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The current development of audit market in China

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Abstract. The subject matter of this article is the stages of development of the audit market in China, including the four stages of wild development, regulated development, institutional innovation, and international development. The objective of this article is to analyse the characteristics and different strategies of the Chinese audit market at each stage of development, and to propose feasible recommendations for maintaining a stable development trend of the Chinese audit market in the future. In the course of the research, the author used general scientific methods such as analytical evaluation, comparative analysis, comprehensive evaluation and generalization. Through a comparative analysis of the indicators related to the development of the audit market in China from 1980 to 2020, the results of this article show that each stage of the audit market in China has a focus of development and different strategies. This is mainly reflected in the establishment of industry legislation, the development and growth of accounting firms, exchanges and cooperation with international and regional related organizations, the growth of the audit team, and the rapid growth of audit organizations' business revenues. The conclusion of this article is that the audit market in China has a trend of stable and rapid development. However, in order to maintain the stable and rapid development of the audit market in the future, Chinese small and medium-sized accounting firms need to improve the quality of audit services, enhance brand building, strengthen the professionalism of the audit team, as well as improve the international competitiveness of Chinese local firms.

Keywords: audit market, audit business revenue, auditor, CPA firms, audit market structure

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Introduction

With the continuous development of the socialist market economy, China's audit market has developed rapidly. As of December 31, 2020, there are more than 9,800 CPA firms in China, the total number of Chinese auditors is close to 280,000, and the audit industry revenue has grown from 6 billion yuan in 1998 to 110.8 billion yuan in 2020, with an average annual growth rate of more than

10%¹. With the emergence of the new coronavirus pandemic, which has intensified the global economic recession, a new round of scientific and technological revolution and industrial change in depth, resulting in the development of the audit industry, is also facing a complex development environment. This has also brought new opportunities and challenges for the development of the audit industry. Studying the development history of the audit market enables us to grasp the development trend of the audit market.

This paper uses the comprehensive evaluation information of CPA firms from 2003 to 2020 released by the Chinese Institute of Certified Public Accountants, using business revenue and the number of certified public accountants as measurement indicators, to analyze the current situation of the development of China's audit market, study the current size structure of China's audit market, and explore the future development path of China's audit market.

Research methods and results

At present, the number of CPA firms in China is growing fast, but the share of international "Big Four" firms in the China's audit market is growing rapidly in terms of audit market size structure. The number of small CPA firms in China is relatively large, but many of them have lost their main source of income due to the abolition of annual audits and capital inspections in China, so financial audits of companies have become the main source of income that small CPA firms are relying on again [1].

Regarding the research on China's audit market structure and firm scale, most scholars believe that China's small CPA firms are not competent enough, and the market development direction should be tilted towards the international "Big Four" accounting firms (Deloitte, Ernst & Young, KPMG and PwC) [2–5]. Scholars Liu Minghui and Xu Zhenggang believe that the reason why large CPA firms can occupy the vast majority of client resources in the auditing market is that they gain an advantage in the competition by virtue of their high reputation, while small CPA firms are in the competition Not dominant, so the market share is relatively small [6]. The authors argue that with the continuous improvement of laws and regulations, the development of China's audit market is becoming more and more international, and the more concentrated audit market is conducive to the healthy development of the audit industry, the size of the firm will affect the competitiveness in the market, which in turn leads to the differentiation of the market structure.

The evolution of the audit market

The earliest Chinese audit system can be traced back to the establishment of the post of "宰父" (Zaifu) in the Western Zhou Dynasty, and audit institutions were set up in the Tang, Song, Ming and Qing dynasties. In 1918, Xie Lin

¹ Notice of the Chinese Institute of Certified Public Accountants on the issuance of the Development Plan for the CPA Profession (2021–2025), https://www.cicpa.org.cn/xxfb/news/202104/t20210408_56087.html (Accessed: 21.05.2022).

founded the first CPA firm in China's history – 正则会计师事务所(zhengze kuaijishi shiwusuo), which marked the emergence of the CPA system in China [7]. With the establishment of the People's Republic of China, the restoration and reconstruction of the audit market was also completed. In the existing research, most scholars believe that the development of China's audit market has gone through five stages: Before China's reform and opening-up policy (before 1979)¹, the period of restoration and reconstruction (1979–1986), and the period of standardized development (1986–1993), the period of institutional innovation (1993–2005) and the period of international development (2005 – present) [8–10].

Periodization. In studying the issue of the development of the audit market in modern China, by analogy with Yuri N. Guzov's research on the development history of auditing in Russia, the author is guided by the development time of Chinese auditing norms and technical methods, and, with addition of the considered chronological order of factors, presents the development of China's audit market in the following four stages [11–12].

The first stage, the “wild” development period (1979–1986). From the establishment of the first certified public accounting firm to the promulgation of the first auditing legislation, China's auditing market experienced a lot: from the Great Depression before the reform and opening up to the normative development after the promulgation of the auditing regulations. Before the reform and opening up in 1979, due to China's highly centralized planned economy, auditing was replaced by financial inspection. With the implementation of the reform and opening-up policy, in December 1980, the Ministry of Finance issued the Interim Regulations on the Establishment of an Accounting Consultant Office, which is an important sign of the restoration and reconstruction of China's auditing system [13–14]. During this period, the audit market was dominated by the government, and the CPA firm was attached under the administrative unit and supervised by the administrative unit. There existed certified public accountants and certified public auditors, certified public accounting firms and certified public auditors' firms in the audit market, and therefore this led to a situation where there was no unified supervision of the audit market. As of 1986, there were 2,100 certified public accountants and certified public auditors in China, and 269 certified public accounting firms and certified public auditors' firms, while the main business income developed from simple auditing of financial statements to auditing and providing accounting consulting services to foreign-invested enterprises [15]. The development of China's audit market was still in its infancy. Therefore, the implementation of audit legislation and standards was a key factor in the development of the audit market to the next stage.

¹ The Chinese economic reform or reform and opening-up, known in the West as the opening of China, is the program of economic reforms termed “Socialism with Chinese characteristics” and “socialist market economy” in the People's Republic of China (PRC). Led by Deng Xiaoping, often credited as the “General Architect”, the reforms were launched by reformists within the Chinese Communist Party (CCP) on December 18, 1978, during the “Boluan Fanzheng” period. URL: https://en.wikipedia.org/wiki/Chinese_economic_reform (Accessed: 21. 05.2022).

The second stage, the period of standardized development (1986–1993).

On July 3, 1986, the State Council promulgated the Regulations of the People's Republic of China on Certified Public Accountants, which established the legal status of CPA for the first time¹. By 1988, the number of CPAs had grown to 3,000 and 250 CPA firms, with business areas still dominated by foreign-invested enterprises. In 1991, the rules of admission of CPAs were in accordance with international examination methods, and a national unified examination for CPAs was held, and only those who passed the examination were qualified to practice. In 1992, the international "Big Six" accounting firms (now the "Big Four") and Chinese CPA firms set up a Sino-foreign cooperative CPA firm [15]. With the promulgation of the Law of the People's Republic of China on Certified Public Accountants on October 31, 1993,² and the merger of certified public accountants and certified auditors, China's auditing market entered a period of standardized development. The statistics on the audit market for the period 1986–1993 are shown in Table 1:

Table 1. The audit market in China from 1986 to 1993

Years	Organizational business revenue	Certified Public Accountants	Certified Public Auditors	Number of Certified Public Accounting Firms	Number of Certified Public Auditors' Firms
1986	-	500	1,600	80	189
1987	-	-	-	-	-
1988	-	3,000	-	250	-
1989	-	4,200	-	325	-
1990	-	-	7,273	468	2,322
1991	-	6,700	-	510	-
1992	-	10,000	-	2,400	-
1993	-	15,000	-	2,500	-

Source: developed by the author. <https://www.cicpa.org.cn/xxcx/>

As can be seen from Table 1, the number of Chinese CPA firms increased rapidly from 1986 to 1993, CPA firms and certified public auditors' firms increased from 269 to 2,500 (an increase by 9.3 times), and the number of certified public accountants and certified public auditors increased from 2,100 to 15,000 (an increase by 7.1 times), which shows that, with the development of China's national economy, China's audit market was also developing rapidly. With the implementation of the strict assessment system and the standardization

¹ Regulations of the People's Republic of China on Certified Public Accountants. It was promulgated by the State Council on July 3, 1986 and abolished on January 1, 1994. <https://baike.so.com/doc/7493699-7765552.html> (Accessed: 24. 05.2022).

² The Law of the People's Republic of China on Certified Public Accountants. Adopted by the 4th session of the 8th Standing Committee of the National People's Congress on October 31, 1993 and promulgated by Presidential Decree No. 13 on October 31, 1993, it became effective on January 1, 1994. <https://asia-business.ru/law/law2/accounting/accountant/> (Accessed: 24. 05.2022).

of laws and regulations, this ensured the professional quality of auditors and laid a solid foundation for the professional and standardized development of certified public accountants.

The third stage, the period of institutional innovation (1993–2005). With the deepening of the economic reform, the original dependency system of certified public accounting firms seriously undermined the order of fair competition in the market. In order to eliminate the drawbacks of the dependency system, from 1998 to the end of 1999, the audit industry had to carry out and complete the work of decoupling and restructuring, specifically in the “personnel, financial, business, name” four aspects, to become a real sense of the market intermediary organizations [16]. On February 4, 1999, the Ministry of Finance issued a total of 11 Independent Auditing Standards for Chinese Certified Public Accountants,¹ which initially established the framework of China’s independent auditing standards. In addition, in the construction of the industry system, the integrity construction and professional ethics construction of auditors were comprehensively strengthened. Statistical data on the audit market for the period 1994–2005 are shown in Table 2:

Table 2. The audit market in China from 1994 to 2005

Years	Organizational business revenue (billion RMB)	Certified Public Accountants (thousand)	Number of Certified Public Accounting Firms
1994	-	-	-
1998	6.0	57.4 (practicing ²)	-
1999	5.2		
2000	8.0	-	4,287
2001	10.7		
2002	11.0	-	-
2003	13.0	61.3 (practicing)	4,627
2004	16.9	66.6 (practicing)	-
2005	-	69.0 (practicing)	-

Source: developed by the author. <https://www.cicpa.org.cn/xxcx/>

From Table 1 and Table 2, it can be concluded that from 1993 to 2005, the number of practicing CPAs increased from 15 thousand in 1993 to 66.6 thousand, and the number of certified public accounting firms increased from

¹ Independent Auditing Standards for Chinese Certified Public Accountants. On April 2, 1999, the Ministry of Finance issued a notice on the third batch of "Independent Auditing Standards for Chinese Certified Public Accountants", which was repealed on March 1, 2008. http://www.law-lib.com/law/law_view.asp?id=14323&page=2 (Accessed: 24.01.2022).

² The members of the Institute of Certified Public Accountants mainly include practicing members (CPA) and non-practicing members. After passing the CPA examination and working in an accounting firm for a certain period of time, they can become a practicing CPA only after being registered with the Institute of Certified Public Accountants. Just by passing the exam, you can apply to become a non-practicing member. <https://baike.baidu.com/item/注册会计师/212405> (Accessed: 26.05.2022).

2.5 thousand in 1993 to 4.627 thousand, the business income in 2003 also increased from RMB 6 billion in 1998 to RMB 13 billion, the growth rate of the audit market development is relatively large, because China's continuous policies promoted the development of the audit industry, especially the implementation of decoupling in 1999. After the restructuring, the audit industry achieved unprecedented development. The relatively large growth in the development of the audit market was due to the policies that China continuously introduced to promote the audit industry. The development of the CPA profession, especially after the implementation of decoupling and restructuring in 1999, achieved unprecedented development.

The fourth stage, the international development period (2005 – present). Since the beginning of the new century, China's economy has continued to develop rapidly, and enterprises have actively participated in international competition. The characteristics of China's economic international development have become more and more obvious. In 2005, the audit industry established an internationalization-oriented industry development strategy. In February 15, 2006, the Chinese Institute of Certified Public Accountants (CICPA) issued 48 auditing standards for CPAs of China,¹ realizing the convergence of Chinese auditing standards and international standards [17–18]. On December 6, 2007, mainland China and Hong Kong signed a joint statement on the equivalence of auditing standards, which marked the convergence of auditing standards with international standards on equivalence. On this basis, the China Auditing Standards Committee actively promotes the revision of auditing standards in accordance with the principle of international convergence. The latest revision of Chinese auditing standards on November 10, 2010, achieved continuous and comprehensive convergence with international auditing standards [19]. This provides strong technical support for the international development of China's audit profession. The main quantitative indicators related to the development of China's audit market for this period are shown in Table 3.

As can be seen from Table 2 and Table 3, the number of CPA firms is rapidly increasing in this period from 2005 to 2020, especially from 4,627 in 2003 to 9,800 in 2020, which is a relatively large growth rate, twice as large as in 2003. Such a rapid development of CPA firms is due to the increasing number of listed companies in China after joining the WTO and the continuous development of the market economy, which has led to an increasing demand for firms, resulting in the emergence of a large number of small and medium-sized firms.

In terms of changes in the number of CPAs, the number of CPAs in China had been growing year by year, and, at the end of 2020, the number of CPAs nationwide totaled 285.8 thousand. The national CPA firms achieved business

¹ Auditing Standards Certified Public Accountants of China. On February 15, 2006, the Chinese Institute of Certified Public Accountants issued the auditing standards for Chinese certified public accountants. and revised on November 1, 2010, December 23, 2016, February 20, 2019, May 7, 2021, and January 5, 2022, respectively. https://www.cicpa.org.cn/ztzl/Professional_standards/xxzztx/zyzz/sjzz/index.html (Accessed: 26.05.2022).

revenue of RMB 110.8 billion in 2020, which exceeded the scale of RMB 100 billion for the first time. Compared with 2018, it increased by 28.43%.

Table 3. The audit market in China from 2006 to 2020

Years	Organizational business revenue (billion.RMB)	Certified Public Accountants (thousand)	Number of Certified Public Accounting Firms
2006	-	69.8 (practicing)	-
2007	-	82.2 (practicing)	7,011
2008	31.0	153.0	7,284
2009	31.7	155.0	7,602
2010	37.5	186.2	7,785
2011	44.0	197.1	7,976
2012	51.0	193.7	8,149
2013	55.5	202.6	8,208
2014	58.9	215.1	8,295
2015	69.0	225.1	8,374
2016	70.0	232.1	8,460
2017	71.1	237.2	8,605
2018	79.3	250.6	9,005
2019	-	267.7	9,055
2020	110.8	285.8	9,800

Source: developed by the author. <https://www.cicpa.org.cn/xxcx/>

In July 2021, the Chinese Institute of Certified Public Accountants (CICPA) released Information on the Top 100 Certified Public Accounting Firms in terms of business revenue in 2020,¹ according to the information of the top 100 firms, in 2020, the highest business revenue of Chinese certified public accounting firms was PricewaterhouseCoopers, achieving business revenue of RMB 6.12 billion; Ernst & Young and Deloitte followed, ranking second and third, with business income of RMB 4.76 billion and RMB 3.97 billion respectively. KPMG ranked fourth with business income of RMB 3.417 billion. For a long time, the big four international accounting firms have had strong control and influence in the Chinese audit market, and occupied a large share of the market.

Conclusions and Recommendations

In the 21st century, in the era of rapid economic development of information technology, the development of China's audit market has also made brilliant achievements. This is specifically demonstrated in the stages of "wild" development, standardized development, institutional innovation, and international

¹ Notice of the Chinese Institute of Certified Public Accountants on the Release of the Information on the Ranking of the Top 100 CPA Firms in the Comprehensive Evaluation of 2020, 14.07.2021 URL: https://www.cicpa.org.cn/xxfb/news/202107/t20210716_62682.html (Accessed: 05. 06.2022).

development of the audit market, each with a focus on development and different strategies, as shown in the following areas.

Establishment of audit legislation. From the 1986 Regulations on Certified Public Accountants to the 1993 Law of the People's Republic of China on Certified Public Accountants, the legal status of auditing in China was established. Another is the system of industry regulation for CPAs in China, including admission rules, examination system, etc. These systems played an important role in regulating the operation and management of accounting firms.

The development and growth of accounting firms. The development of Chinese certified public accounting firms increased from 269 in 1986 to 9,800 in 2020. During this time they experienced major institutional innovations of decoupling and restructuring, the merger of certified public accounting firms and certified public auditor firms, and the reform of the dependency system, all of which played an important role in promoting the development of the audit market.

Exchange and cooperation with international and regional organizations. After joining the WTO, China has actively established friendly relations with international and regional organizations, and the convergence of Chinese auditing standards with international auditing standards has strengthened friendly international cooperation relations and facilitated business transactions.

The growth of the audit team. In the past 30 years, the number of auditors increased from 2.1 thousand in 1986 to 285.8 thousand in 2020. From passing the assessment, the requirement to obtain auditor qualifications was updated by means of international examinations. This improved the professional quality of auditors and better served the development of the audit market at the corresponding stage.

The rapid growth of the audit organization's business income. In the past 22 years, audit revenue has increased from RMB 66.1 billion yuan in 1998 to RMB 110.8 billion in 2020, a growth rate of 94.58%. This shows that China's audit market is in a situation of stable and rapid development. Among them, the business income of the international "Big Four" accounting firms in 2020 is RMB 18.26 billion yuan, accounting for 16.48% of the total business income.

Therefore, in order to maintain a stable development trend in China's audit market in the future, it is necessary (1) to improve the service quality of small and medium-sized accounting firms in China, and, based on localization, strengthen the brand building of the firm and increase the audit market share; (2) to strengthen the construction of audit team and improve the professional quality of auditors; (3) to strengthen international exchanges and cooperation, enhance the reputation of accounting firms, and enhance international competitiveness.

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