to be implemented during the period of the PRC's latest 5-year plan (see Appendix I). All those detailed targets are consistent with the aim of growing sufficient numbers of large audit firms to provide services not only to large private companies but also to large SOEs, as was specified in 'Document 56' that MoF released in September 2009 (see Section 3.2.2).

They may also be a stepping stone to 'international' audit capabilities. The Big 4 have audited almost all the cross-listing enterprises in China for a long time, most of which are large SOEs that play important roles in people's livelihood, from finance to

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74 Complemented by the recent independent review of the UK's FRC https://www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-report (accessed 5.6.2019) and by the independent review by Sir Donald Brydon into *The quality and effectiveness of audit* https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review (accessed 22.1.2020).

75 *Accountancy*, December 2011, pp.68-70. http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1480&format=HTML&aged=0&language=EN&guiLanguage=en ; http://europa.eu/rapid/press-release_MEMO-14-427_en.htm (both accessed 6.12.2014).

utilities, from transport to telecommunications. The Chinese government now encourages the next tier of audit firms to compete for those larger clients instead of just for more clients, to fight for a place in the high-end market and to be recognised internationally. With the introduction of compulsory audit rotation for the SOEs controlled by central government (including the major banks)—whereby audits must now rotate every 5 years[76]—there is an opportunity for 2nd-tier network and large stand-alone firms to break the Big 4's tenure. However in the first round in 2012 any rotation that finally took place was only between Big 4 firms.[77]

> So, although the Ministry of Finance wants those big companies to be audited by the local firm, but the local big companies don't want to be audited by the local firms. This is the conflict in the situation. *[16JSM p.22]*

Competition extends beyond auditing itself and, as noted, development of complementary NAS skills is also seen as a priority.

The challenge for the 2nd–tier and stand-alone firms in China is therefore to be ready to level the competitive field in the next round of audit rotation in 2020 (Gillis, 2014a: 296-7). They will need to overcome the hurdles of the continuing preference of CSRC for the giant Chinese financial institutions to have Big 4 auditors (to protect those institutions' own international credibility); the incidence of 'Big 4 clauses' when loans are granted;[78] and pressures where companies are cross-listed for them to have Big 4 auditors as part of the network of 'top' Western international lawyers, banks etc. that act as advisors on these deals and are looked for by international non-governmental agencies such as the World Bank (Suddaby *et al.*, 2007). Future research will need to focus on how this plays out.

This is not a peculiarly Chinese issue: as noted, the EU has faced the same difficulties in its attempts to widen audit competition.[79] As two UK based interviewees put it:

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[76] 8 years if the auditor is ranked in the top 15 (Gillis, 2014b, p.69).

[77] http://economia.icaew.com/features/january-2014/china-leads-the-way (accessed 29.4.2017).

[78] Interviewees differed on whether such clauses (i.e. requiring borrowers to be audited by a Big 4 firm) exist in China. For example one 2nd-tier network firm confirmed they do *[32TL p.9]* while another did not think so *[102TM p.9]* as did a Big 4 firm *[25BFM p. 45]*. Also some pointed out that the preference of the major (state-owned) banks is to lend to SOEs and 'most of them, they don't use Big 4. Therefore there is no such clause.' *[24IBM p.46]* The existence and nature of such clauses in the UK is hard to verify but they have been found to exist at least as a default option (Baylis *et al.*, 2012) and have recently been banned by the EU http://ec.europa.eu/finance/auditing/reform/index_en.htm (accessed 5.12.2014).

[79] http://ec.europa.eu/internal_market/auditing/docs/reform/140903-audit-rotation-letter_en.pdf (accessed 2 December 2014).

> And that's because the people putting the money in want to see names they recognize. Now, that doesn't mean the Chinese firm can't get to that stage. But it answers your question, there is unarguably a need if you are going to the market and seeking funds from around the world. If you are going on the global market, effectively, then you've got to have—there's an IBM factor. You've got to have names that people recognize involved. *[4RGL p.9]*

Again, in relation to the 'beauty contests' for audit rotation:

> Ultimately, it's the sort of chicken and egg. It would be worth someone investing and acquiring that knowledge if they had a realistic thought that they might actually get some work from having it—which, again, goes back to this 'we're just there to make up numbers'. If [2nd-tier network firms] did ever go and acquire, expensively, a lot of banking expertise…They could go out and buy up people who knew all this stuff…but they're only going to do that if they think they're actually going to get a bank audit… *[8PBL p.44]*[80]

But can China be where the current mould is broken? Given the rapid growth of the Chinese economy that has been witnessed recently, it would not surprise the world for the Chinese to also fundamentally change the structure of the international financing and auditing market, given that China now lends more overseas than the World Bank (Reich & Lebow, 2014:118).[81]

There were some increasingly optimistic views from China's 2nd-tier firms. Interviewed in 2011 a managing partner had said:

> Ten years ago both the Big Four and domestic accountancy firms we are facing different customers...Actually, we have separate marketing shares...In recent years the large accountancy firms in China like [our firm] and ShineWing they actually share the customers with Big Four so we are facing the same market now…In my own opinion there is a big difference between Big Four and [our firm] in culture and company style...The partners of domestic accountancy firms are much better in their own skills and experience compared to the partners in Big Four...But as enterprise or business we still have a huge weakness competing with Big Four…There is a big difference in domestic accountancy firms in internal control and staff training and remuneration from Big Four...In future—five years or ten I believe there will be domestic accountancy firms in Big Four…The Big Four have the privilege in China more than the domestic accountancy firms. Therefore, only from last year the domestic firms can have the opportunities to audit the H-shares, but still not the Red shares.[82] It's not we don't have the abilities just we don't have opportunity. *[102TM p9-10; 16)]*

Interviewed again in 2014 he was more optimistic:

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[80] The recent decision of Grant Thornton in the UK to stop tendering for FTSE 350 audits reflects the continuing preference of clients for a Big 4 firm when audits have to rotate. https://economia.icaew.com/news/march-2018/grant-thornton-takes-a-bow-from-audit-market (accessed 16.9.18). However, Mazars has now been chosen by AIG to be its UK auditor and by Goldman Sachs to be its auditor in Europe https://www.ft.com/content/d1dbfaf8-37ae-11ea-a6d3-9a26f8c3cba4 (accessed 22.1.2020).

[81] On 24 October 2014 China invited participation in a new international Asia Infrastructure Investment Bank (亚投行 [*yà tóu háng*]) although so far the US, Japan and Canada have declined to join, apparently fearing rivalry with the World Bank: www.aiibank.org (accessed 29.4.2017).

[82] 'Red chips' are the stocks of mainland China companies incorporated outside mainland China and listed in Hong Kong so that overseas investors can access them. The actual business is based in mainland China and most are controlled, either directly or indirectly, by the central, provincial or municipal governments of PRC. See e.g. http://www.investopedia.com/terms/r/redchip.asp; http://hub.hku.hk/bitstream/10722/39847/1/FullText.pdf?accept=1 (both accessed 8.12.2014)

Maybe it's less than five years. Yeah, maybe after three years, we will have opportunity in financial or banking fields. [*262TM, p.9*]

So the next few years may indicate whether the firms that the government regards as 'Chinese' can break the oligopoly of the Big 4 internationally.

5.2.3 Relaxing the 'control' mentality?

The essence of the Big 4 and increasingly the 2nd-tier network brands is that they are now presented as 'stateless' and not dominated by the firm in any one country or its regulators (and in this way have redefined their commercial relationships within the global market place (Suddaby *et al*., 2007)). So far the leading independent Chinese firms (such as Pan-China and ShineWing, and more recently Reanda), insofar as they have started to venture outside China and Hong Kong, have only just begun to generate or merge with firms in other countries. As these are increasingly 'localized' can they begin to create an 'international' rather than just a potentially multinational identity?

Reich and Lebow (2014) observe that the pattern of Chinese overseas industrial investment (e.g. in Africa) has tended to be that the Chinese company exports not only its brand and its manufacturing technology but also its workforce and becomes a Chinese 'island' overseas.[83] While it is likely that Chinese audit firms will increasingly follow their clients overseas they may similarly be reluctant to hand over control to locals there. Given that auditing and accounting services normally require experience in local regulation, taxation etc. this is a handicap if they cannot rely on alliance with a local firm.[84] In the view of one senior UK practitioner with substantial experience of working in China this may prove to be the real stumbling block to creating Chinese 'Big N' firms.

…the old-fashioned Chinese concept of control...[the] concept of an international firm [as] one controlled in Beijing…at the end of the day, that's not a model which is going to work

[83] Although there are examples such as Geeley that has become the holding company of recognisably distinct local subsidiaries such as Volvo and the builder of London taxis. http://global.geely.com/history/ (accessed 19.9.18).

[84] However, ShineWing has recently extended its overseas expansion beyond Hong Kong, Singapore and Japan to Australia where Moore Stephens Melbourne became ShineWing Australia from 1.1.2015: http://www.shinewing.com.au. See also Luk (2010). It audits 16 companies listed on the Australian stock exchanges (ASX or SSX): https://www.shinewing.com.au/assets/ShineWing-Australia-Report-Audit-Transparency-2019.pdf . But cf. http://www.reanda-international.com/regional/en/structured.php (all accessed 9.10.19).

internationally because, you know, if you're a Chinese company, maybe you'll buy that...[but]…in a people business, where things are changing the whole time, you've got to have the fingers working very well, and if you have too much decided…too much control from the head office, without some understanding of what [is] going on in the marketplace… But they've got to build up the quality in each place, and not just the quality, but the substance, so that they are large enough to be credible in each of these countries where they're operating. I mean what is interesting is that while America has dominated the world's economy in the last century, there is no single accounting firm now, out of the Big Four, that is American. So, you know, in terms of the next phase, especially if China becomes the biggest economy in the world in the next five years, the logic of that is that it's not going to be a Chinese firm. *[20B4L pp.20-23]*

The global chairman of a Big 4 firm agreed.

On the audit market structure, I think we probably do agree with the interpretation that the Chinese government is keen to create, if you like, national or indigenous champions, which are capable over time with competing with the Big Four. What is the possibility of achieving the goal? I mean I don't know what the difference is between actually indigenous and the top ten, but I think that's—I think that has got to be a very long-haul game, I think the prospect…There has not been an auditing firm that has grown from a home country base and expanded out internationally. All the big networks have grown through amalgamations. And it's hard to envisage how a Chinese firm would do that any more than a US one. *[6B4L p.1-2]*

So despite the speed of change in China, the general perception of the interviewees remains that this will not happen in the immediate future.

From a Western perspective:

To me, it's all about – it's about culture, legacy from how many of these businesses were owned by the state, and it's a journey. China has got to go down that journey. And I think in truth, there are many in the leadership in China who understand that, but changing like that is a very difficult thing to do. *[4RGL p33-35]*

5.3 Potential international consequences of the growth in the Chinese audit profession.

Outside China the international 'Western' audit firms have themselves been undergoing a change in identity and in power from being primarily auditors, self-regulated as a profession purporting to act in the 'public-interest' under the eye of their home governments, to multi-service firms operating globally to serve large multinational corporate clients within a neoliberal 'Washington consensus' (e.g. Zeff, 2003). This process has redefined the 'field' of transnational regulation of professional services (Suddaby *et al.*, 2007; cf. Quack and Schüßler, 2015)—and if China's economic success story continues it clearly has the greatest potential of any country to further change the structure and strategies of the worldwide auditing profession.

A London interviewee commented on the likely shift in power.

A lot of people within our lifetime, it won't happen for ten years, but 20, 30 years later, we expect to see a shift of power to the East, and I think quite easy to see [our Chinese firm] will be one of the biggest firms in the network, and I'm seeing already – [our firm], right now, has a five-year plan where we double our size in five years. And within that, actually China probably will probably more like triple or quadruple in size because…we try to encourage them to grow because we know that China is the most important country now. We need our firm to be the most important firm, or one of them, in the most important economy, so it benefits the rest of the economy. It's undeniable that we think China is going to be the key player in the network. They're already holding lots of key positions. What we want now before some of their partners start sitting on the international board---we know it's going to happen---that's why we are investing so much money getting China ahead of what's competitive and getting up to scratch, not necessarily making them think the way we do, because that would be wrong. [*32TL, pp. 41-42*].

So future research will need to explore how international firms, that may in future be increasingly dominated by constituents that come from China's 'control' culture and remain closely regulated by CICPA, MoF, and CSRC, may thereby undergo new changes in the relationships between their linked ecologies—their clients, competitors, national regulators, professional bodies, international standard setters, universities and other actors in a variety of international arenas—as compared to how those have been reshaped globally over recent years (cf. Cooper & Robson, 2006; Suddaby *et al.*, 2007; Gillis *et al.*, 2014; Samsonova-Taddei & Humphrey, 2014, 2015). Noting in 2011 that the then (Australian) chairman of KPMG International was based in Hong Kong, and that the mainland Chinese firm of KPMG Huazhen would (following localization) in future be headed by a Chinese CPA, our senior interviewee there commented that:

I think that maybe they [i.e. China] are aiming at something bigger. They want the international chair [*18RGHK, p.56*]

So it is foreseeable that at some time in the not too distant future one or more international firms' chairpersons, whether from within or from outside the current Big 4, will be a Chinese CPA.

In the context of the agenda for research on the future development of transnational accounting and auditing regulation proposed by Gillis *et al*. (2014), further analysis is therefore needed to understand in more detail both the significant background features of the changing Chinese environment outlined here (for example changes in the influence of *guānxì* and of other 'Chinese characteristics' alongside the drive to develop 'world class' universities and its potential consequences for universities globally)[85] and to track and analyse further developments in the relationships shaping and shaped by the continuing rapid expansion of the Chinese profession and its spectrum of types of firms.

[85] https://www.questia.com/library/journal/1P4-1922862422/china-s-rising-research-universities-a-new-era-of (accessed 17.6.19).

5.4. A new Big N firm from China?

Reviewing the opportunities and challenges created by the rapid developments to date in the Chinese audit profession, and the increasing strength of the 2nd-tier and leading standalone firms vis-à-vis the Big 4, opens up the more speculative question of how far and when these developments seem likely also to create the potential for one or more recognizably 'Chinese firms' to become fully 'international' and create a new rival 'Big N' firm or firms.[86] This has long been known to be a Chinese government ambition. A senior UK regulator commented:

> 'What I have known for some considerable time is that there is a real desire on the part of the Chinese authorities to develop a Chinese global accounting player—or more….And the same is true in law. This is not unique to the accountancy profession.' [*4RGL p.3*]

'*International*' would mean being accepted as the auditor of Chinese companies that obtain overseas listings; and, at its fullest, also attracting overseas listed companies as clients either in China itself or by opening offices worldwide. We explored this question with our interviewees and, while generally positive, they clearly had different perceptions as to the timing and the form in which such a development could be possible.

As in various other countries, and as outlined in section 3, the need to bring in international expertise initially led to the rapid dominance of the Big 4, more recently challenged by the 2nd-tier international accounting and audit networks and some leading stand-alone Chinese firms. In the last decade the Chinese government, with its 'Document 56' vision of the creation of a superleague of 10+ Chinese accounting and audit firms, has increasingly promoted the indigenous accounting and audit industry to compete (e.g. Shi, 2013) through mergers of firms, extension of service range and through enabling access to the Hong Kong stock exchange (see Appendix III). It is clearly possible that, just as Chinese industrial and commercial firms are increasingly taking over in international markets, encouraged by recent government initiatives such as 'Belt and Road', the professional firms may follow their clients and, possibly by taking over a current international network (or even a current Big 4 firm?), launch one or more firms from China to join a new Big N.

Interviewees generally agreed that achieving the government's targets for the auditing industry is a more a question of time, i.e. of 'when' rather than 'if' (so future

[86] As predicted at an academic conference in 2010 by a former UK managing partner of PwC and former President of ICAEW.

research will need to continue to track developments). And their Chinese member firms will be the crucial growth area for firms everywhere. A typical comment from London was:

> … I think that they've got the vision to do it. What is very good about the Chinese government is they're very consistent with what they want to do, and when they think into the long distant future, how they will get there by incremental small steps. So what is a realistic target to pursue, is very much the 10 / 200/ 7000. *[22TL p. 43]*

On the other hand:

> But it's not that easy to actually raise your standard on the service industry to the same as the international standard because that involves people and their skills. It's not something you can install overnight. It's not something that you throw money at and you can get a result instantly. So, I think that's going to be challenging. I'm not saying difficult or impossible, but it's challenging. *[7B4L p.33]*

Again there are differing areas of strength within those Chinese firms. As seen from London their management skills still lag behind their technical skills:

> Accounting firms are potentially very much services businesses, and people and talent businesses. So it's not only about having a bunch of talent there, it's also mostly going forward about how you manage. And I think what China is lacking across the whole spectrum of sectors is how to manage that talent…The efficiency and effectiveness is very low. You have good accountants, and you've got good people to bring in the work, how come the profitability and efficiency is so low? That's management skills, which is lacking...Every country is different in the sense that what works elsewhere won't work there. You can get a horse to the water, but you can't make it drink. So you always need to adapt and absorb a lot of the culture and its business practice…*We are absolutely putting China as the priority strategy globally, and we're not expecting overnight miracles. [22TL p.22]* (our *emphasis* added)

And again from within China's 2nd-tier:

> Because…we have big advantages in international accounting standards and accounting techniques...And due to it's all the technical people who is running this firm...There's – that's why I thought we have a big difference from Big Four only in bringing all the unique strategies, brand name and staff training – all this kind of areas. But these areas is different from the technical areas. We are lacking the people who know how to actually build up our brand name or know how to train staff...We already realize this problem. That's why we are doing things to improve these areas. [*102TM p. 38*]

However, the longer term prognosis, as seen by a leading UK regulator, remains positive:

> I think there's a big journey to take place in the next 10, 15 years. Will China do it in ten years? No. Would they have done it by 2050? I'd go to William Hill and I'd put my £100 [bet] on China to have done it by 2050. *[4RGL pp.37-40 (in 2011)]*

So in this arena, as in many others, a major question that remains is how far the West's (and particularly the USA's) capacity for innovation will continue to be a match for the growing abilities and economic power of China (e.g. Reich & Lebow, 2014).

But even as the existing dominance of the Big 4 and the international networks is challenged, for example through China's adoption of 'international' ISAs and IFRS, the fact that these standards (and indeed the whole of Western accounting and auditing methods and practices) originate from very different business cultures (e.g. Faulconbridge, 2015: 443-4) will continue to pose challenges, as in other 'transition economies' that were formerly under socialist planning (e.g. Russia: Mennicken, 2008; 2010; Samsonova, 2009; Samsonova-Taddei, 2013), as they are translated into the discourses and practices of daily Chinese professional and business life.

> My view is that…they're not doing enough of that at the moment to get cross-secondments in and out and to recruit people with experience of working in the Western environment. But we're trying to push them more into that. *[12TL p.48]*

> The young generation are more international in their mindset, and when they become leaders of the firm, that's when we're going to see a real shift in power. *[32TL p.42]*

In summary, as long there remain continuing doubts internationally about the consequences of the expansion in Chinese firms for their *perceived* expertise and audit quality then, at least in the short run, the judgement of many of the interviewees is that, given the history of the development of the Chinese profession to date and the positions that have been built up over the last thirty years by the Big 4, supported by leading Chinese government officials and business personnel, the MoF / CICPA target for its restructuring and for development of the indigenous audit market to rival the current Big 4 internationally is achievable but probably over a longer timescale, and in a somewhat modified form, to that originally envisaged.

> A Chinese firm cannot set that up all around the world. You have to be part of a network, it seems to me. And I think the Ministry of Finance has now recognized that and is now instead wanting to make sure that if firms join an international network, they are not a junior partner, they can't get controlled. But I think they misunderstood in the first place the whole question of control. *[12TL pp.5-6]*

> So this is what is called 'borrow the ship to go abroad': *jiè chuán chū hǎi* [借船出海]. All the 2nd-tier firms can do that. So, this is another reason why they welcome the 2nd-tier firms. *[16JSM p.13]*

5.5 Summary

In summary, in the context of the Government pressures to establish the reputation of the CICPA, to aim for the targets set out in Document 56, to internalize international accounting and auditing standards, and to localize the international firms, it is the ongoing developments in the interrelated market arenas outlined above—building sufficient firm strength, establishing reputation for independence, accepting potential audit liability, complementing improvements in auditees' corporate governance, developing NAS skills, competing credibly when large audits have to rotate and reshaping the patterns of regulatory and organizational control—that appear to our interviewees most likely now to influence the prospects for non-Big 4 Chinese firms to gain equivalent reputational and market status to the current Big 4. Given the dominant size that their Chinese firms will have within their international structures this has in any event opened up significant questions about how these IPSFs, which hitherto have been Anglo-American dominated and part of the neo-liberal world order, may change, which will provide a key field for future research.

6. Concluding comments and potential future research directions

It is clear from the wide-ranging interviews undertaken that there is currently a variety of informed perceptions both inside and outside China about the current state and likely future development of the profession. The ongoing strategic direction from the government is the most significant feature, but as China's international presence has been rapidly developing, enquiry needs to be focussed on the interplay between a range of linked ecologies across governments, markets, standard setters, regulators and other institutions (such as universities) that have been rapidly changing and are intertwined both nationally and internationally.

It is also clear that the conventional political and academic stereotyping of firms in China as 'foreign Big 4' or 'local' (and globally as 'Big 4' versus 'non-Big 4') fails to reveal the complexities of these changing arenas within which the Chinese profession has been developing and that give insight into what the opportunities and barriers and the possible timescale for future development might be. In those interactions, the government strategy has been refocussed from Ding's early ambitions at the CICPA in the 1990's to create a sole Chinese 'Big One' (Gillis, 2014a: 184-5), and now the Chinese CPA-managed firms in the Big 4's and the 2nd-tier's international networks, alongside the larger stand-alone Chinese firms, all have potential roles as international firms 'with Chinese characteristics' in changing the current landscape and 'Western neo-liberal' characteristics of IPSFs.

Their access to Hong Kong's international stock market to audit 'H' shares has been a significant step (see Appendix III) and the expansion of Chinese industrial and commercial investment overseas creates another potential avenue for firms to 'follow their clients' in the way that the UK and US firms did in the 19th and 20th centuries. Further internationalization of SSE would create further opportunities that will need ongoing research. Meanwhile China has expanded its government's international roles and consolidated its relations with Western professional accounting bodies and its input to the global standard setting institutions (see Appendix II).

Although some institutional barriers mainly reflect the legacy of the pre-1978 era in the initial stages of the emergence of China's 'socialist market economy', these may now increasingly be being overcome as the next generation takes over (in many arenas with the aid of strong, resource-intensive government support). But building the international reputation of Brand China in the audit sphere—in particular in international capital markets—may still prove harder than in other arenas such as manufacturing and civil and electronic engineering. Nevertheless the central issue now seems to be how fast will be the pace of change that can take the audit firms in China on from becoming the biggest in the world (which given the still increasing size of the *domestic* market seems almost certain) to becoming *multinational* and/or *international* and to being seen as standing on a par with the existing international firms. As a London interviewee observed: '*China is probably the only economy in the world where this is possible*.' *[22TL p.4]*

However, the story may not be straightforward. More circumspect views may remember that about 40 years ago there was a widespread expectation that the Japanese management approach would displace US economic dominance. Brandt *et al.* (2014) conclude their historical survey of China's institutions with the caution (p.112): 'With the aid of hindsight, we can see that pessimistic predictions [about China] of the 1990s failed to comprehend China's dynamic potential. While striving to avoid this error, we must also recognize that, as is painfully evident from Japan's recent history, past success cannot guarantee the future efficacy of institutional structures…' (cf. Vogel, 2000).

6.1 Towards a future research agenda

This initial exploration of a variety of expert understandings opens up a range of research questions for continuing exploration.

With regard to the current developments in auditing in China, exploration of expert perceptions and reactions in the US, the EU and Australia to complement those reported here would also be valuable. Significant issues for further research investigation include both deeper historical understanding of the developments to date within China (for example Wen *et al.,* 2018 have recently had access to the internal CICPA document archive) and analysis of emerging data about Chinese audit firms' behaviour (e.g. Capalbo *et al*., 2014; Ke *et al*., 2015; He *et al*., 2017; DeFond, 2018). If access for in-depth field observations, similar to those of Mennicken (2008; 2010) and Samsanova (2013) in Russia, could be obtained that would be especially illuminating, particularly as to the varied impact of differing national cultures and institutions on the operation of auditing standards in practice.

The ongoing consequences of the localization of the Big 4 required by 2017 and the outcome of the mandated 2020 audit rotations require analysis, as will any extensions of the licensing to audit Hong Kong listed firms and increasing internationalisation of SSE, alongside the continuing expansion of Chinese clients' overseas investment and M&A. Similarly, the impacts of any further mergers among the 2nd-tier and independent firms on the international networks and their global positioning need following. Deeper understanding of the organisational structures of audit firms, in China and worldwide, and of how their varying forms of glocalization are influenced by the rapidly growing significance of their Chinese member firms is still needed (cf. Boussebaa & Morgan, 2015). Given the dominant size that their Chinese firms may gain within their international structures this has opened up significant questions about how these IPSFs, which hitherto have been Anglo-American dominated and part of the neo-liberal world order, may change, which will provide a key field for future research of wide interest.

In the context of the agenda for research on the future development of transnational accounting and auditing regulation proposed by Gillis *et al*. (2014), further analysis is therefore needed to understand in more detail the significant background features of the changing Chinese environment outlined here (for example changes in the influence of *guānxì* and of other Chinese cultural characteristics, such as the 'control' mentality, discussed in Section 4 above) as markets widen domestically and internationally and as there are potential intergenerational changes in the mindsets of crucial actors, as well as to track and analyse further developments in the various linked ecologies where multiple and shifting strategies and agendas are shaping and shaped by the continuing rapid expansion of the Chinese profession and its firms.

Research into changes in audit technology such as those emerging from growth in Big Data and AI may also be especially impacted by the scale of the related Chinese markets within the global structure (cf. Salijeni *et al.*, 2019; ICAEW, 2017).

Other Chinese institutional changes that require ongoing research and examination of their consequences include potential consolidation and reshaping of regulatory structures and processes, nationally and internationally; expanding Chinese contribution to the bodies developing international accounting and auditing standards; potential imposition of stricter audit liability; consequences of development of NAS; and interactions between audit and the further embedding of corporate governance regimes in both SOEs (national and provincial) and private client companies.

This study's initial exploration has opened up some of the important linkages that have emerged in China and that merit continuing *empirical* investigation by audit researchers in what will continue to be a rapidly changing domestic and global environment. It will be often neessary for Western and Chinese researchers to work collaboratively to enhance mutual understanding of differing perspectives. Moreover the rapid rise of the 'China-phenomenon' may now require further academic rethinking of the *theoretical* categories that have been developed for understanding international development of IPSFs—for example in the 'ecological-institutional' theory (Suddaby and Muzio, 2015) drawn on here or in the analysis of 'institutional logics' (e.g. Micelotta *et al.*, 2017)—and even the building of new analytical frameworks. Further theoretical development is needed of how, in the management and related auditing spheres, the framework of 'governmentality'—that has been constructed for 'Western' neoliberal economies largely on the basis of Foucault's (1977) work (cf. Hoskin, 2017), and that observes the promotion of 'programmes' through a range of calculative and other technologies that engender self-regulated 'action at a distance' (e.g. Miller & Rose, 2008; Power, 1997)—can be interpreted within China's more autocratic political system and culture to illuminate understanding of how the various economic actors and institutions coming from within that system, including its new young 'graduate professionals', will now (re)construct their identity within China and internationally (e.g. Hoffman, 2006;

Sigley, 2006; cf. Greenhalgh & Winckler, 2005; Detzen *et al.*, 2017).[87]

In summary, even though it may appear quite surprising to 'Western' eyes that have become accustomed to the neoliberal world order and the Washington consensus that underpins the current international dominance of the Big 4, the firms in China remain subject, to probably an almost unique degree, to direction by a government that has a vision and a strategic plan for the role it wants them to play domestically and internationally (whether as members of the Big 4 or of second-tier networks, or as stand-alone firms). There are no such government strategies for the profession in the US or UK. Given the sheer size of the firms in China (again almost unique and which is still rapidly growing) it seems inevitable that this will alter the balance of the structure, management and culture of the current leading firms worldwide and may also alter the structure and processes of international regulation and standard setting. And there is also the government's longstanding aim for a recognisably 'Chinese' firm or firms to join the current international leaders.

However, the path the Chinese government is pursuing has to navigate the linked ecologies that it tries to influence but that in turn reshape it. These include*, inter alia*, developments in domestic and international markets, developments in domestic and international stock exchanges and other arenas of financial infrastructure, developments in transnational regulation and in varying third-party liability regimes, developments in links with universities and other professional bodies, and ongoing changes in IPSFs' strategies as well as contested agendas within the government itself.

For researchers this means that, on China's present trajectory, work (such as that outlined here) that deepens understanding of auditing in China will be ever more significant for understanding the ways in which the global profession and global standards are reshaped, as well as for making meaningful comparisons and contrasts with developments in other countries.

[87] Contrast, Carter *et al.* (2015) who, in 'scoping an agenda for future research into the professions' only give a one-line recommendation (in relation to globalisation) to pursue comparative research 'outside of the "West" '(p.1207). In their recent review of organizational research and their proposed integrative research agenda focussed on 'institutional logics' Micelotta *et al*. (2017) fail to include the rapid and transformational changes taking place in China and their potential global impact.

Appendix I: China's 12th '5-year' plan

From a speech by the Deputy President & Secretary General of CICPA Dr. Chen Yugui, 22 Oct 2012: 'CICPA enacted and promulgated the *Development Plan for the Chinese Accountancy Profession* (2011-2015), presenting the development objectives for the profession in the 12th Five-Year period, including but not limited to the following:

1.Double the profession-wide revenue in five years;

2.Train 350 leading talents, 600 internationally recognized CPAs and 5,000 new key practitioners, grow the number of practicing CPAs to 120,000;

3.Develop 10 world-class firms, at least three [of] which will rank among the world's top 20 firms, foster 200 medium-sized firms and develop a number of small firms in line with the regulatory requirements.

To achieve these goals, we are working on the current priorities as follows:

1. Focus on developing non-auditing services;
2. Train professionals with variety of expertise;
3. Enhance policy support and long term brand building strategies to build stronger and bigger firms;
4. Accelerate accounting information technology development in all levels of the profession;
5. Broaden efforts in international exchanges and collaborations.'

http://www.cicpa.org.cn/BNIE/201210/t20121029_38000.html (accessed 7.7.16).

An update on the 13th plan (2016-20) and CICPA's related strategy is reported at http://www.gaaaccounting.com/a-year-of-going-global-for-cicpa/ The plan includes:

Advancing exploration of international market

Accounting firms are encouraged to join international networks to make a greater international impact by participating in governance and decision-making processes. International service capabilities of accounting firms should be improved by making use of the technology, management skills and market resources in the international networks. Accounting firms are encouraged to establish their own international networks.

The international market for the accounting sector should be actively explored to support the "going global" of Chinese companies and capitals and "One Belt and One Road" initiative. International service programs, such as technical assistance of international financial institutions, should be expanded.

http://www.cicpa.org.cn/introcicpa/laws/201806/W020180622553560007585.pdf (accessed 14.2.2020)

Appendix II:

a) CICPA officials

The immediate former President of CICPA, Li Yong,[88] is also Vice Minister of MoF http://www.theiirc.org/?p=2766 (accessed 10.11.14)

The Deputy-President and Secretary General of CICPA, Dr. Chen Yugui, is also the Executive Deputy Secretary of the Communist Party of China's [CPC] Committee of China CPA Profession
http://www.pccpa.cn/EN/gsdtNewsen.aspx?ID=320&Type=gsdt (accessed 20.7.14).

As its website states, CICPA remains 'under the guidance of the Ministry of Finance and the Council'.[89]

b) International representation

The IASB's first Chinese Board Member, Dr. Zhang Wei-Guo, joined in July 2007: http://www.ifrs.org/The+organisation/Members+of+the+IASB/Zhang+Wei-Guo.htm and was reappointed for a second term in January 2012. He was formerly a Professor and the Head of the Accounting Department at SUFE; a member of the China Accounting Standards Committee and the China Auditing Standards Committee; and then Chief Accountant and Director General of the Department of International Affairs at the China Securities Regulatory Commission (CSRC).[90]

A Chinese practitioner, Dr. Tang Jianhua (who is Director, Professional Standards Division, CICPA) is a member of IAASB http://www.ifac.org/bio/jianhua-tang.

Li Yong, the then President of CICPA and also Vice Minister of MoF, was appointed a Trustee of the IFRS Foundation in January 2012:
http://www.ifrs.org/Alerts/PressRelease/new+trustees+jan+2012.htm [91]

Yang Min (Director General of the Accounting Regulatory Dept, MoF), Wang Haoyu (of CSRC) and Prof. Huang Shizhong (Vice President and Professor, Xiamen National Accounting Institute) are members of the IFRS Advisory Council: http://www.ifrs.org/About-us/IFRS-Advisory-Council/IFRS-Advisory-Council-membership/Pages/IFRS-Advisory-Council-membership.aspx [all sites accessed 5.12.2014].

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88 Succeeded by Feng Shuping (a former Assistant Minister of Finance) from October 2014: http://www.cicpa.org.cn/leaders/xhldcy/201410/t20141028_46007.html (accessed 6.1.15). See http://www.gaaaccounting.com/a-year-of-going-global-for-cicpa/ (accessed 19.9.18).

89 http://www.cicpa.org.cn/introcicpa/about/201407/t20140708_45449.html (accessed 14.2.20).

90 Following Dr. Zhang's retirement Dr Lu Jianqiao was appointed a member of the IASB from 1 August 2017. Previously he was Director of the Accounting Regulatory Department of the MoF and in charge of Chinese accounting standard-setting.
https://www.iasplus.com/en/resources/ifrsf/iasb-ifrs-ic/iasb-history#lu (accessed 24.8.2017).

91 More recently IASB announced the appointment as a Trustee of the IFRS Foundation of Zhu Guangyao, who has been Vice Finance Minister in charge of the Customs Tariff Department and key international connections at MoF since 2010. He is also Chairman of the Accounting Society of China. http://www.ifrs.org/Alerts/Governance/Pages/trustees-appointments.aspx [accessed 13.3.2017].

Appendix III: 'Top 12 Accounting Firms in China'[92]

Rank 2014	Name	Revenue(RMB Million Yuan)[93]	CPAs	Staff	H-share licensed[94]
1	PwC China	3351.41	959	6053	YES
	普华永道会计师事务所	*pŭhuá yŏngdào kuàijìshī shìwùsuǒ*			
2	Deloitte China	2881.23	800	5686	YES
	德勤华永会计师事务所	*déqín huáyŏng kuàijìshī shìwùsuǒ*			
3	Ruihua CPAs	2775.93	2335	7887	YES
	瑞华会计师事务所	*ruìhuá kuàijìshī shìwùsuǒ*			
4	BDO China Shu Lun Pan CPAs	2509.11	1811	7244	YES
	立信会计师事务所	*lìxìn kuàijìshī shìwùsuǒ*			
5	Ernst & Young China	2364.34	911	4464	YES
	安永华明会计师事务所	*ānyŏng huámíng kuàijìshī shìwùsuǒ*			
6	KPMG Huazhen	2347.17	616	3454	YES
	毕马威华振会计师事务所	*bìmǎwēi huázhèn kuàijìshī shìwùsuǒ*			
7	Pan-China CPAs	1341.46	1389	3839	YES
	天健会计师事务所	*tiānjiàn kuàijìshī shìwùsuǒ*			
8	Da Hua CPAs	1237.88	976	4113	YES
	大华会计师事务所	*dàhuá kuàijìshī shìwùsuǒ*[95]			
9	ShineWing CPAs	1175.17	1096	3783	YES
	信永中和会计师事务所	*xìnyŏngzhōnghé kuàijìshī shìwùsuǒ*			
10	PKF Daxin CPAs	1100.55	1032	3400	YES
	大信会计师事务所	*dàxìn kuàijìshī shìwùsuǒ*			
11	Baker Tilly China	1029.16	747	2674	NO
	天职国际会计师事务所	*tiānzhí guójì kuàijìshī shìwùsuǒ*			
12	Grant Thornton China	795.83	744	2412	YES
	致同会计师事务所	*zhìtóng kuàijìshī shìwùsuǒ*			

[92] Source: CICPA http://www.cicpa.org.cn/news/201405/t20140530_45055.html (*in Chinese* 30 May 2014); http://www.cicpa.org.cn/BNIE/201406/W020140630412948909614.pdf (in English 26 June 2014) (both accessed 18 November 2014).
[93] 1 million Chinese yuan (RMB) approx. = £111,000 or US$145,000 (https://www.xe.com/ accessed 18 September 2018).
[94] *Source: Hong Kong FRC, November 2011.* NB to be licensed, mainland firms must, *inter alia,* have a Hong Kong affiliate. *[18RGHK]*
[95] Initiated by SUFE and formerly linked with Ernst & Young and then with BDO *[16JSM p.3]* and now a member of Moore Stephens International network, branded on its website as Moore Stephens Da Hua CPAs (Chinese name: 大华(马施云)国际会计师事务所 *dàhuá (mǎshīyún) guójì kuàijìshī shìwùsuǒ* [literal English trans: Da Hua (Mashiyun) international accounting firm]) http://www.moorestephens.com/FirmProfile.aspx?ID=1B517E6CFD25612ECD1A531F907A0342
Moore Stephens International also has another Chinese member firm Beijing Xinghua CPAs (Chinese name: 北京兴华会计师事务所 *běijīng xìnghuá kuàijìshī shìwùsuǒ*) which is ranked #17 http://www.moorestephens.com/FirmProfile.aspx?ID=F554601E655FF95C260207AAD31032E1
(both accessed 18.11.14)

Appendix IV: Research approach

Like Carter & Spence (2014) and Ezzamel & Xiao (2015), and guided *inter alia* by Malsch & Salterio (2016), this study has primarily pursued a qualitative approach to investigate the nuances and complexities of the developments in the Chinese audit profession and their international ramifications.

This study relies primarily on complementing existing literature (both official and academic) with 23 semi-structured interviews, together with 7 more informal lunch/tea/dinner conversations in China, to gain insights from leading actors.[96] 19 of these 30 meetings took place in 2011. Initially 8 were in London during June and July 2011 with senior partners and senior managers responsible for the links between the UK and Chinese offices of leading international networks of accounting and audit firms, some of whom were themselves Chinese and/or had worked in China (two Big 4 firms—including the global chairman of one of them; four 2nd-tier firms); and with senior representatives of one professional accountancy institute (ICAEW) and of the UK's Auditing Practices Board (APB). In mainland China and Hong Kong in November 2011 11 interviews and other meetings were held with senior accountants, regulators and academics there (including senior Chinese partners of two Big 4 firms and one 2nd-tier international network; current or former senior representatives of CICPA, CSRC and the Hong Kong Financial Reporting Council (FRC); and four senior professors of accounting (focussing particularly on their external roles both in standard setting and regulatory processes and/or as non-executive directors and audit committee chairmen of listed companies)).

A further 11 interviews/conversations were variously undertaken in Beijing in April 2012, in London in July 2012, in Hangzhou and Beijing in September 2013 and in Beijing in July 2014 and April 2015. The informal conversations in China included the head of a professional accountancy institute there (ICAEW); a representative of the investment banking arm of a securities firm specialising in domestic IPOs; and two senior professors. The final two interviews (in 2014) and final two conversations (in 2015) involved revisiting some of those earlier contacts to follow up on the consequences of the 2012 'watershed' that required more rapid 'localization' of the Big 4 (see Section 3.3) and of the resumption of domestic IPOs that had been suspended since October 2012 and also added an interview with a senior former representative of China Investment Corporation (China's sovereign wealth fund).

[96] Other background information was gleaned in China from news media and networking events etc..

Interviews in mainland China were facilitated by a former chief accountant of CSRC who had subsequently joined the Board of IASB and through other experienced contacts in China. Interviewees were accumulated partly by 'snowballing' (i.e. following up contacts recommended / introduced by other interviewees). The set of interviews was regarded as sufficient once 'saturation' was experienced, i.e. despite the barriers to gaining access within China[97] there was considered to be sufficient representation of the variety of relevant perspectives as views were increasingly repeated by new interviewees.[98]

Several interviewees had been involved in the creation of firms and of the Chinese profession, and in the related developments within universities, since the end of the 1966-1976 Cultural Revolution and the start of the Reform and Opening up in 1978, and brought their own 'lived experiences' to their interpretation of the trajectory of development. Others had consulted their firms' local China experts in preparing for the interviews in order to be able to give the most reliable current information.

Several interviewees occupied or had occupied multiple senior roles but they have been classified here by what seemed to be their most prominent relevant role for the purposes of this study. Table I gives a summary and how interviewees' roles have been coded.

*****Insert Table I about here****

[97] We could not obtain an interview with Dr Zhang Ke, head of ShineWing, but there have been several published interviews and commentaries about him and his firm (e.g. Luk, 2010) (and we did have access to a senior representative of the other leading, and larger, stand-alone firm, Pan China (*tiānjiàn*[天健])). While we gained access at the top of CICPA, some supporting data that we asked for was withheld on the grounds that it would breach Chinese law to show it to a foreigner. And we were unable to gain access to anyone senior in MoF itself.

[98] Interviews in the UK and Hong Kong were facilitated through personal contacts gained during this author's (an ICAEW Chartered Accountant) nearly 50 years experience of working with senior members of the accounting profession.

Table I. Breakdown of 30 interviews/conversations

Interviewees			Location and Interview #					
			London	#	Mainland China	#	Hong Kong	#
			L		M		HK	
Audit firms	*Big 4*	B4	√	6,7,20	√	11, 12, 25		
	2nd tier	2T	√	1,2,3,5	√	10, 26		
	Independent	IF			√	22		
Professional bodies		PB	√	8	√	9, 23		
Inv Bank/Fund		IB			√	19, 24, 30		
Regulators		RG	√	4	√	14	√	17,18
Professors[99]		JS			√	13, 15, 16, 21, 27, 28,29		

Note: Interviews quoted from in the text are coded as in the following examples: Interview #3 (with 2nd-tier audit firm in London): 32TL; Interview #15 (with accounting professor in Mainland China): 15JSM; Interview #18 (with regulator in Hong Kong): 18RGHK

The interviews generally lasted between 1½ and 2½ hours and were semistructured, taking the form of 'guided conversations' where questions were modified and developed as appropriate to match the career histories and responsibilities of the individual interviewees and in the light of knowledge gained from earlier interviews (e.g. Horton *et al*., 2004). Interviewees received a copy of the outline questions in advance and a Chinese translation of the questionnaire was also provided to Chinese interviewees.[100] The structure was modified for the 2014 interviews to take account of the 2012 watershed on localization requirements (see Section 3.3) and changes in the leaderboard of firms' size rankings in China.[101] However, it remained more of an aide-memoire and a series of prompts to encourage interviewees to talk about their experience of and reactions to the various aspects of the changes that have occurred, and their likely unfolding consequences, in particular in relation to the various government initiatives highlighted. Interviewees frequently departed from the order of our questions as they told their own story. The quotations given show how the interviewees were primarily commenting on their own experiences and how these had shaped their opinions.

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[99] Most of these professors also acted as audit committee chairmen and several had been involved in Chinese standards development and regulatory bodies.

[100] Copies of the most recent (2014) version in English and Chinese are available on request from the author.

[101] See Appendix III and Tables II.1-5. The CICPA has published annual rankings of the top 100 firms: http://www.cicpa.org.cn/BNIE/201806/t20180612_50996.html (accessed 17.6.2019).

The interviews (but not the more informal conversations) were nearly all undertaken with the assistance of the Chinese member of the research team[102] and were recorded, professionally transcribed, listened to by both interviewers to check the transcription and, in several cases and especially where requested, returned to the interviewees for checking (particularly with regard to what was 'off the record'). Where interviewees preferred to answer in Chinese either they had arranged for an interpreter (whose version we generally relied on) or occasionally the Chinese member of the interview team directly interpreted the Chinese transcript for subsequent analysis. Where Chinese interviewees used English the selected quotations report their words as spoken and we have not attempted to 'polish' their English style and grammar provided the meaning is clear. Each transcript (from all locations) was read through several times by each member of the interview team and then discussed jointly to identify the salient themes, making due allowance for individuals' sometimes (self-)contradictory views and how opinions were not always straightforwardly black or white but covered shades of grey (e.g. Horton *et al*., 2004). This process was repeated until the two of us came to a consensus on how the data should be best interpreted and presented to contribute to our theoretical understanding, and on which were the most illuminating quotations to select (e.g. Klag and Langley, 2013).

Interviewees regarded some of the issues discussed as particularly sensitive, or simply did not want to be identifiable, so were assured of confidentiality. Therefore it can reasonably be assumed that they have generally spoken openly and freely, especially as one of the interview team was Chinese. There are of course no direct quotations from any of their 'off the record' comments but the development of the paper has made use of these, together with other information and insights learned from the interviews and conversations as well as from public sources (both in English and Chinese), in developing its general interpretations.

The main focus was on the nature of the relationships between the UK (and international) offices of firms and their rapidly expanding counterparts in China, and explored interviewees' understanding of the prospects for the strategy set out in 'Document 56' issued by MoF in 2009 which set out its targets for the international and domestic roles of different tiers of firms; of the likely consequences of granting

[102] Dr Shuwen Deng was then a PhD candidate at SUFE and now works in the research department of SSE.

‘H’ share licenses in 2011 to (initially) 12 leading mainland firms to audit companies listed in Hong Kong (see Appendix III); and, for the interviews in 2013 and 2014, of the consequences of the new localization requirements for the Big 4 issued in 2012 (see Section 3.3).

The basic framework of the questionnaires was based on background reading and some prior quantitative research (Deng, 2011) and they were gradually modified in the light of the insights gained during the interview process and its iterations. This gradually enabled the paper to build a variegated picture of the important linked ecologies and how these worlds are connected, drawing on the approach to analyzing institutional changes in IPSFs outlined in Section 2 above. Nevertheless a warning from one of the most senior and influential Chinese interviewees must be kept in mind:

> Well, I don’t think that you’ve omitted any sort of important issues, but I think something difficult—if you have no overall understanding of the Chinese system and so on—and so lots of things you have the reasons behind, you know, there’s kind of a connection with, you know, other part of—therefore, I think such kind of interview really meaningful, but it’s still not easy for you to have a full picture—you know, deep understanding.’ (*24IBM p.85*)

This study is therefore largely exploratory and there will be ongoing opportunities for further more detailed research into the issues and questions addressed and into their continuing development, as suggested in Section 6.1.

TABLE II Statistics on largest audit firms in China

Source: WIND Database 19.6.2018 (http://www.wind.com.cn/en/aboutus.html)

Note: 1 million Chinese yuan (RMB) approx. = £111,000 or US$145,000 (https://www.xe.com/ accessed 18 September 2018).

Table II.1 Audit fees from Chinese listed companies in 2017

	Audit Fees (million RMB)	Rank
PwC	786	1
BDO	687	2
EY	508	3
Tian Jian (=Pan-China)	440	4
Rui Hua	400	5
KPMG	360	6
Deloitte	259	7
ShineWing	229	8
Zhi Tong (= GRANT THORNTON)	229	9
Da Hua	214	10

Table II.2 Total assets audited of Chinese listed companies in 2017

	Assets Audited (billion RMB)	Rank
PwC	83,396	1
KPMG	41,735	2
EY	36,565	3
Deloitte	21,825	4
BDO	8,237	5
Rui Hua	5,237	6
ShineWing	3,801	7
Tian Jian	3,276	8
Zhi Tong	2,761	9
Da Hua	2,091	10

Table II.3 Chinese listed clients' numbers in 2017

	Clients' Number	Rank
BDO	580	1
Tian Jian	397	2
Rui Hua	339	3
Da Hua	227	4
ShineWing	218	5
Zhi Tong	180	6
Da Xin (=PKF)	135	7
Zhong Shen Zhong Huan[103]	124	8
Tian Zhi Guo Ji (= BAKER TILLY)	119	9
Hua Pu Tian Jian[104]	111	10
…	…	…
PwC	68	12
EY	64	14
Deloitte	59	16
KPMG	28	31

Table II.4 Chinese domestic IPO assets audited since 1999[105]

	Assets Audited (Billion RMB)	Rank
KPMG	13,868	1
Deloitte	13,430	2
EY	10,497	3
PwC	9,189	4
BDO	1,538	5
Tian Jian	1,450	6
Fujian Hua Xing	911	7
Rui Hua	747	8
ShineWing	662	9
Li An Da[106]	455	10

103 Member of Mazars.
104 Member of Kreston International network.
105 Because there have been many mergers among audit firms throughout the 19 years, as well as many complicated name changes, and due to other technical problems, there might be some omissions in this data. However, the overall picture that the Big 4 audited much larger customers than other firms is clear.
106 Member of Reanda International network.

Table II.5 Chinese domestic IPO clients numbers since 1999[107]

	Clients Number	Rank
BDO	372	1
Tian Jian	272	2
Rui Hua	201	3
Da Hua	130	4
ShineWing	121	5
Hua Pu Tian Jian	98	6
Zhi Tong	95	7
Zheng Zhong Zhu Jiang[108]	89	8
Da Xin	70	9
Peng Cheng[109]	66	10
…	…	…
EY	44	14
PwC	43	16
Deloitte	21	27
KPMG	19	29

107 See again footnote 105. The overall picture that the 2nd-tier network firms and other local firms have greater involvement in domestic IPO activity than the Big 4 is clear.

108 Members of HLB International.

109 Closed down by government after audit failure.

ABBREVIATIONS

ASBE	Accounting Standards for Business Enterprises (PRC)
CICA	China Institute of Certified Auditors (merged into CICPA in 1995)
CICPA	Chinese Institute of Certified Public Accountants
CNAO	China's National Audit Office
CPA	Certified Public Accountant (PRC)
CPC	Communist Party of China [*zhōngguó gòngchǎndǎng* (中国共产党)]
CSRC	China Securities Regulatory Commission (reports to Premier of PRC)
FDI	Foreign Direct Investment
FRC	Financial Reporting Council (Hong Kong)
HKICPA	Hong Kong Institute of Certified Public Accountants
IAASB	International Auditing and Assurance Standards Board (IFAC)
IPSF	International Professional Services Firm
JV	Joint Venture
LLP	Limited Liability Partnership
MoF	Ministry of Finance (PRC)
PCAOB	Public Company Accounting Oversight Board (US)
PRC	People's Republic of China
SASAC	State-owned Assets Supervision and Administration Commission of the State Council [*guózīwěi*（国资委）] (PRC)
SEC	Securities and Exchange Commission (US)
SGP	Special General Partnership [*tèshū pǔtōng héhuǒ* (特殊普通合伙)] (PRC)
SOE	State-owned enterprise (national or provincial) (PRC)
SSE	Shanghai Stock Exchange
SUFE	Shanghai University of Finance and Economics
WTO	World Trade Organization

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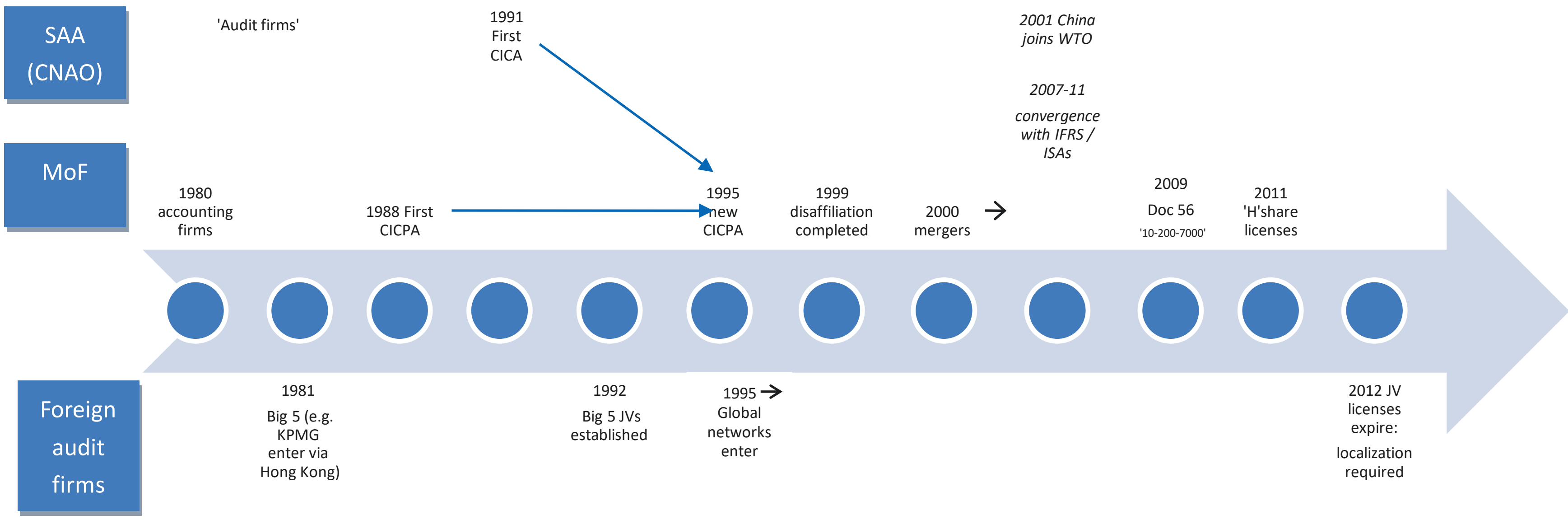
FIGURE 1: 'Domestic'[110] and 'foreign' actors in the stages of development of China's audit industry (see Section 3)



[110] Auditors of listed companies are also regulated and inspected by CSRC.