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Audit market in China

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INTRODUCTION

Relevance of the topic. China is the second largest economy in the world, in recent years, due to the increasing scale of companies, there has been an increase in the demand for auditing services. The audit function is a kind of "economic police" and is of great significance to ensure the orderly development of market economy. In 1978, with the beginning of economic reforms in China, the development of market relations intensively began to develop in the Free Economic Zones, then transferred to the mainland China. After that, China took Macao and Hong Kong under its jurisdiction, keeping their accounting and auditing systems unchanged. Areola of other international audit regulations on the mainland China's territory were preserved.

In 1996 and 1997, the Chinese Institute of Certified Public Accountants (CICPA) joined the Confederation of Asian Pacific Accountants (CAPA) and the International Federation of Accountants (IFAC), and continued to serve on their boards and recommended its representatives to these boards, thus enhancing the status and influence of the Chinese audit industry in the international arena. However, compared with the development of global trade activities and the increasing integration of national economies, the obvious differences of auditing standards in different countries greatly increase the cost of doing business and financial errors, and affect the efficiency of international commercial transactions. Therefore, global economic and trade cooperation is based on international convergence of auditing standards. The International Federation of Accountants (IFAC) published a report on the use of International Standards on Auditing (ISAs) by countries around the world in October 2019, which shows that up to 130 countries around the world have directly or partially adopted ISAs¹. As the leader of global economic activity nowadays, it is inevitable that China should find an approach to international standards on auditing that takes into account the characteristics of the Chinese situation.

Teaching Audit in Higher Education Institutions in China. By the end of 2021, there are more than 100 Higher Education Institutions in China teaching audit at undergraduate level, and 60 Higher Education Institutions have authorization for master's degree in audit. Many Higher Education Institutions mainly teach audit related to the CPA exam. This provides a foundation for the development of auditing in China. After graduation, students often prepare for the CPA (Certified Public Accountant) professional

¹ Interational standards: 2019 global status report. [Electronic resource] URL: https://www.ifac.org/_flysystem/azure-private/publications/files/IFAC-International-standards-2019-global-status-report.pdf (accessed: 01.03.2023)

accreditation to become professional auditors. With the increasing number of Chinese companies trading in global markets, auditing is becoming an important tool for transparency and confidence in financial reporting.

The audit industry is the result of a certain period of socio-economic development accompanied by the division of ownership and management of the enterprise. Audit is an industry, therefore the audit services market is also an industry market. According to Gu Fenling, "the market is a place of goods circulation and a set of exchange relations"². According to O.V. Karabanov: "Market is a set of economic relations based on regular exchange operations between producers of goods (services) and consumers under competitive conditions"³. There are many different concepts in Chinese and foreign academic articles on economics, but they are essentially similar to these concepts. Audit service market, same as other service markets, consists of elements such as subject, object and place of trade in audit service market. Specifically, the subjects of consumption in the audit services market are users of audit information, including investors, creditors, managers of enterprises, government regulators, and potential investors and creditors. The subjects of supply in the audit services market are audit organizations and auditors who use their professional knowledge, skills and experience in order to make judgments on the compliance of audited financial statements with accounting standards, express an opinion and communicate it to the users of accounting information from an independent, objective and fair position, which increases the reliability of financial statements. At the same time, the auditor can provide advice and services on accounting, tax, management, information and other aspects. The object of the audit services market is the audit product, which is formally the product and services provided by the auditor in accordance with the demands of the client. Audit products include not only audit reports, but also a variety of non-audit services provided to clients, including services in accounting, valuation, capital review, tax, management consulting, etc.

In accordance with the terminology "service" there is a distinction between tangible services and sociocultural (intangible) services. Sociocultural services include medical services, cultural services, tourism, education, legal, accounting, information technology services, etc⁴. Although audit services are not mentioned separately in the terminology of services, they are included in the intangible services, since

² Gu Fenling. Research on China's independent audit market. Beijing: China Finance and Economy Press. 2007, 9. 210c.

³ Karabanova, O.V. Theory of sectoral markets: Educational and methodical manual. Moscow : Limited Liability Company "Scientific Consultant", 2015. 89 p.

⁴ Gutzeit, E.M. Theoretical Foundations of Audit. 3-rd edition, supplemented and reworked. Moscow: Limited Liability Company "Sam Polygraphist", 2022. 1006 p.

the subject of activity in auditing is not a physical object, but the flow of information (which is expressed in audit conclusions and reports). This also indicates that there is no specific local place for audit operations. In other words, the market for audit services is a mobile market.

The concept of "services" is generally regarded as private or commercial, voluntary or involuntary, paid or free, etc. It is obvious that audit services are commercial and fee-based, and the price becomes the bridge between the demand and supply of audit, and as long as there is a transaction between the demand and supply of audit, the transaction price will inevitably be formed. As to whether it is voluntary or involuntary, the situation is quite complicated. Usually, in a perfect market, there is a demand for voluntary initiative audit in the audit service market. However, the existence of obligatory auditing certainly increases the cost of services for enterprises, which increases the financial burden on the audited business. At the same time, an important essential feature of the audit services market, which distinguishes it from other service markets, is the preservation of the independence of the audit subject, which is a necessary condition and guarantee of effective functioning of the audit services market. Thus, the audit services market is a transactional behavior between supply and demand at a certain price level and the resulting financial responsibility relations.

China and Russia are two countries with significant influence in the global economy, and both countries have traveled a long road to the formation of the audit market. Despite the fact that modern auditing is quite developed in these countries, each of them has its own peculiarities, which determined the relevance of the research. In 2015, Russian President Vladimir Putin and the President of the People's Republic of China Xi Jinping signed a joint statement on cooperation on the conjugation of the construction of the Eurasian Economic Union (EEU) and the Silk Road Economic Belt project. The document was approved by the leaders of the two countries following bilateral discussions⁵. Along with the strengthening of friendly relations between China and Russia, the two countries are establishing closer economic relations: more and more Chinese enterprises are investing in Russia, and the scale of trade is increasing. Thus, there are broad prospects for cooperation between the Russian and Chinese audit industries.

On November 18, 2023, China and Russia signed the Memorandum of Equivalence of Audit and Accounting Systems, which promotes cooperation between enterprises in the two countries and provides

⁵ Russia and China have agreed to "dock" the EAEU and Silk Road projects. [Electronic resource] URL: <https://tass.ru/ekonomika/1956881> (accessed: 01. 03.2023)

synergy for the development of the audit industry in China and Russia. Thus, it is important to explore the common features and differences in the development of the audit market in China and Russia, it is of great significance to the development of cooperation between the audit markets of Russia and China.

In addition, the largest international audit and consulting companies (the "Big Four") currently have a high share of the audit market in China. In this regard, under the conditions of economic globalization, China's audit industry has to face not only domestic but also international competition.

Some theoretical and practical questions emerges. How has the audit market developed in China? What are its characteristics? What are the positive effects from the return of Hong Kong and Macao on the development of the audit market in China? What is the impact of audit service transactions between Taiwan and mainland China on the development of the audit market? What impact has China's membership in IFAC had on the competitiveness of Chinese auditing? What are the features of Chinese auditing standards compared to international auditing standards? How have the international audit and consulting firms of the "big four" developed in the audit market in China and what are the differences between Chinese audit organizations and them? What are the differences in the development of the Russian and Chinese audit market? The analysis of these facts determines the relevance of the chosen topic of this research.

Degree of development of the research topic. The history of audit and audit market is an actual and demanded topic among scholars. In China database by keywords "audit in China" was found more than 12 thousand scientific publications, and only one of them is a scientific publication titled "Audit Systems in China and Russia" (2012). But in eLIBRARY.RU by keywords "audit in China" was found 30 scientific publications, of which 10 scientific publications were devoted to the topic "Comparison of audit in China and Russia". Among them N.N. Karzaeva, V.M. Bautin, A. Palidan considered the role and position of audit activity in the economy of Russia and China⁶. V.A. Kutsenko and E.V. Kolesnikova compared the characteristics of modern audit development in Russia and China⁷. T.D. Tydykova and E.V. Ostanina compared legal regulation in Russia and China⁸. This means that the comparative analysis of audit markets in China and Russia has a poor practical development in the literature.

⁶ Karzaeva, N.N., Bautin, V.M., Polidan, A. Regulation of audit activity in Russia and China // Vestnik of Kazan State Agrarian University. 2016. T.11, № 2(40). P. 91-94.

⁷ Kutsenko, V.A., Kolesnikova, E.V. Comparative characteristics of the development of modern audit in Russia and China // Modern approaches to the transformation of concepts of government regulation and management in socio-economic systems : collection of scientific papers of the 9th International Scientific and Practical Conference, Kursk, February 20-21, 2020. Volume 1. 2020. P. 258-262.

⁸ Tydykova, T.D., Ostanina, E.V. Legal regulation of audit in Russia and China // Society and economy of the post-Soviet space : International collection of scientific articles / Edited by A.V. Gorbenko. Vol. Issue XII. Lipetsk : Scientific Partnership "Argument", 2015. P. 31-35.

Intensive developments of international scholars on audit topics have created a significant intellectual potential. A significant contribution to the formation and development of audit was made by L.R. Dicksee and R.H. Montgomery^{9,10}. The essence of audit is detailed in the studies of R. Adams and J. Robertson^{11,12}. American scholars R. Mautz and H. Sharaf contributed to the history of audit and emerged postulate system¹³. Further development of audit methodology was reflected in the works of British scholar D. Flint¹⁴. In current practice, the issues of audit theory formation and substantiation of its role in the development of audit activity are devoted to the works of a number of prominent Russian scholars, among which are M.A. Azarskaya, P.P. Baranov, E.M. Gutzeit, V.N. Kim, M.V. Melnik, V.P. Suitz, A.E. Suglobov, V.T. Chaya, A.D. Sheremet, I.N. Guzov, V.Y. Sokolov, S.M. Bychkova, R.P. Bulyga and others. The rationale for the need to form a theory of audit is studied in detail in the works of A.D. Sheremet¹⁵. In the works of E.M. Gutzeit the essence of audit is considered from three positions: as a science, as an entrepreneurial activity and as an object of statistical observation¹⁶. In the studies of V.N. Kim audit is defined as a form of scientific knowledge, the subject of which is not studied deeply enough¹⁷. M.A. Azarskaya also considers audit from three positions - as a field of scientific and specialized knowledge, a field of practical activity, and an information system¹⁸. Critically analyzed “the concept of further development of audit activity in the Russian Federation” I.N. Guzov^{19,20}, and he presents a system analysis of the practical activity of audit and divides the development of audit into six periods, and argues that digitalization in the field of audit is aimed at the formation of continuous audit (audit 4.0)²¹. P.P. Baranov's research is devoted to the development of the concept of professional judgment in audit²². A special contribution to the development of methodology of financial control in general and audit as its separate type was made by M.V. Melnik^{23,24}.

⁹ Dicksee, L.R. Auditing: A practical manual for auditors. London: Gee and Co.; 1892. 1110 p.

¹⁰ Montgomery, R.H. Auditing theory and practice. NY: The Ronald press company; 1912. 673 p.

¹¹ Adams, R. Fundamentals of Audit. Transl. from Engl. Sokolov Y.V., ed. M.: UNITI; 1995. 398 P.

¹² Robertson, J. Audit. Moscow: KPMG, Auditing firm "Contact"; 1993. 496 P.

¹³ Mautz, R.K., Sharaf H. The philosophy of auditing. Sarasota, Fl.: American Accounting Association; 1961. 299 p.

¹⁴ Flint, D. Philosophy and principles of auditing; an introduction. Basingstoke: Macmillan Education; 1988. 191 p.

¹⁵ Sheremet, A.D., Suyts V.P. Audit. Textbook. 6-e ed. Moscow: INFRA-M; 2014. 352 P.

¹⁶ Gutzeit, E.M. Auditing from the standpoint of theories of decision making under uncertainty// Audit journal. 2001;8:54-61.

¹⁷ Kim, N.V. Audit: nature, structure, problems. Monograph. Ekaterinburg: Business Book; 2004. 120 P.

¹⁸ Azarskaya, M.A., Mironova O.A. Development of the audit concept// Audit journal. 2005;11:22-29.

¹⁹ Guzov, I.N. Risk-oriented approach and the problems of formation of the system of internal control// Audit Journal. 2013.1. pp. 62-71.

²⁰ Guzov, I.N., Strelnikova, O.V. Planning Practice in a risk-focused audit. Audit Journal. 2015.1.pp. 29-41.

²¹ Guzov, I.N. Directions of digitalization of accounting and audit // Audit. 2021. №4. P.11-16.

²² Baranov, P.P. To the question of the need to form a scientific theory of audit. Vestnik NSUEM. 2013;(4):84-100.

²³ Melnik, M.V., Panteleev A.S., Zvezdin A.L. Revision and Control. Melnik M.V., ed. M.: FBKPRESS; 2003. 520 P.

²⁴ Melnik, M.V., Berdnikov V.V. Analysis and control in a commercial organization. Moscow: Eksmo; 2010. 560 P.

Contributions of scholars in China on audit issues. Since the restoration of the audit system in China, professionals and scholars have focused on researching and adopting foreign advanced experience and engaged in research on the development of audit theory. Famous scholars have conducted research on audit theory such as Xie Lin, Pan Xulun, Guo Daoyang, Luo Erxing, Yan Jin'e, Xu Zhengdan, Yang Shizhang, Chen Yugui and others.

At present, there are studies on auditing standards, which are aimed at investigating the place of international standards on auditing in the system of normative regulation of auditing activities, as well as identifying the problems of their application. In connection with the introduction of new auditing standards, scholars pay attention to the effect of the introduction of new auditing standards. This is discussed in the works of many Chinese scholars, including Zhang Yiwen, Xiao Shengkang, Sun Na, Yang Kaiyuan, Li Renhua, Zhang Yiwei, Zhang Jindan, Guo Baochun, Guo Rong, Zou Yue, Dong Yukai, Zhu Zegan, Jiang Lisha, Li Yanxi and others. Several scholars, including Lu Manhua, Li Xiaoqing, Tang Ming, Qi Feng, Guo Yanting, Liu Yu, Jin Jigang, and Tang Hongtao, have also investigated the convergence of Chinese auditing standards with international auditing standards.

The earliest research related to the audit market is Zeff and Fossum who derived the audit firm market share based on the share of total income, assets and income of the audit firm's clients in the total population²⁵. Following this, Rhode, Whitsell, Kelsey, Schiff, Fried and Palmrose tested the industry concentration of the audit market in the United States²⁶²⁷. The research found that as part of the development of the audit market in Western countries, after a long period of competition and consolidation of audit organizations, a situation of monopolistic competition or oligopoly controlled by a few large firms has developed in many countries²⁸.

A number of scholars have actively researched the audit market in China. Such as Li Shuhua, Xiang Jinjin, Wang Xiaohao, Li Tiao, Zhang Lihong, Guo Ying, Ke Dagang, Hou Xiaojing, Kang Meng, Cheng Qian and others. The audit market in China is characterized by a competitive market structure, but in China's audit market, the share of international "big four" companies has increased significantly and continues to expand its share. While Chinese audit organizations are still in a competitive situation, and the phenomenon of regional segmentation is a serious limitation to market expansion.

²⁵ Zeff, S.A., Fossum, R.L. An analysis of large audit clients// *Accounting Review*.1967.vol42.№2.P.298-320.

²⁶ Rhode, J.G., Whitsell, G.M., Kelsey, R.L. An analysis of client-industry concentrations for large public accounting firms. *The Accounting Review*.1974.vol49.№4.P.772-787.

²⁷ Schiff, A., Fried, H.D. Large companies and the Big Eight: An overview. *Abacus*.1976.vol12.№2.P.116-124.

²⁸ Palmrose, Z.V. Audit Fees and Auditor Size: Further Evidence. *Journal of Accounting Research*. 1986.vol24.№1.P.97-110.

The considered topical issues predetermine the purpose, objective and relevance of the research in this study.

The purpose of the research is to identify the peculiarities of audit market formation in China, to analyze the convergence of Chinese audit standards with international standards on auditing, as well as to conduct a comparative analysis of the development of audit markets in Russia and China as developing economies, and to reflect the trends in the development of cooperation between audit markets in China and Russia.

The mentioned goal is concertized in the following **tasks of the research**, which the author sets for himself:

1. Comprehensive research on the structure of China's current audit market based on multiple firm organization.

2. To study the current development of the audit market in Hong Kong, Macao and Taiwan, and to identify the cooperation models for business operations between these regions and the audit services of mainland China.

3. To analyze the status of convergence of Chinese auditing standards with international standards on auditing and explore the features existing in Chinese auditing standards, evaluate the effect of the implementation of new auditing standards in China.

4. To analyze the common features and differences that exist in the development of audit markets in Russia and China as developing economies.

5. To present trends in the development of cooperation between the audit markets of Russia and China.

The object of the research is the functioning of the audit market in China and Russia as developing economies, as well as the current practice of market regulation and application of Chinese auditing standards.

The subject of the research is the peculiarities of audit market formation in China, convergence of Chinese audit standards with international standards on auditing, as well as a comparative analysis of the development of audit markets in China and Russia as developing economies.

Compliance of the thesis with the passport of scientific specialty. The area of research corresponds to the requirements of the Passport of specialty VAK RF 5.2.3. Regional and sectoral economics: accounting, auditing and economic statistics (economic sciences):

11.6.— "Auditing activity";

11.7.— "Methods of audit, control and revision. Classifiers of distortions in accounting and auditing";

11.8.— "Regulation and standardization of rules of audit, control and revision";

1.14.— "Special economic and legal regimes of regional and local development";

4.19.— "Features of small and medium forms of entrepreneurial activity in service industries";

4.21.— "Ensuring competitiveness of service enterprises";

11.13.— "Features of formation of statistical reporting by industries, territories and other segments of economic activity";

11.15.— "Statistical observation".

Methodology and research methods. The emergence and development of independent audit cannot be separated not only from the generation of relevant theories, but also from the advancement of real practice. Therefore, the theoretical and methodological basis of the work is formed by the scientific views of domestic and foreign experts and scholars. In general, the research method adopted is based on normative research and the combination of normative and empirical research. The methodological basis of this study is conditioned by the use of the following methods of scientific cognition:

1. based on the method of logical addition of chronological dominants of the scholar I.N. Guzov^{29,30,31} is applied to conduct a systematic research of the emergence and development of the audit market in China. On this methodological basis the characteristics of the audit market formation in China are analyzed and formed the main stages of its development. The key dominants of the audit market development are legal norms and regulatory forms of audit.

2. the method of comparative analysis is actively used. In many aspects of the research, such as the scale of audit organizations, auditing in Hong Kong, Macao and Taiwan, and the convergence of Chinese auditing standards. The method of comparative analysis is extensively used in this research.

3. combinations of qualitative research methods and quantitative analysis methods are used extensively in this research. Both qualitative methods are used to explore many issues to reveal their

²⁹ Guzov, I.N. History of auditing in Russia. Periodization and challenges of development // *Audit Financiar*. 2016. Vol. XIV, No. 6(138). P. 651-658.

³⁰ Guzov, I.N. Audit in Russia: stages and factors of development // *Socio-economic development of Russia and China through the eyes of Russian and Chinese economists*. St. Petersburg - Beijing : Scythia-Print, 2019. P. 159-174.

³¹ Guzov, I.N. History of audit development in Russia // *Audit*. 2019. № 4. P. 7-12..

theoretical values and reflect the laws of their development, and at the same time, a large amount of data is used to justify and support the proposed theories using data.

4. the methodology of analyzing the statistical observation of the audit market in China is based on the studies of the Russian scholar E.M. Gutzeit and on the methodology of forming statistical reports on the audit market of the Ministry of Finance of the RF.

The information basis of the research. Examination of the effectiveness of academic studies and advanced auditing practices in China and in various countries, official documents of the Chinese Institute of Certified Public Accountants, and regulatory documents of the Chinese government. The sources of data were the Statistical Bureau of the PRC, the Securities Market Regulatory Commission of the PRC, the CSMAR database, Wind Economic Database, annual reports on the website of the Chinese Institute of Certified Public Accountants, the website of the Ministry of Finance of the RF, Accounting and Financial Reporting Council in Hong Kong, Professional Committee of Accountants Macao (PCAOB), Financial Supervisory Commission R.O.C. (Taiwan), which were processed on a computer using Microsoft Excel and SPSS programs.

Scientific novelty of the research consists in the fact that the author's original comprehensive characterization of the modern audit market in China as a developing economy, reflecting the synergy of accounting systems of mainland China, Macao, and Hong Kong, is substantiated and proposed. Synergy is considered through the prism of three main directions of modern audit development: strengthening of audit independence, introduction of international standards on auditing and self-regulation in audit.

Provisions for Defense:

1. Identified 6 main periods of audit market development in China based on the application of chronological dominant methods, including the development of legislative and regulatory framework, improvement of auditing standards, strengthening the scale of audit organizations' activities.

2. It revealed the existence of different accounting and auditing systems in the Chinese audit market: mainland China, Macao, Hong Kong and Taiwan, their functional interaction with each other and having a common trend of development based on the application of ISA.

3. Identified key segments of the audit market in China, including the audit of list companies (the segment of large and international auditors) and the work of medium and small audit companies in respect of which the government is actively syndicating (consolidation of the scale of the organization).

4. It is determined that Chinese auditing standards and ISAs have similarities in terms of structure, content and auditing model, but the Chinese auditing standards system retained two specific standards on capital verification and communications between predecessor and successor CPAs, with no international counterparts.

5. Identified features methods of government regulation of the audit market based on the use of monetary penalties and moral exhortation.

6. Identified the opportunity to compare the audit markets of Russia and China by comparable qualitative and quantitative indicators on the basis of using the current national statistical observation forms.

Main scientific results reflected in the author's publications containing scientific novelty, the following most significant elements can be identified:

1. Proposed an original systematization of the history of audit development in China, based on the application of the method of chronological dominants. Identified 6 main stages of the evolution of the audit market in China based on qualitative strengthening of audit institutions³²:

Period 1 — the origin of audit ("wild" audit) (1978-1986);

Period 2 — the formation of pro-government auditing (1986 -1993);

Period 3 — government regulation and emergence of obligatory audit (1993-1998);

Period 4 — strengthening of audit independence and standardization (1998-2005);

Period 5 — convergence and transition to international standards (2005-2017);

Period 6 — self-regulation (2017-present).

At each period, there was a qualitative strengthening of China's audit market based on the development of the legislative and regulatory framework and the improvement of auditing standards, which played an active role in the evolution^{33,34,35}.

2. Revealed the peculiarities of the formation of the audit market in China, which consists of different accounting and auditing systems of the world (the coexistence of systems is a unique phenomenon). There are accounting and auditing systems of mainland China, Macao, Hong Kong and

³² Liu, Yali. Comparative analysis of the development of audit markets in Russia and China // Tomsk State University Journal of Economics. 2023. No. 61. P. 113-135.

³³ Liu, Yali. The current development of audit market in China // Tomsk State University Journal of Economics. 2022. No. 59. P. 319–328.

³⁴ Liu, Yali. Performance Audit: The Development Conditions in China // Finance: Theory and Practice. 2023. Vol. 27, No. 4. P. 80–92.

³⁵ Liu Yali. State and prospects the development of performance audit in China// Modern Science: Actual Problems of Theory and Practice. Series: Economics and Law. 2021. № 1. P. 45-49.

Taiwan, which are subject to different legal and regulatory institutions. These systems are currently being unified based on ISA. There is functional interaction between these systems, i.e. the possibility, for example, for Hong Kong audit firms to audit clients in mainland China and conversely.

3. Identified the key segments of the audit market in China based on quantitative analysis of large and small audit companies. The current structure of organizational and legal forms of participants in the Chinese audit market is formalized based on dynamic statistical observation. Special attention is paid to the positioning of the largest international audit and consulting companies ("big four") in the formation of the audit market, to the syndicalization of audit companies (increase in scale and change of organizational-legal forms) and to the change in the functionalities of audit activity³⁶.

4. Characterized the key similarities and differences in the structure and content of Chinese and international standards on auditing that determine audit quality. According to the results of the study, it was found that in accordance with the peculiarities of the transition process to a market economy in China, the Chinese Institute of Certified Public Accountants (CICPA) has maintained auditing standards on 1153 "Communications between predecessor and successor CPAs" and 1602 "Capital Verification".

5. Revealed the peculiarities of the audit regulatory system in China, which determine the development of the audit market. The focus of attention of regulators shifts to the use of moral exhortation and financial penalties. The research results show that with the introduction of auditing standards in 2010, the regulators have strengthened audit quality control, and reduced the risk of administrative penalties and industry disciplinary actions against audit organizations. Special attention is paid to warnings and financial penalties within the framework of audit market regulation.

6. Proposed a methodology for comparing the audit markets of Russia and China by qualitative and quantitative indicators, highlighting the common features and peculiarities of audit development in developing economies. The common elements of the history of audit in these countries are the stages of "wild audit" and government regulation, transition to ISA and trends towards self-regulation in audit, carried out with due regard for national characteristics. The share of no-audit services is higher in Russia than in China. The market shares of large, medium and small audit organizations in China and Russia are roughly the same, with large audit organizations dominating in both countries^{37,38,39}.

³⁶ Liu Yali. Audit markets in russia and china. Uchet. Analiz. Audit = Accounting. Analysis. Auditing. 2022. T. 9, № 2. P. 87-94.

³⁷ Liu Yali. Statistics of the audit services market in China // Uchet. Analiz. Audit = Accounting. Analysis. Auditing. 2023. T.10. №6. P.82-92.

³⁸ Belozyorov, S.A., Wang, Wentao., Liu, Yali. Analysis of Regional Differences and Influencing Factors of China's Digital Economy Development // Journal of Applied Economic Research. 2022. Vol. 21, No.3. P. 486-513.

Theoretical and practical significance of the research. The research on independent audit conducted by domestic and foreign experts and scholars is summarized and provided an overview of the emergence and development of the audit market in China, the study analyzes the characteristics of China's modern audit market and reflects the synergy of different accounting and auditing systems in the world, providing a theoretical basis for the development of China's modern audit market. In addition, through a comparative study of the development of the Chinese and Russian audit markets, the study highlights the commonalities and peculiarities of the development of Chinese and Russian auditing, and provides a reference for the cooperative development of the audit markets in China and Russia.

Degree of reliability of the results and their approbation. The results of the research were discussed at postgraduate seminars of the Department of Statistics, Accounting and Auditing of St. Petersburg State University and presented in the form of reports at international scientific conferences:

1. The 51st International Scientific and Practical Conference "Taturov-Sheremetov Readings" dedicated to the 80th anniversary of the Department of Accounting, Analysis and Auditing on the topic "Reforming accounting, auditing and accounting education in the digital economy" (Lomonosov Moscow State University Faculty of Economics, October 19 - 20, 2023);
2. The 9th International Scientific and Practical Conference. "TECHNOPERSPECTIVE 2023" (St. Petersburg, November 29-30, 2023);
3. The III International Conference "Business Management in the Digital Economy" (Saint Petersburg, October 8-9, 2022.).

Publications. The main results of the research are published in 8 scientific publications with a total volume of 5.37 p.l., including 5 publications (3.57 p.l.) from the list of peer-reviewed scientific journals and publications of the VAK of the Ministry of Education and Science of Russia, 1 article (0.81 p.l.) in the publications indexed by scientometric databases Web of Science and Scopus. 1 article (0.68 p.l.) in publications indexed by RSCI databases.

List of main works on the topic of the dissertation:

1. Liu, Yali. Performance Audit: The Development Conditions in China // Finance: Theory and Practice. 2023. Vol.27, No.4. P.80-92.

³⁹ Liu, Yali. The development of Chinese internal audit in the digital economy// Business management in the digital economy: Collection of theses of the 3rd INTERNATIONAL CONFERENCE, St. Petersburg, March 19-20, 2020. St. Petersburg, 2020. P. 595-599.

2. Belozyorov, S.A., Wang, Wentao., Liu, Yali. Analysis of Regional Differences and Influencing Factors of China's Digital Economy Development // Journal of Applied Economic Research. 2022. Vol. 21, No.3. P. 486-513.

3. Liu, Yali. Comparative analysis of the development of audit markets in Russia and China // Tomsk State University Journal of Economics. 2023. No. 61. P. 113-135.

4. Liu Yali. Statistics of the audit services market in China // Uchet. Analiz. Audit = Accounting. Analysis. Auditing. 2023. T.10. №6. P.82-92.(in russ.).

5. Liu, Yali. The current development of audit market in China // Tomsk State University Journal of Economics. 2022. No. 59. P. 319-328.

6. Liu, Yali. Audit markets in russia and china. Uchet. Analiz. Audit = Accounting. Analysis. Auditing. 2022. T. 9, № 2. P. 87-94. (in russ.).

7. Liu, Yali. State and prospects the development of performance audit in China// Modern Science: Actual Problems of Theory and Practice. Series: Economics and Law. 2021. № 1. P. 45-49.(in russ.).

8. Liu, Yali. The development of Chinese internal audit in the digital economy// Business management in the digital economy: Collection of theses of the 3rd INTERNATIONAL CONFERENCE, St. Petersburg, March 19-20, 2020. St. Petersburg, 2020. P. 595-599.(in russ.).

Monograph:

9. Liu, Yali. Audit market in China. Saint-Petersburg: Skifia-print, 2024. 412 c.

Structure and volume of the dissertation research. The dissertation consists of an introduction, three chapters, a conclusion, a list of 199 references and nine appendices. The text of the dissertation is set out on 168 pages, contains 14 figures and 36 tables.

The introduction contains the relevance of the research topic and the degree of development of the research topic, defines the goals, tasks, object and subject of the research, reveals the scientific novelty, summarizes the theoretical and practical significance of the research, verifies the approbation of the research results.

The first chapter identifies 6 periods of audit market formation in China, identifies the main segments of the audit market in China based on dynamic observation, reveals the characteristics of audit market formation in China and the different accounting and auditing systems existing in mainland China, Hong Kong, Macao and Taiwan.

The second chapter reviews the history and characteristics of the development of Chinese auditing standards, characterizes the similarities and differences between Chinese and international standards on auditing, and identifies the features of China's audit regulatory system that determine the development of the audit market.

The third chapter presents a comparative analysis of the audit markets of China and Russia by qualitative and quantitative indicators based on the audit market data for the period 2008-2021, identifying common features and peculiarities. The trends in the development of interaction between the audit markets of China and Russia are also presented.

The conclusion summarizes the main conclusions and proposals based on the research results.

Nine appendices present analytical materials demonstrating the research process.

CHAPTER 1. PECULIARITIES OF AUDIT MARKET FORMATION IN CHINA

1.1 Legal Features and government regulation at the main periods of audit market development in China

Prehistory. The word "audit" is derived from the Latin word audio, which originally meant "hearing"⁴⁰. The use of this term in China in a broad sense began in the early 20th century, after the formation of the Republic of China, independent audit appeared in connection with the gradual development of national industry and trade.

In September 1918, the Ministry of Agriculture and Commerce of the Beiyang Government promulgated the "Provisional Statute of Accountants" and approved Mr. Xie Lin, a famous accountant, to be the first certified public accountant in China, at the same time, Xie Lin established Zhengzhe Auditing Firm (正则会计师事务所), which was the first auditing organization in the history of China, marking the emergence of independent auditing in China⁴¹. After that, the Beiyang government adopted regulations such as the "Regulations on the Registration of Accountants", the "Regulations on the Examination of Accountants" and the "Regulations on Accountants", which regulated the scope, content and norms of auditing practice⁴².

In 1925, the first accountants' association was established in Shanghai, and in 1933, the National Association of Accountants was formed, marking the emergence of independent auditing as a separate business industry in China. The adoption of the Company Law by the Guomindang government in 1929 and the subsequent implementation of related tax and bankruptcy laws established the legal status of auditor, which contributed to the development of the auditing profession in early China. Before 1949, there were over 3,000 auditors and 24 audit organizations in China⁴³. However, in semi-feudal and semi-colonial old China, the profession of auditor had not developed much, and audit did not play a significant supervisory role. During this period, the activities of auditors mainly consisted of developing accounting systems for enterprises, acting as agents for tax returns, training accounting personnel, and providing accounting consulting services⁴⁴. After the establishment of the People's Republic of China in

⁴⁰ Voronina, L.I. Audit: theory and practice: textbook for bachelors.3-th ed., revision. Moscow: Omega-L Publishing House, 2014. 566P.

⁴¹ Chen Songsheng, Han Xiaotong. The development of independent audit in China// Business Accounting.2017.№07.P.6-12.

⁴² Liu Haiying, Zhang Honglin, Zhou Wengang. The historical development of China's independent audit system and its changes// Journal of Shandong University of Technology (Social Science Edition). 2000.№01.P.52-53.

⁴³ Xia Yansheng. The origin and development of independent auditing in China// Enterprise Herald.2011.№17.P.150.

⁴⁴ Liu Li. Research progress and development direction of auditing for CPAs// New Accounting.2020.№07.P.16-22.

the early 1950s, independent audit played an important role in economic recovery. However, in late 1956, with the dominance of public ownership and a highly centralized planned economic system similar to that of the Soviet Union, the role of the independent audit, which served the private economy, quickly faded from the socio-economic scene⁴⁵. The role of the market and free trade can hardly be brought into full play because of the single public ownership system and the planned economy.

On December 18, 1978, at the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China (CPC), Deng Xiaoping put forward economic development as the center of economic development and implemented the policy of "reform and opening up", which introduced the market economy into China's economic system. With the privatization of State-owned enterprises and the free development of privatized enterprises, and in particular the influx of foreign capital into China's local market, there was an urgent need for a third party, independent of the Government and foreign investors, to review and verify the economic activities and operating results of joint ventures, which created a real demand for the auditing industry, and an objective condition for the restoration and reconstruction of the independent auditing system. The 14th National Congress of the Communist Party of China (CPC) in October 1992 set the reform goal of "establishing a socialist market economy system", which was a turning point for China to leave the traditional planned economy system. With the continuous development and improvement of China's socialist market economy, the audit market has also developed rapidly. In the process of continuous improvement of the auditing market, the auditing legislation has laid down the fundamental system for the development of the auditing industry, and is the basic framework for the development of the industry.

Therefore, in studying the development of audit standardization in China after the formation of the People's Republic of China, the research takes the introduction of the policy of "reform and opening-up" as a nodal point, and based on the development of socialist market economy with Chinese characteristics, uses the method of logical addition of the chronological dominants, which was proposed by the Russian scholar I.N. Guzov, who studied the periodization of the development of the audit market in Russia⁴⁶.

The modern periodization of audit development in China can be divided into six periods:

Period 1 — the origin of audit ("wild" audit) (1978-1986);

Period 2 — the formation of pro-government auditing (1986 -1993);

⁴⁵ Xu Mo. Development and improvement of China's CPA audit system// Knowledge Economy. 2014.№20.P.103-104.

⁴⁶ Guzov, I.N. History of audit development in Russia // Audit. 2019.№ 4.P.7-12.

- Period 3 — government regulation and emergence of obligatory audit (1993-1998)⁴⁷;
- Period 4 — strengthening of audit independence and standardization (1998-2005);
- Period 5 — convergence and transition to international standards (2005-2017);
- Period 6 — self-regulation (2017-present).

The main criterion for identifying the 6 main periods of audit in China is the qualitative strengthening of audit institutions, including legislative innovations, standards and the development of audit organizations. The strengthening of audit institutions is considered as a chronological dominant determining the formation of periods of auditing development in China.

Period 1 — the origin of the audit ("wild" audit 1978 -1986).

The "reform and opening-up" policy is a economic reform in China, which aims to create a socialist market economy with Chinese specifics, and openness to the outside world. This period is the beginning of independent auditing in China, from creation the first audit firm to adoption of the first audit regulation.

With the growth of foreign investment and the reform of state-owned enterprises in China, on July 1, 1979, the Second Session of the Fifth National People's Congress adopted the "Law on Chinese-Foreign Equity Joint Ventures"⁴⁸, and on December 10, 1980, the Ministry of Finance promulgated the "Rules for the Implementation of the Income Tax Law of the People's Republic of China Concerning Chinese-Foreign Equity Joint Ventures"⁴⁹, which stipulated that joint ventures must be verified by certified public accountants on such matters as the capital contribution of the joint venture participants and the net profit of the joint venture, thus providing the legal basis for the restoration of the audit system in China. On December 23, 1980, the Ministry of Finance promulgated the "Interim Regulations on the Establishment of Accounting Advisory Service"⁵⁰⁵¹, which marked a milestone in the

⁴⁷ Liu, Yali. Comparative analysis of the development of audit markets in Russia and China // Tomsk State University Journal of Economics. 2023. No. 61.P.113-135.

⁴⁸ Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures. Adopted at the Second Session of the Fifth National People's Congress on July 1, 1979, and revised in accordance with the Decision of the National People's Congress Regarding the Revision of the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures adopted at the Third Session of the Seventh National People's Congress on April 4, 1990. URL: <http://english.mofcom.gov.cn/article/policyrelease/Businessregulations/201303/20130300045777.shtml> (accessed: 12. 03.2023)

⁴⁹ Law on Chinese-Foreign Equity Joint Ventures. Approved by the State Council on December 10, 1980 and adopted by the Ministry of Finance on December 14, 1980. URL: <https://law.pkulaw.com/xingzheng/861.html> (accessed: 12. 03.2023)

⁵⁰ Accounting advisory service is an independent unit that provides notary and consulting accounting services. This service is similar to an accounting firm. When a firm or individual uses the services of an advisor, a fee is paid.

⁵¹ Interim Regulations Establishing an Accounting Advisory Service, adopted December 23, 1980, and repealed July 1986. URL: <https://s.pinggu.org/down/a-925201.html> (accessed: 12. 03.2023)

history of the development of the audit industry in China, and thus officially opened the curtain on the recovery and reconstruction of the audit system in China.

On January 1, 1981, the first "Shanghai Accounting Firm" approved by the Ministry of Finance was established in Shanghai, which marked the Ministry of Finance became the governmental management organ of the auditing organization and auditing industry accordingly, and the auditing organization gradually developed in China. On September 25, 1984, the Ministry of Finance issued a "Notification on the Establishment of Accounting Advisory Institutions" which clarified the services to be performed by auditors (CPA)⁵². On January 21, 1985, "Accounting Law of the People's Republic of China" was adopted at the 9th meeting of the Standing Committee of the Sixth National People's Congress, which states that "Accounting firms composed of CPAs approved by the financial department of the State Council or the financial department of the people's government of a province, autonomous region, or municipality directly under the central government may undertake the business of checking accounts in accordance with the relevant provisions of the State."⁵³ This was the first time since the founding of New China that the status and tasks of CPAs were regulated by law, marking the entry of Chinese auditing into a new period of development.

During this period of development, the transition from a planned economy to a market economy began widespread. At the beginning of the reform period, China still had a unified state ownership system that prevented individual auditors from establishing audit firms, as a result, audit firms were attached to and supervised by administrative units. Audit organizations also mainly served state-owned business units, so they lacked independence and risk perception⁵⁴.

With the implementation of China's "reform and openness" policy and the rapid development of foreign-invested enterprises in China, international audit and consulting firms (currently the "big four") have set up permanent offices in China, providing services such as auditing, capital examination and consulting as well as other audit-related services, occupying a large share of the Chinese audit market. The admission of international audit firms has stimulated the rapid development of domestic audit firms. It also expanded the business content of the audit market from formal auditing of financial statements to

⁵² Liu Yanping. Discussion on the development of independent audit in China// Cooperation Economy and Technology. 2012.№21.P.85.

⁵³ Accounting Law of the People's Republic of China. Adopted by the Ninth Meeting of the Standing Committee of the Sixth National People's Congress on January 21, 1985; amended in accordance with the Decision on Revising the Accounting Law of the People's Republic of China adopted at the Fifth Meeting of the Standing Committee of the Eighth National People's Congress on December 29, 1993. URL: <https://asia-business.ru/law/law2/accounting/accounting/> (accessed: 12. 03.2023)

⁵⁴ Ding Pingzhun. The development of CPA profession and the opening of accounting market in China // CPA Newsletter. 1997. №05.P. 34-37.

auditing foreign-invested enterprises and providing fee-based accounting advice⁵⁵. Thus, in this development period, the government played a positive role in the development of the auditing, and auditors began to enter the economic circulation.

Period 2 — the formation of pro-government auditing (1986-1993).

This period begins with the promulgation of the enactment of the first regulatory act - "Regulations of the PRC on Certified Public Accountants", and finishes with the formulation of the first version of the Audit Law.

On July 3, 1986, the State Council promulgated No. 68 "Regulations of the PRC on Certified Public Accountants"⁵⁶, which established the legal status of auditing for the first time. "Regulations on Certified Public Accountants" provides that the Ministry of Finance is the competent institution of the audit industry in China, the Institute of Certified Public Accountants is established as the self-regulatory organization of the industry, and defines the duties and powers. On November 15, 1988, the Ministry of Finance established the CICPA based on international practices, thereby establishing a model for the management of China's auditor industry under government regulation and self-regulation of the industry. On December 27, 1988, the Ministry of Finance published the "Rules for the Examination and Verification of Financial Statements by Certified Public Accountants (for Trial Application)", which was the first standard practice document promulgated after the recovery and reconstruction of the audit system, clarifying the requirements for the audit work and ensuring the quality of the audit⁵⁷.

In 1991, based on the international examination system, the rules for admission to the audit (CPA) system were adopted and a national unified exam for auditors was held, which became the only way to obtain the right to practice. In 1992, the "Big Six" international accounting firms (now the "Big Four") and Chinese auditing organizations established the Sino-foreign joint auditing organization.

In addition, the audit market during this period was dominated by audit firms that were derived from government departments and managed by the National Audit Office. There was competition between accounting and auditing firms, which together contributed to the development of the audit

⁵⁵ Liu, Yali. Audit markets in russia and china. Uchet. Analiz. Audit = Accounting. Analysis. Auditing. 2022. T. 9, № 2. P. 87-94.

⁵⁶ Regulation of the People's Republic of China on Certified Public Accountants, issued by the State Council on July 3, 1986 and repealed with the enactment of the "Law on Certified Public Accountants". URL: <https://law.pkulaw.com/chinalaw/2888.html> (accessed: 12. 03.2023)

⁵⁷ Rules for the Examination and Verification of Financial Statements by Certified Public Accountants (for Trial Application). issued by the Ministry of Finance on December 27, 1988. URL: <http://fgcx.bjcourt.gov.cn:4601/law?fn=chl234s049.txt> (accessed: 12. 03.2023)

market, but duplication of audit practices and mismanagement created many problems and increased pressure on clients to duplicate auditing.

The Chinese audit market has been formed. While by the end of 1990, the number of practicing CPAs in China was about 3,000 and there were about 250 accounting firms, in 1993, there were about 7,000 auditors and more than 3,000 auditing firms serving the audit market⁵⁸.

During this period, the legal foundation of the audit industry in China was established, the regulation of the audit industry was strengthened, and the criteria for admission to audit practice were standardized. The peculiarity of this period is the formation of pro-government audit structures founded by government agencies.

Period 3 — government regulation and emergence of obligatory audit (1993-1998).

From the introduction of the First Law on Audit to the issuance of independent auditing standards, the audit in China went through a period of institutional innovation. In October 1992, the 14th National Congress of the Communist Party of China set the reform goal of "building a socialist market economy", which determined the direction of China's economic transformation. In 1993, the Third Plenary Session of the 14th CPC Central Committee adopted the "Decision on Several Issues Concerning the Establishment of a Socialist Market Economy System", which for the first time proposed the establishment of a modern enterprise system with clear property rights, differentiated responsibilities and powers, separation of government and enterprises, and scientific management, which became the direction of the reform of state-owned enterprises⁵⁹.

The "Law of the People's Republic of China on Certified Public Accountants"⁶⁰ was adopted at the 4th Meeting of the Standing Committee of the Eighth National People's Congress on October 31, 1993, and the unification of accounting firms and auditing firms marked a new period in the development of the auditing in China. The Certified Public Accountants Law established rules for auditors, which completed the establishment of the personnel selection system for the audit industry and the unified national examination system for auditors, it guarantees the development of the audit market and establishes the legal status of the auditor.

⁵⁸ Liu, Yali. The current development of audit market in China // Tomsk State University Journal of Economics. 2022. No. 59. P. 319-328.

⁵⁹ Decision of the Central Committee of the Communist Party of China on Several Issues Concerning the Establishment of a Socialist Market Economy System. Adopted by the Third Plenary Session of the 14th Central Committee of the Communist Party of China on 14 November 1993. URL: <https://www.waizi.org.cn/law/3442.html> (accessed: 12. 03.2023)

⁶⁰ Law of the People's Republic of China on Certified Public Accountants. Adopted at the 4th Meeting of the Standing Committee of the Eighth National People's Congress and promulgated by Order No.13 of the President of the People's Republic of China on October 31, 1993. URL: <https://asia-business.ru/law/law2/accounting/accountant/> (accessed: 12. 03.2023)

At the same time, the "Company Law" was adopted at the fifth meeting of the Standing Committee of the Eighth National People's Congress on December 29, 1993, which stipulated that the annual financial statements of companies should be audited, and gave an additional impetus to the development of the audit industry. The "Company Law" raised a major theoretical and practical challenge to obligatory auditing in China. The obligatory audit system in China was originally established in Article 175 of the "Company Law", It stipulated that "at the end of each fiscal year, a company shall prepare a financial and accounting report, which shall be verified and confirmed in accordance with the law"⁶¹. However, the meaning of the "subject to verification and confirmation in accordance with the law" is very controversial in practice. Although many experts believe that "verification and confirmation" refers to obligatory audit, it is not clear whether the auditor or government agencies are the subject of the audit. And in practice, only listed companies, foreign-invested enterprises and some state-owned enterprises have implemented the obligatory audit system. At the same time, under the Law on Audit of PRC, state-owned enterprises may be audited by government audit institutions. With the separation of accounting firms from state-owned entities, since 1998, the Ministry of Finance has required large and medium-sized state-owned enterprises to be audited by accounting firms⁶².

In fact, obligatory auditing in China began in 2005 with the revision of the "Company Law of the PRC", Article 165 states that "at the end of each fiscal year, the company shall prepare a financial and accounting report and have it audited by an accounting firm in accordance with the law". In the amended Companies Law, the term "verification and confirmation" has been replaced by "audit" and the auditor is defined as the subject of the audit. In addition, Article 65 specifies that "at the end of each fiscal year, a single-person limited liability company shall prepare a financial and accounting report, which shall be audited by an accounting firm." Since then, China has established a system of obligatory auditing.

Actually, obligatory auditing in China started in 2005, with the amendment of the "Company Law", Article 165 stipulates that "at the end of each fiscal year, the company⁶³ shall prepare a financial and accounting report and have it audited by an auditing firm in accordance with the law". In the revised version of the Companies Law, the term "verification and confirmation" has been replaced by "audit" and the auditor is defined as the subject of verification. In addition, Article 65 specifies that "at the end of

⁶¹ The Company Law of the People's Republic of China. Adopted at the Fifth Meeting of the Standing Committee of the Eighth National People's Congress on 29 December 1993. Adopted at the Fifth Meeting of the Standing Committee of the Eighth National People's Congress on 29 December 1993. URL: <http://www.mofcom.gov.cn/article/b/bf/200207/20020700031341.shtml> (accessed: 12. 03.2023)

⁶² Liu Yan. Basic Positioning of obligatory Audit in China// Financial Law forum. 2005.No04.P.64-73.

⁶³ The Company is a limited liability company and a joint stock company established in China in accordance with the Company Law.

each fiscal year, a single-person limited liability company shall prepare a financial and accounting report, which shall be audited by an auditing firm." Since then, China has established a obligatory audit system.

In 2012, the following enterprises of the State Administration for Industry and Commerce of the People's Republic of China (CAIC) should submit audit reports issued by auditing firms when they undergo annual enterprise inspection:

One-person limited liability companies, listed joint stock companies and financial, securities and futures companies;

Companies engaged in insurance, venture capital investment, capital verification, appraisal, guarantee, real estate brokerage, immigration intermediary, expatriate labor intermediary, and enterprise registration agent;

Companies whose registered capital has not been paid in full by installment;

Companies that have committed the illegal acts of misrepresenting registered capital, false capital contribution, or evading capital contribution within three years shall also submit an audit report⁶⁴.

According to the "Guide Catalog for CPA Practice 2018" issued by the China Institute of Certified Public Accountants, the scope of which to conduct obligatory audits includes securities, futures companies, finance, insurance companies, state-owned enterprises, foreign-invested enterprises, and non-profit organizations such as hospitals and private non-enterprise units⁶⁵.

On October 4, 1996, the CICPA joined the Confederation of Asian Pacific Accountants (CAPA) and was elected as a council member at the 48th CAPA Council in April 1997. On May 8, 1997, the International Federation of Accountants (IFAC) accepted CICPA as a full member. This provided the foundation for the international development of auditing.

Continuous improvement of the obligatory auditing system contributes to the development of the audit industry. In this period, government regulation of auditing activity was strengthened and the institution of obligatory auditing was introduced.

Period 4 — strengthening audit independence and standardization (1998 - 2005).

⁶⁴ Annual inspection of enterprises in 2012. [Electronic resources] URL: <http://www.gaoan.gov.cn/gasrmzf/czjzwxxrdprehprgv/201302/54cf83e2947943ff923ad51e44d2d5a0.shtml> (accessed: 14.10.2023)

⁶⁵ Chinese Institute of Certified Public Accountants. Catalog guiding of CPA services (2018). Beijing: publishing house of economics and science. 2019.06.p.220.

This period covers the processes from the "Decoupling and restructuring"⁶⁶ of accounting firms to the implementation of the second series of Chinese independent auditing standards, the auditing has passed through a new institutional innovation development.

The system of accounting firm affiliation organized by the government administration played an important supporting role in the development of the audit market, but at the same time became a restraining factor for its further development.

The formation and strengthening of the system of private organizations required significant changes in the status of auditing firms, strengthening their independence from government agencies. However, during this period the internal management of the accounting firm was weakly organized, branches were created disorderly, and auditors issued sometimes false (in Russia "knowingly false") audit reports and capital checks, which led to frequent cases of financial dishonesty. In order to regulate the management of the audit industry, in June 1995, the Ministry of Finance and the National Audit Office promulgated the "Notice on Matters Relating to the Implementation of the Merger of the China Institute of Certified Public Accountants and the China Institute of Certified Public Auditors"⁶⁷, the merger of the China Institute of Certified Public Accountants and the China Institute of Certified Public Auditors, thus realizing the situation of developing a unified legal rule, a unified standard of practice and a unified management system.

With the deepening of the reform of the economic system, the original dependence system of audit organizations had a serious impact on market competition. In order to eliminate the shortcomings of the dependency system, from 1998 to the end of 1999, the audit industry fully conducted and completed the "decoupling and restructuring" of accounting firms. Accounting firms and related government units were completely separated from each other in four aspects: personnel, finance, business and name, and accounting firms became market organizations in the real meaning of the word⁶⁸.

In March 2000. The Ministry of Finance issued "Guiding Opinions on Several Issues in Expanding the Scale of Accounting Firms," in which it proposed that domestic accounting firms achieve scale and clustering through consolidation and establishment of branches to match the needs of China's

⁶⁶ Decoupling and restructuring refers to a rectification program in which the affiliated unit is "decoupled" from the firm in four ways (personnel, finance, business, and name), while the firm is restructured in accordance with the Law on Certified Public Accountants.

⁶⁷ Notice on Matters Relating to the Implementation of the Merger of the Chinese Institute of Certified Public Accountants and the Chinese Institute of Certified Public Auditors. Issued by the Ministry of Finance and the National Audit Office on 19.6.1995. URL: <https://law.esnai.com/mview/5824> (accessed: 12. 03.2023)

⁶⁸ Huo Guanghua, Cao Peiqin. The development of auditing firms after decoupling and restructuring from government agencies// Liaoning Economy. 2004. №06.P.83.

securities market and financial markets, as well as the auditing of large state-owned enterprises in terms of developing the scale of accounting firms.

In 1997 and 1999, Macao and Hong Kong came under China's jurisdiction, and the difference of accounting and auditing systems in different regions also had a significant impact on the development of the audit industry in China. In order to develop comprehensive cooperation with Hong Kong and Macao in different fields such as financial reporting standards, accounting services and the audit industry, mainland China signed the Close Economic Partnership Agreement (CEPA) with Hong Kong and Macao in 2003, which led to the "liberalization" of "accounting and auditing services"⁶⁹. At the same time, Chinese listed companies in Hong Kong not only provide services to domestic accounting firms, but also have to engage foreign accounting firms to audit the listed company's financial statements in accordance with international accounting standards for the purpose of satisfying the investment needs of foreign investors. This has accelerated the internationalization of the audit market in China. The accounting and auditing systems of Macao and Hong Kong were kept unchanged, along with the auditing system of mainland China.

In addition, the Ministry of Finance removed administrative authority from the China Institute of Certified Public Accountants in 2002 and strengthened control of the audit industry. The restructuring of accounting firms during this period ensured audit independence, and the strategy of accounting firm consolidation improved the competitiveness of China's audit organizations. While the return of sovereignty to Hong Kong and Macao provided opportunities for the internationalization of the audit market in China.

From 1994 through 2003, CICPA formulated and published the first batch of auditing standards, including 1 introduction to standards, 1 basic independent auditing standard, 28 special independent auditing standards, 10 practice bulletins on independent auditing and 5 practice guides. At the same time, the CICPA also formulated three related standards, i.e. basic standards of professional ethics, basic standards of quality control and basic standards of subsequent training. The formulation and promulgation of these standards marked the basic formation of the code of practice system for auditors in China and provided a technical basis for the standardization of auditors' practice.

⁶⁹ Cao Ying. Regulation of the certified public accountant industry in the context of decoupling and restructuring // Marketing Research. 2018.No03.P.63-64.

This period played a key role in the formation of independent Chinese audit and its transfer to a strong methodological base - auditing standards. In addition, new accounting and auditing systems have appeared in the structure of the Chinese audit market, operating on different laws and regulatory principles (Macao and Hong Kong).

Period 5 — Convergence and transition to international standards (2005-2017).

The adoption and implementation of a series of standards and regulations also created a positive environment for audit organizations in China to operate on a larger scale. On February 15, 2006, the Ministry of Finance announced the "Accounting Standards" which brought about a significant convergence between Chinese accounting standards and international financial reporting standards⁷⁰. This provided the conditions for Chinese audit organizations to "go international" and conduct multinational activities. On February 15, 2006, the Ministry of Finance officially published the second version of the independent auditing standards, which were implemented for all audit organizations on January 1, 2007⁷¹. In 2009, the China Audit Commission revised 38 auditing standards, and the third version of auditing standards for Certified Public Accountants was officially released by the Ministry of Finance on October 11, 2010.

On July 21, 2010, the Ministry of Finance and the State Administration for Industry and Commerce jointly issued the "Interim Rules for Encouraging Large and Medium-sized Accounting Firms to Adopt the Form of Special General Partnership", which required large and medium-sized accounting firms to adopt the form of special general partnership. In January 2012, the Ministry of Finance and Securities regulatory commission issued the "Notice of the Ministry of Finance and the China Securities Regulatory Commission on Issues Concerning Accounting Firms Engaging in the Relevant Securities and Futures Businesses", which requires audit firms engaged in the securities and future business to be partnerships or special general partnerships⁷². This established a well-organized foundation for the "scale-up" development strategy of the audit industry in China.

⁷⁰ Wang Ying. The impact of changes in accounting standards on corporate financial reporting// Financial Accounting Learning. 2023. №14. P.1-3.

⁷¹ Hu Mei, Cheng Yaping. Exploring the ethical basis of independent auditing standards// Financial Accounting Newsletter. 2016. №10. P.93-96.

⁷² Notice of the Ministry of Finance and the China Securities Regulatory Commission on Issues Concerning Accounting Firms Engaging in the Relevant Securities and Futures Businesses. Instrumentalities of the State Council, All Ministries, Ministry of Finance, All Commissions, China Securities Regulatory Commission Date issued 21.01.2012. URL: <https://law.esnai.com/mview/1120> <http://www.lawinfochina.com/display.aspx?lib=law&id=9204&CGid=> (accessed: 12. 03.2023)

The international development of enterprises urges auditing firms to provide high quality international services, and this is an opportunity for Chinese auditing firms to accelerate the internationalization process. The Chinese translation of ISAs was officially published on September 9, 2013. The translation and publication were approved with the authorization of the International Federation of Accountants (IFAC) and organized by the Chinese Institute of Certified Public Accountants (CICPA) with the active participation of the Hong Kong Institute of Certified Public Accountants (HKICPA), the Union of Professional Accountants Associations of Macao and the Taiwan Institute of Certified Public Accountants (TICPA) in the translation and revision work. This is an important achievement in the exchange and cooperation between representatives of the auditing industries of Mainland China, Hong Kong, Macao and Taiwan, as well as the accumulated experience for future cooperation in a variety of fields.

The transition to the use of ISAs as the basis for the development of Chinese auditing standards has enhanced the development of cross-auditing of Chinese companies by commercial firms in other jurisdictions (Macao, Hong Kong and Taiwan).

Period 6 — self-regulation (2017 - present).

In May 2018, the official establishment of the Central Audit Commission marked the establishment of the socialist audit system with Chinese characteristics and the formation of an industry management system based on government regulation and industry self-regulation in the audit industry. A new period of development has been entered into the audit career in China.

Since the promulgation of the fourth version of the Chinese Auditing Standards, although the government has retained the right to supervise the quality of audit activities, changes in the procedures for audit firms to enter the securities market have increased the level of self-regulation.

With the implementation of the new Securities Law in March 2020, the qualification of accounting firms to engage in securities services business has been changed from the approval system to the "dual filing system"(filing materials with the Ministry of Finance and the China Securities Regulatory Commission). In this regard, small and medium-sized audit firms are also allowed to enter the securities audit market, and the change from the approval system to the "dual filing system" can fully realize fair competition in the audit market. Meanwhile, more attention is paid to the self-regulatory behavior of audit firms.

Currently, the self-regulatory organization of the audit industry in China is the CICPA at all levels. The CICPA is the national organization of the audit industry, and provincial CPA associations are local organizations. The CICPA, under the leadership of the Ministry of Finance and the State Council, regulates the practice of auditors and improves the quality of independent audit work by formulating auditing standards and other professional codes, and unifying the organization of examinations and training for auditors. This effectively maintains the reputation of the audit industry and promotes the development of the audit market.

After more than 40 years of effort, the audit industry in China has made a historic evolution from unregulated and imperfect to organized on government regulation and self-regulation. As a result of the above analysis, it is evident that the development of the audit in China has largely been the result of strong government pressure and the emergence of obligatory audit as a result of the government's continuous expansion through legislation, rather than spontaneous demand from clients. Moreover, in essence, the China independent audit has been shaped and developed based on the transformation of the economy of China. The history of independent audit is unique in the development history of government-affiliated audit organizations, which is closely related to the special economic environment and conditions in China. With the establishment and improvement of the market economy system in China, independent audit is beginning to play its true role.

In summary, analysis of the stages of formation of the audit market in China makes it possible to conclude the following features of the audit market in China:

- the audit market in China went through a period of "wild" development without the adoption of audit laws, and its development was under government compulsion;

- the introduction of obligatory audit based on the law;

- the development of national auditing standards has been continuously improved based on international standards on auditing and maintained the specificity of national auditing standards;

- there are differences between the accounting and auditing systems of Mainland China and Hong Kong and Macao, but Mainland China signed the Close Economic Partnership Agreement (CEPA) with Hong Kong and Macao and this led to the "liberalization" of "accounting and auditing services" as well as equivalent recognition of auditing standards;

China has established a unified auditor attestation system and audit firms must be recognized by the Ministry of Finance to provide audit services; Currently, audit firms authorized to provide securities

audit services must register with both the Ministry of Finance and the China Securities Regulatory Commission (CSRC);

shaping trends on market self-regulation in structuring government regulation of the audit market; the "Big Four" international audit and consulting groups first entered China's audit market by signing agreements in the form of Sino-foreign cooperation, and switched to the organizational form of special general partnership in 2011, and still hold a large market share in China.

With the improvement of the audit regulatory system in China, auditing has become a fairly independent institution with control functions. At present, a multi-level regulatory system including laws, departmental regulations and industry self-regulation has been formed, playing an important role in ensuring the development of the audit industry.

Legal regulations. Currently, the audit legal system in China has basically formed a China-specific hierarchical pyramid (see Fig. 1.1), with the basis being the Constitution, and the main components being the Law on Certified Public Accountants, the Audit and Accounting Laws, the Regulations on the Application of the Audit Law, the Auditing Standards and other regulations and rules, which has ensured the progressive development of the audit market, based on a stable legal framework⁷³.

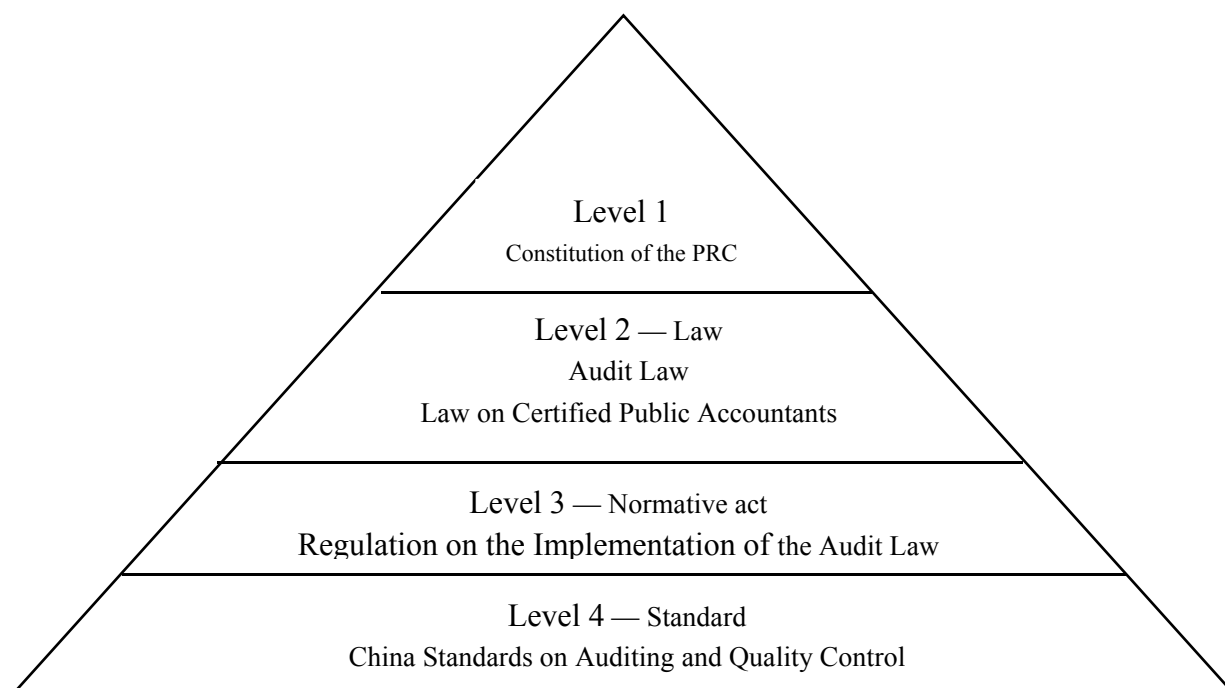


Figure 1.1 Composition of China's audit legal code system

⁷³ Cao Yue, Li Jing, Wu Zhongxin. Changes in China's state audit system: A historical and logical sketch// Financial Theory and Practice. 2016.vol.37.No01.P.89-93.

Source: compiled by the author

Level 1 — The Constitution of the People's Republic of China stipulates the basic principles, institutions, and basic systems of audit control. Article 91 states that "The State Council shall establish an audit authority to supervise through audit the income and expenditure of all departments and local governments at different levels subordinate to the State Council, the income and expenditure of all financial and monetary organizations, all enterprises and institutions in the country." And also Article 109 states that "Local people's governments at the county level and above shall establish audit organs. The local audit organs at various levels shall independently exercise their powers of supervision through audit according to law, and shall be accountable to the people's government at the corresponding level and to the audit organ one level above it."⁷⁴ This formulation of control confuses public and state audit functions, the separation of which was made in the end of the 1990s.

The second level of laws includes the "Audit Law", the "Law on Certified Public Accountants".

The Audit Law of the People's Republic of China No. 32 adopted at the 9th session of the Standing Committee of the 8th National People's Congress on August 31, 1994 (hereinafter referred to as the Audit Law) helped define the role of audit in the national economy. The Audit Law consists of seven chapters: general provisions; audit institutions and auditors; duties of audit institutions; powers of audit institutions; audit procedures; legal responsibility; supplementary provisions. The Audit Law establishes the principle of dual audit management, i.e. local audit organizations are subject not only to the management of local governments but also to the control of the audit chamber. The auditor's work is devoted to auditing the budget, state-owned enterprises, state financial institutions, social means and economic responsibility⁷⁵. The law reflects the comprehensiveness and compulsory nature of the public audit system. The Audit Law aims to strengthen state control through audit, maintain financial and economic order in the country, contribute to the establishment of a clean management system and ensure

⁷⁴ Constitution of the People's Republic of China. Adopted at the Fifth Session of the Fifth National People's Congress and promulgated for implementation by the Announcement of the National People's Congress on December 4, 1982. Amended in accordance with the Amendments to the Constitution of the People's Republic of China adopted respectively at the First Session of the Seventh National People's Congress on April 12, 1988, the First Session of the Eighth National People's Congress on March 29, 1993, the Second Session of the Ninth National People's Congress on March 15, 1999 and the Second Session of the Tenth National People's Congress on March 14, 2004. URL: <https://asia-business.ru/law/law1/pravo/constitution/> (accessed: 18.10.2023)

⁷⁵ Audit Law of the People's Republic of China. Adopted at the 9th Meeting of the Standing Committee of the Eighth National People's Congress on August 31, 1994 and amended in accordance with the Decision on Amending the Audit Law of the People's Republic of China adopted at the 20th Meeting of the Standing Committee of the Tenth National People's Congress on February 28, 2006. URL: http://www.npc.gov.cn/zgrdw/englishnpc/Law/2007-12/12/content_1383794.htm (accessed: 18.10.2023)

the healthy development of the national economy. This indicates the inclusion of audit in the system of state control.

The Law on Certified Public Accountants consists of seven chapters: general provisions; examination and registration; scope and rules; audit firm; institute of certified public accountants; higher qualification; legal liability; and additional provisions. The law established rules for auditors (CPAs) and finalized the qualification examination system for the audit industry; auditors must pass a unified examination. Audit Firms are allowed to be established by the Ministry of Finance and the Association of Auditors is established in accordance with the requirements of the law. An auditor may provide the following accounting and auditing services:

"engage in auditing the accounting records of enterprises and make audit reports;

certify the capital of enterprises and make capital certification reports;

provide audit services in the merger, division or liquidation of enterprises and make reports thereon;

provide other audit services as stipulated in relevant laws and administrative regulations.

According to the law, reports made by auditors engaged in the provision of audit services shall be reliable"⁷⁶.

The auditor qualification exam (CPA) is divided into a professional stage exam and a comprehensive exam. The professional stage exam includes six subjects: auditing, financial cost management, economic law, accounting, corporate strategy and risk management, and tax law. The audit qualifying examination (CPA) is held once a year, and candidates can choose the number of subjects they want to apply for. However, all six subjects must be passed within five years or the results will be canceled and the exam will have to be retaken again. The Comprehensive Examination includes the Comprehensive Proficiency Test (Paper I) and the Comprehensive Proficiency Test (Paper II), which have no time limit but must be taken in one sitting. A college degree or bachelor's degree is required for admission to the qualifying audit exam (CPA).

The third level is normative acts. They mainly include the Regulations on the Implementation of the "Audit Law", temporary measures for controlling the audit of central budget execution, rules on

⁷⁶ Law of the People's Republic of China on Certified Public Accountant. Adopted at the 4th Meeting of the Standing Committee of the Eighth National People's Congress and promulgated by Order No.13 of the President of the People's Republic of China on October 31, 1993. URL: <https://asia-business.ru/law/law2/accounting/accountant/> (accessed: 18.10.2023)

punishment and penalties for financial irregularities, and rules on the transfer of suspected criminal cases by administrative law enforcement agencies, which are clear provisions on the scope of audit control.

The Regulation on the Implementation of the Audit Law is a supplement to the Audit Law, which improves the audit control mechanism, improves audit procedures, clarifies the scope of audit, verifies the authenticity, legality and efficiency of financial resources, and includes financial institutions in the scope of audit control. The audit authority has the right to check the audit report issued by the audit firm⁷⁷.

The fourth level consists of standards. These are mainly auditing and quality control standards that provide auditors with a basis for conducting audits. Their content will be discussed in Chapter 2.

Thus, at present in China there is an original legal framework for the development of auditing activities typical of a market economy.

Administrative Aspects. The main organs of government in China that have the authority to regulate the audit industry are the Ministry of Finance, the Ministry of Industry and Commerce, the Ministry of Taxation and the China Securities Regulatory Commission (CSRC). At the regional level, the finance department of the State Council and the provincial finance department are responsible for supervising and managing the audit industry, including supervising the practice of auditors and audit organizations and the management of audit fees, as well as imposing appropriate penalties for violations of laws and regulations in the practice of auditors and audit organizations. The Department of Industry and Commerce can control the scope of business of the audit organization by carrying out the registration of industrial and commercial capital in accordance with the law. The Taxation Department is mainly responsible for tax registration, tax collection and management of audit organizations. CSRC and the Ministry of Finance shall manage and supervise the securities and futures business conducted by auditors and audit organizations, including confirming the qualifications of auditors and audit organizations to engage in securities and futures business. To supervise and inspect their practices, etc.

Self-regulation in the industry. In May 2018, the Central Audit Committee was formally established, marking the leap of the national audit system from an administrative audit system to a governance-based audit system with Chinese characteristics. The establishment of the Central Audit Committee strengthened the political strength of audit control, enabling audit institutions to better

⁷⁷ Regulation on the Implementation of the Audit Law of the People's Republic of China. promulgated by Decree No. 231 of the State Council of the People's Republic of China on October 21, 1997. Revised and adopted at the 100th executive meeting of the State Council on February 2, 2010. URL: https://www.gov.cn/zwggk/2010-02/20/content_1537495.htm (accessed: 18.10.2023)

perform audit functions, providing institutional assurance that audit will play an important role in promoting the modernization of the national management system and management capacity.

CICPA has developed relevant regulatory systems and methods as standards for industry self-regulation, including the "Guidelines on audit firm quality control", "Audit firm practice quality control system" and "Interim measures to punish violations of the Law on Certified Public Accountants". In addition, the Practice quality control system, the warning and reminder system, and the audit firm integrity dossier system were established as self-regulatory measures on this basis.

Therefore, based on the above analysis, it can be concluded that with the formation and development of China's socialist market economy system, independent audit has passed through 6 stages: the origin of audit ("wild" audit); the formation of pro-government auditing; government regulation and emergence of obligatory audit; strengthening of audit independence and standardization; convergence and transition to international standards; and self-regulation. In the legal construction sphere, the government-led legal system was formed, including the Constitution, laws, regulations and standards, and a system of unified qualification examinations for auditors (CPA) was established, with higher education required for admission to the qualification examination for the auditor's certificate (CPA). A system of industry regulation based on government regulation, supplemented by self-regulation of the industry, was gradually formed. Audit organizations have also undergone standardized development after merger and reorganization. With the realization of the strategy of "going global" and the rapid development of the digital economy, the development of the audit market in China is also facing greater challenges.

1.2 Features of firm audit organizations

1.2.1 General development of firm audit organizations in China

Audit firms are the market entities of the auditing industry. The Ministry of Finance PRC formulated the "Interim Measures for the Administration of Audit Firms" on October 29, 1986, which required that each audit firm had to be initiated by a higher-level supervisory unit, creating a "dependency system" for audit firms⁷⁸. Prior to 1997, the vast majority of audit firms in China were "dependent" on legal entities such as government departments, social organizations, scientific research institutes and institutions of high education. The "affiliation system" made audit firms non-independent or

⁷⁸ Interim Measures for the Administration of accounting firms. On October 29, 1986, the Ministry of Finance promulgated Caikuai Zi [1986] No. 66, which was repealed on September 8, 1997. URL: <https://law.esnai.com/mview/28704> (accessed: 13. 03.2023)

semi-independent market entities, leading to the monopolization of power in the industry, the problem of regional blockades, the serious damage to the market of fair competition, and the deterioration of the practice environment.

On August 25, 1998, the Ministry of Finance and CICPA issued the "Notice on Further Accelerating the Reform of the System of Auditing Firms and Accounting Firms", which officially started the work of "decoupling and restructuring" of the firms⁷⁹. By the end of 1999, the task of "decoupling and restructuring" of auditing firms was basically completed. After the "decoupling and restructuring", most of the audit firms chose the organization form of limited liability system. Under the limited liability system, auditors are limited to the amount of their capital contribution, which may lead to the weakening of the risk awareness of the auditors and the lack of motivation to improve the quality of their business. Research has shown that special general partnerships can have a more positive impact⁸⁰.

On July 21, 2010, the Ministry of Finance and the State Administration for Industry and Commerce issued the "Interim Provisions on Promoting Large and Medium-sized Audit Firms to Adopt the Organizational Form of Special General Partnership"⁸¹. On January 12, 2012, the Ministry of Finance and the CSRC revised the "Notice of the Ministry of Finance and the China Securities Regulatory Commission on Issues Concerning Accounting Firms Engaging in the Relevant Securities and Futures Businesses", which requires auditing firms engaging in businesses related to securities and futures to be in the form of partnership or special general partnership⁸². The promotion of the system of special general partnerships has raised the awareness of certified auditors of risks and improved audit quality. All this has further strengthened the status of the firm audit organization as an independent market participant.

Firm audit organizations have gone through four periods of consolidation, which include the 1998-1999 wave of consolidation due to "decoupling and restructuring." The 2000-2004 consolidation wave due to the reorganization of securities practitioner qualifications. The 2005-2006 consolidation

⁷⁹ Notice on further accelerating the reform of accounting firms. The Ministry of Finance issued Cai Ban Zi [1998] No. 45 on August 25, 1998. URL: <http://fgcx.bjcourt.gov.cn:4601/law?fn=chl138s022.txt> (accessed: 13. 03.2023)

⁸⁰ Jiang Junsong, Qiao Zhi, Liu Weiyao, Lai Yutian. Research on the internationalization of auditing firms: a review of the literature// *Accounting Friends*.2023.03.P.125-130.

⁸¹ Interim regulations to promote the adoption of a special general partnership organizational form for large and medium-sized accounting firms. July 21, 2010. The Ministry of Finance and the State Administration for Industry and Commerce published Caikuai [2010] No. 12. URL:

https://www.zgcznet.com/yhfw/gkcx/gkcxzgzgk/nj/kjn2011nj/kjn2011njwz/202008/20200814/j_2020081412564900015973810721798245.html (accessed: 13. 03.2023)

⁸² Notice of the Ministry of Finance and the China Securities Regulatory Commission on Issues Concerning Accounting Firms Engaging in the Relevant Securities and Futures Businesses. Issued 9 April 2007, revised 21 January 2012. URL: <http://www.lawinfochina.com/display.aspx?lib=law&id=9204&CGid=> (accessed: 13. 03.2023)

wave due to the entry of foreign firms. From 2007 to the present, there has been a wave of consolidation under the strategy of "getting bigger and stronger"⁸³. Through the consolidation of audit organizations, the status of "small and dispersed" is improved and the competitiveness of audit organizations in the audit market is enhanced.

As shown in Table 1.1, as of December 31, 2021, there were 10,142 audit organizations in China. Of these, there were 8,870 parent firms and 1,272 subsidiary firms. From 2010 to 2021, the number of audit organizations in China shows a steady growth (see Figure 1.3). From 2011 to 2016, the growth in the number of audit organizations was about 1%. Since October 1, 2017, when the "Measures on Licensing and Supervision and Administration of Audit Organizations" came into effect, the growth rate of the number of audit organizations exceeds 4%; from 2018 to 2020 and in 2021, the growth rate of the number of audit organizations decreases to 3.2%.

Table 1.1 Statistics on the number of audit organizations in China

Year	Special general partnership	General partnership	Limited liability company	Number of subsidiaries	Total firms	Total firms and subsidiaries
2010	14	2553	4404	795	6971	7752
2011	24	2763	4317	872	7104	7976
2012	31	2909	4265	923	7205	8128
2013	52	3069	4167	921	7288	8209
2014	50	3141	4125	979	7316	8295
2015	50	3195	4040	1089	7285	8374
2016	51	3314	4013	1082	7378	8460
2017	62	3422	3950	1171	7434	8605
2018	85	4382	3409	1130	7875	9005
2019	96	4454	3669	1174	8219	9393
2020	94	4527	4004	1200	8625	9825
2021	104	4806	3960	1272	8870	10142

⁸³ You Junwei, Li Shuqian, Huang Yelei, Wu Shuang. Problems and suggestions of accounting firm consolidation// Journal of Hubei College of Economics (Humanities and Social Sciences Edition). 2020.No09.P.55-58.

Source: compiled by the author on the basis of the China Audit Industry Development Report⁸⁴, China Audit Market Development Report during the "12th Five-Year Plan" period⁸⁵, China Audit Industry Development Report 2021⁸⁶

In addition, further analysis of audit organizational forms shows (see Figure 1.2) that the share of limited liability audit organizations relative to all audit organizations decreased year by year between 2010 and 2017 and remained at a stable level of development between 2018 and 2021. However, the proportion of general partnership audit organizations increased from year to year, peaking at 55.64% in 2017, and since then remained almost constant until 2021 the number of special general partnership audit organizations didn't increase very significantly. Thus, the upward trend in the number of auditing organizations of general partnership and downward trend in the number of auditing organizations of limited liability reflects the direction of the financial authorities' policy to encourage the development of partnership organizations from 2010 to 2017.

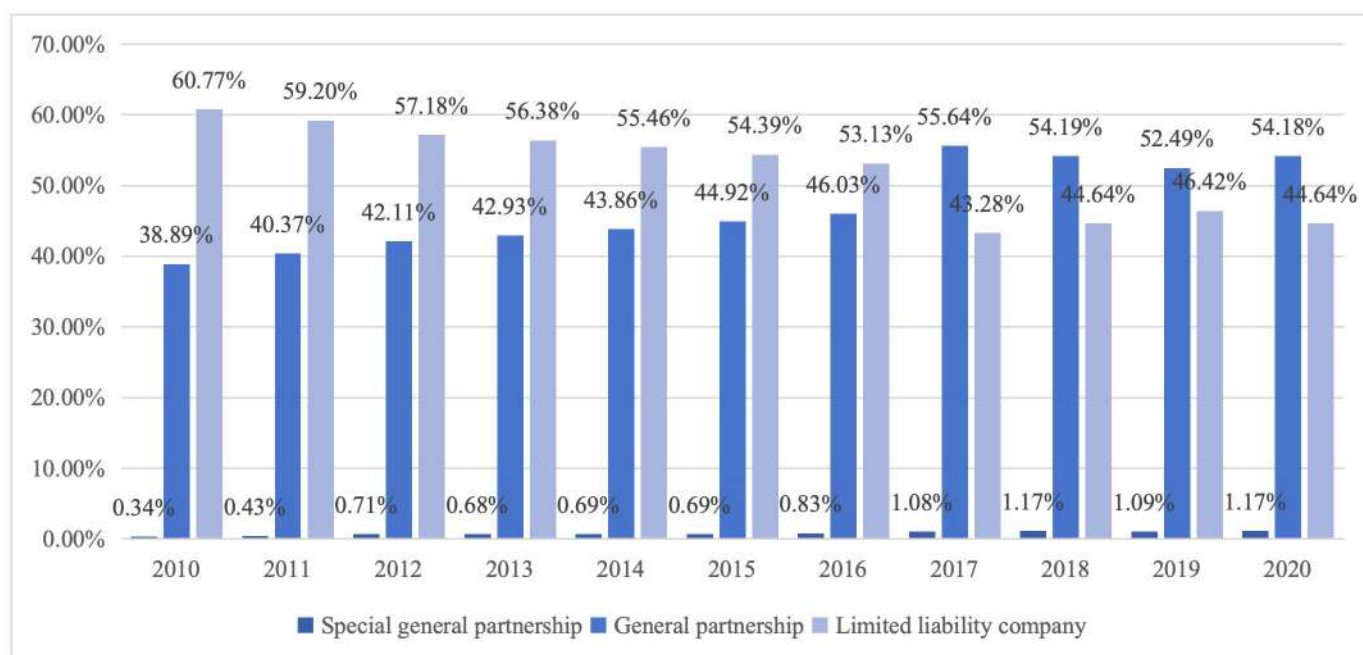


Figure 1.2 Changes in the organization of audit organizations in 2010-2021

Source: compiled by the author

⁸⁴ China CPA Industry Development Report. [Electronic resource] URL:

http://kjxy.hbue.edu.cn/_upload/article/files/74/b4/092a2609415488da1739a3e07a37/97ddb8fc-48dd-4ee2-b2cc-f667c6d634de.pdf (accessed: 13. 03.2023)

⁸⁵ Report on the Development of China's Accounting Services Market during the "12th Five-Year Plan" Period. [Electronic resource] URL: <https://www.cicpa.org.cn/ztzl1/hyghckzl2/hyghckzl5/202003/W020210419762280490384.pdf> (accessed: 13. 03.2023)

⁸⁶ China CPA Industry Development Report 2021.[M] China state finance magazine.2022.p.356.

The market-based audit organization in China has undergone a major reorganization. Initially, many early audit organizations were established under administrations and government agencies. On the one hand, this was a partial substitute for the need for state supervisory authorities to carry out certain supervisory activities on foreign-owned enterprises, and on the other hand, the state provided support for the establishment of independent audit firms. Due to this, there was a transition from the previous framework of state ownership to the new legislation on private enterprises, which realized limited and unlimited liability. The Law on Certified Public Accountants, adopted in 1994, in accordance with international practice, divides the forms of audit organizations into audit organizations with limited liability and partnerships, and also defines in detail the procedure of activity, management and coordination of various relations within the audit organization. Based on the current situation, the main organizational types of Chinese audit organizations are general partnerships (unlimited liability) and limited liability companies.

The results of the audit services market. As shown by the 7,469 audit organizations in China, they prepared 2.91 million audit opinions and other assurance reports in 2021⁸⁷. The total income of China's audit industry reached RMB105.73 billion in 2021, with income from audit services totaling RMB85.32 billion. The types of audit performed include financial statement audit (including annual financial statement audit and interim financial statement audit), special audit⁸⁸, internal control audit, capital verification and other assurance engagements (see Table 1.2).

Table 1.2 Statistics on the results of audit services in 2021

Type of audit activity	Audit income (RMB billion)	Audit reports /assurance reports (thousands)	Cost of average audit reports /assurance reports (RMB thousand)
Financial statement audit	50.85	159.17	319.47
Special audit	30	2604.92	11.52
Internal control audit	0.96	2.53	379.45
Capital verification	0.79	20.78	38.02
Other assurance engagements	2.73	127.9	21.34
Total	85.33	2915.3	29.27

⁸⁷ Certified Public Accountant Industry Development Report Writing Group. China Certified Public Accountant Industry Development Report 2021. China state finance magazine. 2022.c363.

⁸⁸ Special audit is an audit in which the auditor is commissioned by a relevant government department or enterprise to review a specific project or activity and prepare a special audit report.

Source: compiled by the author based on data from China CPA Industry Development Report 2021

Table 1.2 shows that the average cost of audit/assurance reports in 2021 is RMB29.27 thousand, while the average cost of audit reports on financial statement and internal control audits is generally higher at RMB319.47 thousand and RMB379.45 thousand, respectively. In contrast, the average cost of reports issued on special audits, capital verification and other assurance engagements is relatively low. On average, one special audit report cost only RMB11.52 thousand.

Special audit is an audit in which the auditor performs an audit of a special engagement⁸⁹. It is different from other types of auditing activities. Special audit is mainly carried out on financial project funds, specifically expressed as special fund audit and special audit investigation. Special funds audit is an activity to control and supervise the reliability, legality and efficiency of income and expenditures of special funds and excludes other financial income and expenditures of the auditee⁹⁰. A special audit investigation is a special examination conducted by the auditing agency on relevant departments, enterprises, and institutions on special assignments related to the financial income and expenditures of the state. The special audit examines major tasks such as the implementation of relevant policies, laws and regulations, production and industry operations, and the use and management of funds. Unlike traditional audit, special audit is conducted in the form of audit and investigation, audit activities are carried out in relation to an industry, policy or region in order to ensure macro-control in the country, and as an important basis for public decision-making.

As distinct from an audit report on financial statements, there is no fixed format for a special audit report. Usually, a special audit contains two types of audit reports: summary and detailed. If the audit is conducted on the complete financial statements and the client does not have any special requirements, the financial statement audit report format can be applied to issue a summary opinion. For example, an audit of an enterprise restructuring⁹¹. Detailed reports are sometimes dictated by the content of the audit, e.g., in a discharge audit, a detailed report must be issued to assess financial responsibility⁹². The scope and

⁸⁹ Xu Zheng. Six taboos for special audit work // The Chinese Certified Public Accountant.2019.03.94-95.

⁹⁰ Pei Yan. How to improve audit results in special audit investigation // Journal of Shanxi University of Finance and Economics. 2011. vol33.NoS1.P.170.

⁹¹ Chan Hang. Exploration of special auditing of projects of state-owned enterprises employing intermediaries// China internal audit.2015.No12.P.75-76.

⁹² Shi Jianzhang. The case of writing an audit report on departure// Western Finance and Accounting.2020.No03.P.74-76.

introductory paragraphs of the long-form report are in accordance with the examples of auditor's reports in Chinese Auditing Standard 1601 "Special considerations—Audits of financial statements prepared in accordance with special purpose frameworks" and Chinese Auditing Standard 3101 "Assurance engagements other than audits or reviews of historical financial information", and the rest of the contents are determined according to the needs of the client.

Special audit investigation is a type of independent audit service with Chinese specificity and special approach to audit. Article 27 of the Audit Law enacted in 1994 clarified the legal status of special audit investigation for the first time, making it mandatory for Chinese audit authorities. This is the result of generalizing the experience of Chinese audit practice and using the practice of performance audit investigations in countries such as the United States. The Audit Law defines at the legislative level the duties and powers of audit agencies to conduct special audit investigations, in particular, "with respect to certain cases relating to state budgetary income and expenditure, audit agencies shall have the power to conduct special investigations through auditing certain areas, departments and units, with subsequent reporting of the results of such investigations to the relevant level of government and audit agencies"⁹³.

The Standard on Special Audit Investigations of Audit Institutions, adopted by the National Audit Office in 2001, indicates that audit techniques may be used in conducting a special audit investigation and expands the scope of a special audit investigation to include "special investigations related to the budgetary income and expenditures of the state, or investigations commissioned by the appropriate level of government"⁹⁴. In fact, many special audit investigations correspond to the concept of audit in the Russian budget law.

The revised Regulations on the Implementation of the Audit Law of the PRC from 2010, in order to meet the practical need for special audit investigations, stipulates the following: "Audit institutions may in accordance with the audit procedures and methods stipulated in the Audit Law and these Regulations, as well as other relevant provisions of the State, conduct special audit investigations and audits of special cases related to the budgetary income and expenditure of the State, such as budget management or management and utilization of assets owned by the State at certain sites, departments and

⁹³ Audit Law of the People's Republic of China. Adopted at the 9th Meeting of the Standing Committee of the Eighth National People's Congress on August 31, 1994. URL: <https://asia-business.ru/law/law2/accounting/audit/> (accessed: 14.11.2023)

⁹⁴ Standard on Special Audit Investigation of Audit Institutions. The National Audit Office of the People's Republic of China promulgated Decree No. 3 on August 1, 2001. URL: https://www.google.com/url?sa=t&rc=t=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjsy7X2qc2CAxWgHxAIHSn1BI AQFnoECAsQAQ&url=http%3A%2F%2Fxxgk.xuecheng.gov.cn%2Fqjbm%2Fqsjj%2F201012%2FP020211116597972962315.doc&usg=A OvVaw2_3RwfWRvalw1xEAX2VoX8&opi=89978449 (accessed: 14.11.2023)

units.⁹⁵" This provision takes greater account of the limitations of the legislation on special audit investigations and promotes the development of special audit investigations.

According to the current audit legal regulation system in China, special audit investigation is a type of independent audit along with audit. At the same time, it is an effective form of audit supervision, i.e., achieving special audit objectives through audit investigation. The special audit investigation procedure generally corresponds to the audit procedure, however, the special audit investigation report, in addition to complying with the elements and content requirements of the general audit report, should also be based on the special audit investigation objectives, analyze macroeconomic, general, political or institutional and organizational problems and provide recommendations for improvement. In particular, this applies to performance auditing, the essence of which is to monitor and serve national governance, and to shift the content of the audit from the management and use of funds to policy implementation and project management⁹⁶. But at present the performance audit in China is in its infancy, which causes a number of problems. Thus, the formation of the performance audit system is slow, its impact is still limited, and the system of indicators requires further improvement and refinement⁹⁷.

As for the standard of audit service cost, there is no single standard of audit service cost in the Chinese audit industry, it is mainly realized in the form of government quotations and set by finance departments and price management departments at the provincial level⁹⁸. However, there are differences in their application. In practice, the cost of audit services is calculated based on a combination of total assets of the enterprise and total annual operational income. For example, the minimum cost of audit services is RMB 1,000, for enterprises with total assets of less than RMB 10 million (including RMB 10 million), the cost of audit services is 2.5‰ of total assets; For enterprises with total assets of more than RMB 10 million to RMB 100 million (including RMB 100 million), the cost of audit services is 0.15‰ of total assets; For enterprises with total assets of more than RMB 100 million to RMB 1 billion (including RMB 1 billion), the cost of audit services is 0.1‰ of total assets; for enterprises with total assets of more than RMB 1 billion, the cost of audit services is 0.02‰ of total assets. In China, the majority of financial

⁹⁵ Regulations on the Implementation of the Audit Law of the People's Republic of China. promulgated by Decree No. 231 of the State Council of the People's Republic of China on October 21, 1997 Revised and adopted at the 100th executive meeting of the State Council on February 2, 2010. URL: https://www.gov.cn/zwggk/2010-02/20/content_1537495.htm (accessed: 14.11.2023)

⁹⁶ Liu Yali. Performance Audit: The Development Conditions in China // Finance: Theory and Practice. 2023. Vol. 27, No. 4.P. 80-92.

⁹⁷ Liu Yali. State and prospects the development of performance audit in China// Modern Science: Actual Problems of Theory and Practice. Series: Economics and Law. 2021. № 1. P. 45-49.

⁹⁸ Chen Lieqian. An introduction to the organizational form of accounting firms and audit fees // Finance and accounting study.2018.№30.P.137.

statement audit and internal control audit clients are listed companies, state-owned enterprises, and small and medium-sized joint stock companies, which accounts for the higher average cost of audit services.

As a result of a business providing services or goods to a governmental entity, and the governmental entity directs an auditor to perform an audit and issue an audit opinion on a particular service or good before funds are disbursed to the business. Such common governmental entities include: fire departments, department of public safety, etc. Thus, a special audit is an independent audit in which the auditor (CPA) issues an audit opinion on the financial statements of the audited entity that specialize in a specific project means in accordance with Chinese auditing standards.

Due to the particularities of the audit market, which reflect the characteristics of the modern service industry, salary expenses have become the largest expenditure in the audit industry. In 2021, China's audit industry spent a total of RMB38.26 billion on salaries. Among them, the salary expenses of large and medium-sized audit organizations were RMB 22.62 billion and RMB 6.27 billion, respectively, and the salary expenses of small audit organizations were RMB 9.36 billion (see Table 1.3).

Table 1.3 Salary expenses of audit organizations with different scale in 2021

Indicator	Large audit organizations	Medium-sized audit organizations	Small audit organizations
Salary expenses (RMB billion)	226.2	62.74	93.63
Number of audit organizations	51	897	7 803
Number of auditors	29 221	18 967	47 573
Average expenditure of audit organizations (RMB billion)	4.44	0.07	0.01
Salary expenses per auditor (RMB thousand)	774.1	330.8	196.8
Percentage of total industry salary expenses (%)	59.13%	16.40%	24.47%

Source: compiled by the author based on data from China CPA Industry Development Report 2021.

As shown in Table 1.3, the proportion of salary expenses of large audit organizations in the total salary expenses of the audit industry is 59.13%, with the salary per auditor in large audit organizations is RMB774.1 thousand, while the salary per auditor in medium and small audit organizations is RMB 330.8 thousand and RMB 196.8 thousand respectively. This shows the complexity of audit assignments

performed by large audit organizations, which are favored by larger firms. Compared with the audit income, the total salary expenses are 36.18%.

Thus, at present, audit organizations in China mainly exist in the form of general partnerships and limited liability companies, and there is a trend of transition from limited liability companies to general partnerships of audit firms. This shows that changing the legal responsibility of partners can help to improve the quality of audit performed by audit organizations. On the other hand, it is related to the separation of audit firms from state-owned entities and their transformation into private firms, which strengthens the independence of audit firms. In China, large and medium-sized audit organizations have the form of general partnership (of which 104 large audit organizations have the form of special general partnership), with large and medium-sized audit organizations providing audit and other related services to listed companies, state-owned enterprises, etc., and small audit organizations most often have the form of limited liability company and provide audit and related services to small and medium-sized enterprises in China.

1.2.2 The role of international audit and consulting groups (Big Four) in China

With the rapid development of the audit industry in China, large international firms also accelerated their global expansion by opening offices or partnering with local firms. In 1979, following China's reform and opening-up policy and the introduction of foreign investment, the audit industry in China was revitalized and developed, and began to allow international firms of the "Big Eight" to open permanent offices in China. PricewaterhouseCoopers (1979) was the first to enter the Chinese market and opened an office in Beijing. Coopers & Lybrand (1981), Ernst & Young (1981), Arthur Andersen (1982), Deloitte (1983), and KPMG (1983) also opened offices. For most of the 20th century, the eight international audit and consulting groups were known as the "Big Eight." By 1989, two major international audit and consulting firms had merged, making the "Big Eight" into the "Big Six", namely Arthur Andersen, Deloitte, KPMG, Ernst & Young, Pricewaterhouse and Coopers & Lybrand⁹⁹.

With the growing number of foreign companies in China, the "Big Six" offices are unable to meet the demand for audit services from foreign investors. Since Chinese law requires foreign investors to engage local auditors to audit their financial statements annually, the head offices of these foreign

⁹⁹ Wen Wenjun. The interplay between global accounting firms and national institutional contexts: The establishment of the Big Four in China from 1978 to 2007// Accounting History. 2022, Vol. 277.1.P. 95–124.

companies want to engage central office auditors to conduct group audits. Therefore, to avoid double auditing of such foreign companies, in 1992 the Chinese government approved the entry of foreign audit firms into China through the establishment of Sino-foreign joint ventures, thereby granting the "Big Six" the right to perform audits in China. In the same year, China's Ministry of Finance approved the establishment of three Sino-foreign joint ventures - KPMG Hua Zhen, Arthur Andersen Hua Qiang and Ernst & Young Hua Ming, followed by the establishment of HJ Deloitte. In 1993, PricewaterhouseCoopers and CITIC Coopers were formed. In 1998, PwC and Coopers & Lybrand merged to form PricewaterhouseCoopers, reducing the "Big Six" to the "Big Five".

In 2002, Arthur Andersen was broken up as a result of its involvement in the Enron case, so that since 2003 only four major international audit firms have remained - Deloitte, KPMG, Ernst & Young and PricewaterhouseCoopers, or the international "Big Four" as they are known today. The auditing and consulting groups of the "Big Four" have managed to maintain a high level of audit services and brand reputation worldwide, and have nearly monopolized the audit share of the world's largest clients. The "Big Four" Chinese and foreign partner firms - PwC Zhongtian, Deloitte Touche Tohmatsu, KPMG Hua Zhen and Ernst & Young Hua Ming - are also leading in China, with their incomes and scale far exceeding those of their local Chinese firms¹⁰⁰.

Since its establishment in 1992, Sino-foreign joint venture audit firms have made significant contributions to China's economic development and capital market reform, to the development of accounting and auditing standards and their convergence with international standards on auditing, and assisted in the listing of Chinese firms overseas.

According to the Law of the People's Republic of China on Chinese-Foreign Cooperative Business Enterprises, the "Big Six" (now "Big Four") Sino-foreign cooperative auditing organizations were established as limited liability companies¹⁰¹. At that time, the "Big Six" provided audit services to state-owned enterprises and multinational companies investing in China. However, in actuality, Chinese cooperative audit firms are merely front companies to help obtain business licenses and the right to sign audit reports, and they are actually dominated by the international "Big Six" in terms of actual capital investment, organizational management, and staffing.

¹⁰⁰ Gao Xinzhi, Sun Yanyang. Review and prospect of "international Big Four" research: influencing factors, audit behavior and economic consequences// China Certified Public Accountants. 2022.No.09.P.25-29.

¹⁰¹ Law of the People's Republic of China on Chinese-Foreign Cooperative Business Enterprises. Enacted by the National People's Congress on April 13, 1988, and amended in 2000, 2016 and 2017. URL:<http://law.pkulaw.com/chinalaw/aeffe0d55d2d285abdfb.html> (accessed: 02.11.2023)

On March 28, 1996, China's Ministry of Finance issued the "Interim measures for the administration of Chinese-foreign cooperative audit firms"¹⁰², which stipulates that international audit firms must meet the conditions of having an annual income of at least \$20 million and at least 200 auditors. Chinese audit firms should be separate from state-owned entities in terms of functions, personnel and finances, and should also meet the conditions of having relevant qualifications for securities activities, annual income of at least 10 million yuan and at least 100 auditors. In addition, audit reports on foreign stocks listed in the Chinese market must be issued by a Chinese auditor. Audit reports issued by foreign auditors at the request of foreign underwriters are only valid outside China. All audit services within China must be uniformly performed by Sino-foreign cooperative audit firms. Chinese enterprises listed outside China, audit reports valid within China shall be issued by Chinese auditors; audit reports signed by foreign auditors, when requested by foreign securities organizations, shall be valid only outside China. All obligatory audits of foreign listed enterprises in China should be uniformly conducted by Sino-foreign cooperative audit firms. And also Sino-foreign cooperative audit firms should account for all financial income and expenses within China and pay taxes in accordance with the requirements of the relevant Chinese tax laws.

In 1998, as part of the implementation of the "unbundling and restructuring" policy, China's Ministry of Finance proposed to bring the organizational form of the ""Big Four"" of Sino-foreign cooperative audit firms in line with international practice and be managed as a partnership. However, due to practical reasons, the ""Big Four"" did not implement the transformation in reality. As a result, (PricewaterhouseCoopers, the term of the cooperative agreement was 25 years, the other three audit firms had 20 years each), the transformation or liquidation of the cooperative firms occurred in 2012 at the expiration of the termination of the agreement.

As the reform of China's socialist market economy system deepened and opened up to the outside world, the organizational form of Sino-foreign cooperative audit firms also revealed some shortcomings. In terms of partner composition, the proportion of Chinese partners in the total number of partners in the "Big Four" Sino-foreign cooperative audit firms was 42%, much lower than that of foreign partners. Therefore, the actual authority of Chinese partners in the management of the audit firm was generally less

¹⁰² Interim measures for the administration of Chinese-foreign cooperative audit firms. Issued on March 18, 1996 by the Ministry of Finance. URL: <http://www.mofcom.gov.cn/article/b/bf/200207/20020700031392.shtml> (accessed: 03.11.2023)

than that of foreign partners¹⁰³. In connection with the expiration of the "Big Four" Chinese and Foreign Cooperative Audit Firms agreements, the Ministry of Finance of China issued the "Localization and conversion program for Chinese and foreign cooperative accounting firms" dated May 2, 2012, which mainly includes regulating the qualification conditions of partners, clarifying the general transformation procedures and relevant procedures for the continued qualification of practitioners, foreign exchange registration formalities, and the implementation of tax policies¹⁰⁴. "Localization and conversion", according to the laws of industry development and international practice, means the conversion of a Sino-foreign cooperative audit firm after the expiration of the cooperation agreement into a special general partnership audit firm under the management and control of a partner qualified to practice auditing in China.

The localization and conversion project of the "Big Four" can be divided into two stages. In the first stage, the "Big Four" shall establish new specialty general partnerships upon the expiration of the cooperative term and simultaneously liquidate the former Sino-foreign cooperative firms. In the second stage, the "Big Four" shall gradually achieve the goal of localization of management structures within five years (by the end of 2017) after the completion of localization and conversion, i.e. by the time the establishment of the special general partnership firm is approved, the proportion of partners qualified as auditor of China to the total number of partners and their proportion in the management committee of the partners has reached 60%. As of December 31, 2014, this proportion reached 65%. As of December 31, 2016, the proportion reached 75%. As of December 31, 2017, the proportion reached 80%¹⁰⁵. At present, organizational changes have been completed in the "Big Four".

The development of the Chinese audit firm industry in recent years shows that the international audit and consulting groups (the "big four") are still leading in China, but their dominance in China is gradually being challenged by large Chinese audit firms. Table 1.4 shows the income of the international "big four" and the largest local audit firms in China over the past 18 years from 2003 to 2021. The international "Big Four" consistently ranked in the top four places in China's Top 100 audit firms from

¹⁰³ Hundred Years of the Big Four: A Report on the Localization and Conversion of the "Big Four" Chinese and Foreign Cooperative Audit Firms// Finance and Accounting.2014.№10.P.11-17.

¹⁰⁴ Localization and conversion program for Chinese and foreign cooperative accounting firms. Issued on May 2, 2012 by the Ministry of Finance in conjunction with the State Administration for Industry and Commerce, the Ministry of Commerce, the Foreign Exchange Bureau and the China Securities Regulatory Commission. URL: https://www.gov.cn/gongbao/content/2012/content_2218038.htm (accessed: 31.10.2023)

¹⁰⁵ Li Yi, Li Feiran. Development Strategy of domestic audit firms after localization of "Big 4" // China Township Enterprise Accounting.2016.№01.P.201-202.

2003 to 2012, and their incomes were significantly higher than those of the largest local firms. In 2013, Ruihua, a Chinese audit firm, was ranked in the top four for the first time, which had long been held by the international "Big Four". In 2016, Ruihua reached the highest position of second place. In 2018-2021, the international "Big Four" regained its position in the top four of the Top 100 in China, and the gap in operating income between Tianjian & Partners, ranked fifth, and the international "Big Four" began to gradually narrow.

Table 1.4 The income trend of the international Big Four audit and consulting groups in China from 2003 to 2021

year	PwC Zhongtian (RMB million)	Deloitte Touche Tohmatsu (RMB million)	Ernst & Young Hua Ming (RMB million)	KPMG Hua Zhen (RMB million)	The largest audit organization in China (RMB million)	top 100 audit organizations (RMB million)	Percentage of income from international "Big Four" in the top 100
2003	766.31	291.52	246.32	334.39	100.89	4,431.14	36.98%
2004	902.33	376.36	329.26	431.76	113.60	5,227.14	39.02%
2005	1,246.77	657.97	628.46	715.78	153.30	7,108.19	45.71%
2006	1,802.96	908.76	971.66	914.78	183.24	9,296.30	49.46%
2007	2,037.62	1,385.64	1,598.33	1,237.47	219.83	11,809.43	53.00%
2008	2,625.71	2,124.28	2,315.80	1,944.96	504.67	16,467.70	54.72%
2009	2,755.18	2,498.82	2,700.00	2,435.17	652.17	19,672.12	52.81%
2010	2,578.43	2,370.25	1,960.64	2,221.10	872.05	20,610.51	44.30%
2011	2,960.65	2,600.07	2,094.13	1,862.03	1,039.29	23,103.83	41.19%
2012	2,956.74	2,928.44	2,277.49	1,928.42	1,504.18	27,887.63	36.18%
2013	3,226.29	3,044.51	2,236.46	2,135.76	2,437.09	31,448.55	33.84%
2014	3,351.41	2,881.23	2,364.34	2,347.17	2,775.93	34,756.38	31.49%
2015	3,713.48	3,130.92	2,833.23	2,350.72	3,062.03	39,479.24	30.47%
2016	4,117.33	3,324.77	2,960.72	2,533.35	4,030.16	46,486.91	27.83%
2017	5,165.95	4,029.77	3,323.37	3,126.85	3,690.16	46,251.92	33.83%
2018	5,172.28	4,466.54	3,895.84	3,361.90	3,667.95	50,563.10	33.42%
2019	5,646.39	4,101.82	4,374.64	3,362.20	2,471.19	52,379.05	33.38%
2020	6,115.04	3,978.59	4,760.09	3,416.51	3,050.52	58,603.34	31.18%
2021	6,825.43	4,159.20	5,490.41	4,093.64	3,500.90	66,185.81	31.08%

Source: compiled by the author based on data from CSCMAR¹⁰⁶, CICPA¹⁰⁷

¹⁰⁶ China Stock Market & Accounting Research Database. Official website. URL: <https://www.gtarsc.com> (accessed: 15. 03.2023)

¹⁰⁷ The chinese institute of certified public accountants. Official website. URL: <https://www.cicpa.org.cn/ztl1/swszhpm/> (accessed: 15. 03.2023)

As shown in Table 1.4, in 2003, the incomes of the "Big Four" accounted for 36.98% of the incomes of China's top 100 firms. From 2004 to 2007, the percentage in total income of the "Big Four" grew rapidly, reaching a record high of 54.72% in 2008. From 2009 to 2016, the percentage in total income of the "Big Four" began to decline, reaching a record low of 27.83% of the income of the 100 largest firms in 2016. Overall, the international "Big Four" have been losing market share in China since 2008, indicating that local Chinese firms are becoming more competitive in the market, Chinese firms are increasing in size and improving their market position with the strategy of "getting bigger and stronger", and the income gap between them is increasingly narrowing.

It shows the trend of the total income of the international "Big Four", domestic "Big Four" and domestic "Big Ten" (top 10 in terms of annual income) as a percentage of the total income of China's top 100 firms in Figure 1.3.

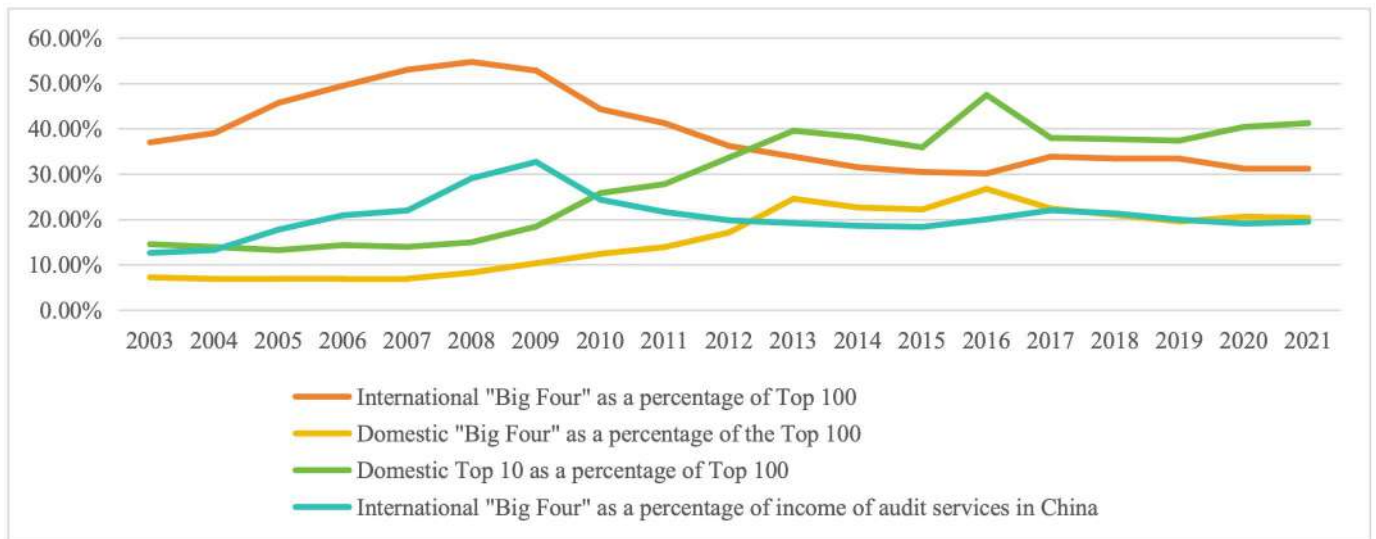


Figure 1.3 Trends in the income percentage of the international "Big Four", the domestic "Big Four" and the top 10 in China

Source: compiled by the author

As shown in Figure 1.3, until 2007, the international "Big Four" accounted for a much larger share of income than the Chinese domestic "Big Four" and "Big Ten" and dominated the audit market in China. However, after the reorganization to the "largest and strongest growth" since 2008, the domestic "Big Four" and "Big Ten" increased their income share, while the income share of the international "Big Four" decreased year by year. With the support of China's government policies, the domestic "Big Ten" surpassed the international "Big Four" in income share for the first time in 2013, and in each subsequent

year, the domestic "Big Ten" also surpassed the international "Big Four" in income share by about 10%. The gap between the income share of the international "Big Four" and the domestic "Big Four" has been narrowing year after year.

These data show that the international "Big Four" are no longer the dominant player in the Chinese audit market, facing not only strong competition from large Chinese firms, but also the threat of the Chinese Ministry of Finance's policy of targeting local firms. However, the "Big Four" share of total audit income in China has been growing year on year, indicating that their extensive international network and professional brand influence still give them a significant advantage in China, with PwC Zhongtian consistently ranked number one and generating much higher annual income than any local firm ranked number one in China.

Thus, at the end of the 20-year agreement signed between the Chinese government and the international "Big Four", the conversion of these firms from the original Sino-foreign limited liability cooperative to a special general partnership was accomplished. The "Big Four" have made significant contributions to China's economic development and capital market reform, the convergence of accounting and auditing standards with international standards on auditing, and the development of the listing of Chinese enterprises in both domestic and international markets. In the audit market in China, the international "Big Four" mainly serve foreign-invested enterprises and listed companies in both domestic and international markets. Although the consolidation of Chinese audit organizations has improved their competitiveness in the audit market, there is still a large gap between them and the "Big Four" international audit firms.

1.3 Audit in Hong Kong, Macao and Taiwan

The auditing work of the Hong Kong and Macao Special Administrative Regions of China was developed on the basis of the auditing work of the Hong Kong-British and Macao-Portuguese periods. Their auditing systems are different from those of mainland China. After the reunification of Hong Kong and Macao with China, in accordance with the principles of "one country, two systems", "Hong Kong people rule Hong Kong" and "Macao people rule Macao", and the provisions of the Basic Law of the Hong Kong Special Administrative Region and the Basic Law of the Macao Special Administrative Region, they have set up audit offices respectively, but their systems are different from mainland China.

Taiwan has basically followed the auditing system of the former National Government of the Republic of China since the defeat of the Kuomintang regime in Taiwan in 1949, and so far there have been partial adjustments to the auditing system in Taiwan, but no major changes on the whole¹⁰⁸.

Hong Kong adopted International Financial Reporting Standards and international standards on auditing (ISAs) with effect from January 1, 2005¹⁰⁹. In June 2010, the Hong Kong Institute of Certified Public Accountants (HKICPA) issued revised Hong Kong Standards on Auditing to ensure convergence with the revised International Standards on auditing¹¹⁰.

Macao adopted a portion of international standards on auditing (ISAs) in 2007¹¹¹. As a result of the revision, the "Macao Special Administrative Region Audit Standards"¹¹² issued by the Committee of Professional Auditors for implementation on January 1, 2022, consists of auditing standards and general auditing standards, of which the reference basis for auditing standards is the relevant standard in the 2012 edition "International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements", Volume 1, translated into Simplified Chinese by the CICPA and into Traditional Chinese by the Macao Committee of Professional Accountants.

Since 2013, listed companies in Taiwan have adopted International Financial Reporting Standards (IFRS) endorsed by the Foundation for Accounting Research and Development, and obligatory audits are conducted in accordance with International Standards on auditing (ISA). In contrast, audits of unlisted companies must be conducted in accordance with Taiwan Auditing Standards¹¹³. On October 4, 2022, the Taiwan Accounting Research and Development Foundation issued the latest revision of the "Quality Control Standards". The revised quality control standards are effective from December 15, 2022¹¹⁴. The auditing standards consist of one quality control standard, 33 auditing standards, one review standard, two

¹⁰⁸ Li Jinhua. *History of Auditing in China*// China Times Economic Publishing Press.2004.

¹⁰⁹ The Hong Kong Exchanges and Clearing Limited (HKEx) amended the Listing Rules to accept the adoption of Mainland accounting and auditing standards and the engagement of Mainland accounting firms by Mainland incorporated companies listed in Hong Kong. [Electronic resource] URL: <https://www.charltonslaw.com/newsletters/hong-kong-law/cn/2010/103/nl-hklaw-20101228-103.html> (accessed: 14. 03.2023)

¹¹⁰ The Hong Kong Institute of Certified Public Accountants (HICPA). Official website. URL: www.hkicpa.org.hk (accessed: 14. 03.2023)

¹¹¹ Yuan Qing. Exploring the practice of integration and development of accounting service industry in Guangdong, Hong Kong and Macao// *The Chinese Certified Public Accountants*. 2022.No05.P.68-73.

¹¹² Auditing Standards of the Macao Special Administrative Region. Professional Council of Accountants Circular No. 2/2021/ CPC, adopted by the Professional Council of Accountants in plenary session on August 24, 2021. URL: https://www.dsf.gov.mo/CPC/Publish/Comi_Norm_Disc/files/C_Aviso_22021CPC.pdf (accessed: 14. 03.2023)

¹¹³ Report on Accounting and Capital Market Environment in Countries Along the "One Belt, One Road". URL: <https://www.pwccn.com/en/research-and-insights/belt-and-road/belt-and-road-countries-accounting-and-capital-market-environment-report.pdf> (accessed: 14. 03.2023)

¹¹⁴ Taiwan Accounting Research and Development Foundation. Official website. URL: <https://www.ardf.org.tw/ardf.html> (accessed: 14. 03.2023)

assurance standards and two standards for other related services. In general, convergence with international standards on auditing has been maintained.

1.3.1 Audit in Hong Kong

In 1913, Hong Kong established the Hong Kong Chinese Auditors Association, which was the first independent auditing professional organization in Hong Kong. In August 1952, the British government of Hong Kong established the Audit and Accountancy Board, which was responsible for organizing examinations for accountants, issuing licenses for auditing, etc. Since the 1970s, as Hong Kong's economy prospered and diversified, the audit market developed significantly, the number of audit firms, practicing corporations and auditors increased, and a number of foreign audit organizations registered and practicing in Hong Kong, the audit field continued to expand. During this period, some national and regional professional associations of auditors also established their branches in Hong Kong, such as the Institute of Chartered Accountants, the International Association of Accountants, the Canadian Association of Certified Management Accountants and the American Society of Accounting Graduates.

On January 1, 1973, the Hong Kong Institute of Certified Public Accountants (HKICPA) was established in Hong Kong, replacing the former Board of Auditors and Accountants. The HKICPA is the sole obligatory authority for the registration of professional auditors in Hong Kong. Its responsibilities include regulating and supervising the independent audit profession, organizing examinations for auditors and issuing licenses for auditing, drafting rules for the audit profession, coordinating internal relations within the profession, encouraging research on auditing by chartered auditors, exchanging views with the government on matters relating to the audit profession in Hong Kong, etc. In addition, there are a number of other local audit association organizations in Hong Kong, such as the Hong Kong Chinese Auditors Association, the Hong Kong Federation of Auditors and the Hong Kong Institute of Professional Auditors¹¹⁵.

The "Professional Auditors act" was adopted in 1972 as special legislation to regulate the auditing profession in Hong Kong¹¹⁶. The Ordinance was amended by the Legislative Council of the Hong Kong

¹¹⁵ Mai Qingzhang. A Brief History of the Hong Kong Society of Chinese Accountants and Certified Public Accountants in Hong Kong// in HKSCCA 80th Anniversary Special Edition. November 1993.P.2.

¹¹⁶ Professional Auditors Act. L.N. 267 of 1972, effective January 1, 1973. URL: https://www.elegislation.gov.hk/hk/cap50!sc?INDEX_CS=N&xpid=ID_1438403280646_002 (accessed: 14. 03.2023)

Special Administrative Region in 2021. The Ordinance provides for the establishment of the HKICPA and the registration, practice audit and disciplinary measures for professional auditors. The main services provided by certified public accountants in Hong Kong include obligatory audit, tax advice, consulting for listed companies and corporate finance, liquidation and due diligence. While obligatory audit is the main source of income, audit firms also provide various business consulting services to their clients such as financial planning, corporate governance and internal audit. As of June 2020, the Association had 45,999 members, of which 5,899 were senior members. At the same time, there were 5,041 practicing members and 1,907 audit organizations, of which 635 were practicing corporations¹¹⁷.

The Hong Kong audit industry is similar to the UK audit industry in terms of examination registration, practice standards and regulatory model¹¹⁸. Hong Kong Standards on Auditing (HKSA) are developed by the HKICPA and incorporate the fundamental principles of International standards on auditing. The auditing standards set out the fundamental principles and practices that HKICPA members should follow when conducting an audit. In June 2010, the HKICPA issued revised Hong Kong Standards on Auditing to maintain convergence with the revised International Standards on auditing.

On September 5, 2011, the CICPA and HKICPA signed the Joint Declaration on the Continuing Equivalence of Auditing Standards in Hong Kong, confirming the continuing equivalence between the recently revised Mainland auditing standards and the revised Hong Kong auditing standards. Achieving continuing equivalence between the auditing standards of Mainland China and Hong Kong is conducive to the development of the capital markets of the two countries, maintaining the stability of the financial order, enhancing internationalization and mutual prosperity of the audit services of the two territories. In 2018, with the further revision of International Standards on Auditing, the HKICPA fully adopted and approved International Financial Reporting Standards and International Standards on Auditing, which ensures the internationalization of Hong Kong companies.

Internationally, the HKICPA's membership is recognized in five continents around the world. The HKICPA has agreements with a number of national institutes of chartered accountants, including such countries and associations as Australia, Canada, England and Wales, Ireland, New Zealand, Scotland, South Africa, Zimbabwe; the American Council for International Accreditation representing the National Federation of State Boards of Accountancy/American Institute of Certified Public Accountants, the

¹¹⁷ Ministry of Finance of the People's Republic of China. China Accounting Yearbook 2021// China Finance Magazine. P563.

¹¹⁸ Liu Guangzhong, Wang Hong, Qiu Ying. Insights from the practice of professional liability insurance for certified public accountants in Hong Kong to the Mainland// China Certified Public Accountants.2015.No03.P.85-88.

Association of Certified Public Accountants, and the International Society of Accountants. However, at the moment, the international "Big Four" continue to dominate the Hong Kong audit market by providing audit services to companies listed on the Hong Kong Stock Exchange. Other audit organizations mainly serve local and mainland small and medium-sized enterprises.

At the audit regulatory level, the regulatory structure of the audit industry in Hong Kong is relatively unified compared to the numerous regulatory models on the Mainland. The HICPA acts as the primary rulemaker and regulator of the audit industry. In 2019, the Financial Reporting Council (FRC) was established as the comprehensive and independent audit and supervisory body for the Hong Kong region.

For historical reasons, under the "One Country, Two Systems" in Hong Kong, the Mainland and Hong Kong are two separate jurisdictions, the laws and regulations relating to audit controls that apply in the two places are not identical. Faced with the differences in regulatory systems and realistic regulatory requirements, the two regulators have initiated focused regulatory cooperation. In addition, the securities regulators of Hong Kong and the Mainland joined the Multilateral Memorandum of Understanding on Consultation, Cooperation and Exchange of Information (MMU) of the International Organization of Securities Commissions (IOSCO) in March 2003 and May 2007 respectively, a more concrete cooperative relationship on audit regulation was established between the two authorities.

The Mainland-Hong Kong Close Economic Partnership Agreement (CEPA) signed between the Department of Commerce and the Financial Secretary of the Hong Kong Government came into effect in 2004, ushering in a new era of integration between the audit services industries of the two countries. CEPA and a subsequent series of supplementary and special agreements formed a bridge for professional auditors from Hong Kong and the Mainland to provide audit services through inter-regional mobility. In response to the issue of Hong Kong auditors participating in the Mainland on a temporary basis to perform audit services, the Ministry of Finance issued the Temporary Regulations for Foreign Audit Firms Performing Audit Services on a Temporary Basis in the Mainland in March 2011 to encourage exchange and cooperation in audit services between the two regions, while emphasizing the regulation of temporary audit services performed by Hong Kong auditors. In addition, when the H share¹¹⁹ market (listed in Hong Kong) was first established and companies holding A+H shares had to be double audited

¹¹⁹ H shares (Chinese: H 股) refer to the shares of companies incorporated in mainland China that are traded on the Hong Kong Stock Exchange. Many companies float their shares simultaneously on the Hong Kong market and one of the two mainland Chinese stock exchanges in Shanghai or Shenzhen, they are known as A+H companies.

for separate audits by the two regulators due to the relatively significant differences in audit rules between the two jurisdictions. The dual audit system resulted in listed companies having to incur additional reporting costs and a degree of wasted audit and regulatory resources in both regions.

In December 2010, the Ministry of Finance and CSRC, after reaching an agreement with the HKSAR authorities, jointly recommended 12 mainland audit firms to participate in the audit of H-share companies, and since then, the dual audit system for H-share companies has become history, marking a new level of cooperation between the audit and regulatory authorities of the two regions.

There are statistics about the audit market in Hong Kong since 2010, so this research considers the development of audit market in Hong Kong from 2010 to 2021 as the object of the research, the number of listed companies, audit fees, etc. are selected to analyze the features of the development of audit market in Hong Kong. As shown in Figure 1.4, the number of listed companies in Hong Kong increased significantly from 1,401 in 2010 to 2,435 in 2021, i.e. a compound annual growth rate of 5.2%. The growth was strongest from 2010 to 2018, but declined in the last two years.

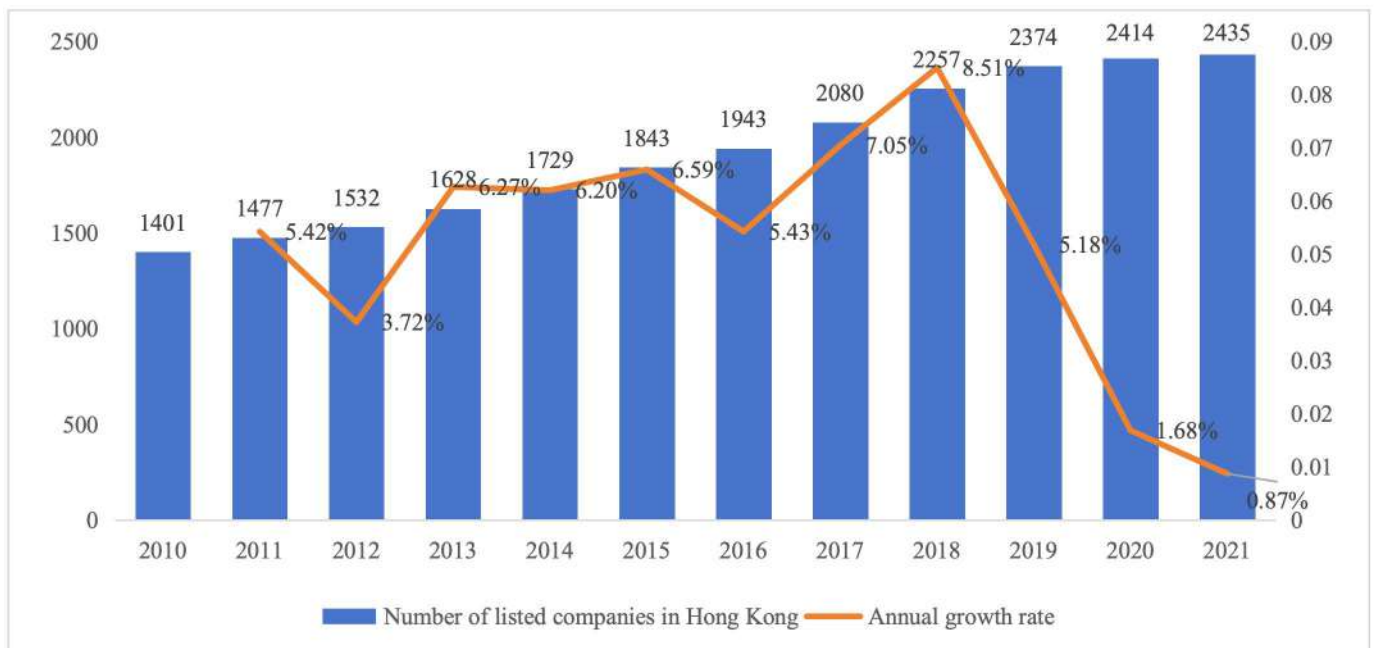


Figure 1.4 Number of listed companies in Hong Kong and their change over time

Source: compiled by the author based on data from the Financial Reporting Council in Hong Kong¹²⁰

¹²⁰ Accounting and Financial Reporting Council. Official website. URL: <https://www.afrc.org.hk/en-hk/Documents/Publications/periodic-reports/Overview-of-the-Market-for-Listed-Entity-Audits-in-Hong-Kong.pdf> (accessed: 15. 03.2023)

The total audit fees of Hong Kong listed companies showed a continuous growth trend. However, this growth stopped abruptly in 2020, and the total fees stopped at HK\$12.4 billion. As shown in Figure 1.5, audit fees recovered slightly in 2021 and increased by 5.6% to HK\$13.1 billion compared to 2020. This represents a compound annual growth rate of 6.0% from 2010 to 2021.

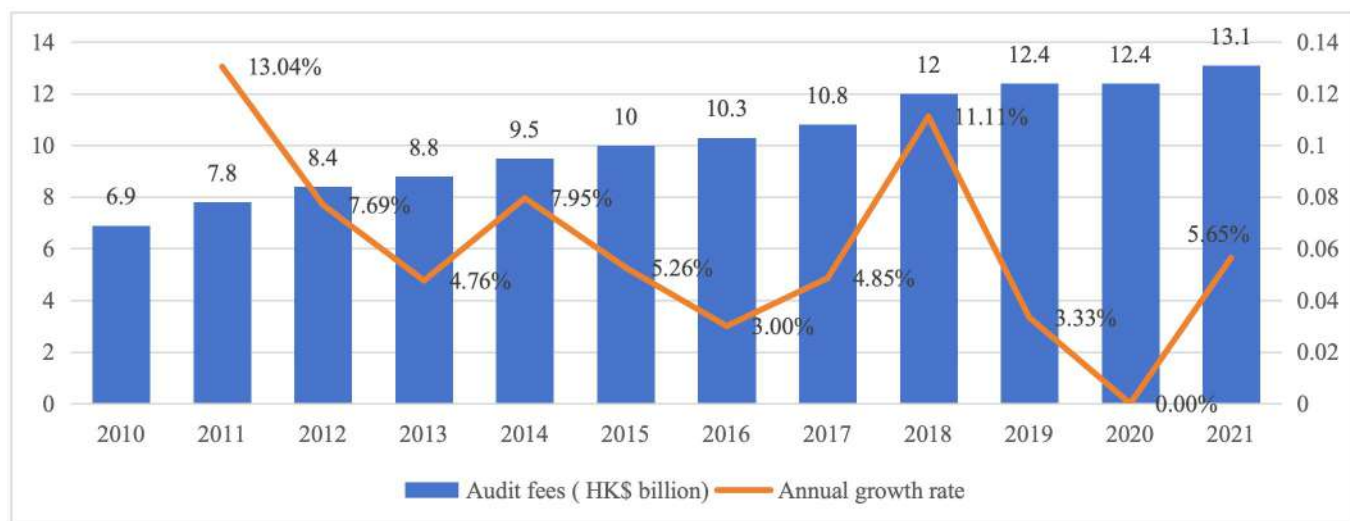


Figure 1.5 Total audit fees for listed companies in Hong Kong and their change over time

Source: compiled by the author based on data from the Financial Reporting Council in Hong Kong

In addition, this paper analyzes the average audit fees by auditor category (see Table 1.5), including category A, B and C¹²¹ auditors, as well as mainland and overseas audit organizations. The highest audit fees were received from overseas (HK\$30.5 million in 2021), Category A (HK\$6.5 million) and mainland organizations (HK\$5.4 million). In comparison, the fees per engagement of category B and C audit organizations will be HK\$1.5 million and HK\$1.1 million in 2021 respectively. The average audit fees for all categories except mainland and category C audit organizations decrease in 2020 and then show an upward trend in 2021. This shows that assignments with high audit fees are for international organizations, large mainland organizations and large domestic organizations in Hong Kong, while assignments with low audit fees are mainly for small and medium-sized enterprises. This reflects the diversity and scale of Hong Kong's capital market.

¹²¹ Audit firms are classified as Category A, Category B and Category C auditors, as well as Mainland and overseas audit firms, based on their location and the number of listed companies they perform audits on during the year. Among them, Category A-Hong Kong PIE auditors registered under Division 2 of Part 3 of the AFRC Ordinance (Local PIE Auditors), which audit 100 or more Hong Kong listed companies.

Table 1.5 Average audit fees per engagement by auditor category

	Category A (HK\$ million)	Category B (HK\$ million)	Category C (HK\$ million)	Category Mainland China (HK\$ million)	Overseas Category (HK\$ million)
2010	5.9	1.1	0.8	2.9	66.8
2011	5.8	1.2	1.0	4.7	52.0
2012	6.1	1.3	1.0	4.8	52.8
2013	5.9	1.3	1.0	4.7	56.1
2014	6.1	1.4	1.0	5.2	50.7
2015	5.7	1.4	1.2	4.9	52.6
2016	5.6	1.4	1.2	4.9	56.7
2017	5.6	1.5	1.1	4.5	41.9
2018	5.8	1.5	1.3	4.7	31.9
2019	5.9	1.5	1.1	4.8	29.5
2020	5.9	1.4	1.1	5.1	27.8
2021	6.5	1.5	1.1	5.4	30.5

Source: compiled by the author based on data from the Financial Reporting Council in Hong Kong¹²²

Thus, in order to ensure sustainable growth in the long term, Hong Kong needs to take a more deliberate approach to addressing gaps by upgrading the skills of small and medium-sized firms, especially at a time when there is a growing shortage of professional resources. This is particularly important to ensure firms' capabilities so that they don't have to reduce fees and quality to ensure survival. These challenges are not unique to Hong Kong. In mainland China, to increase competition and reduce reliance on the "Big Four", the Chinese Ministry of Finance has proposed a strategy to "make local audit organizations larger and stronger" so that they become a viable alternative to the international "Big Four".

On November 9, 2009, as part of the implementation of the "Pilot Program on Engaging Audit Organizations to Audit H-share Owing Enterprises" jointly issued by the Ministry of Finance and the CSRC, 11 audit organizations in Mainland China were authorized to audit H-shares based on an agreement with the Hong Kong Financial Reporting Council and the Hong Kong Institute of Certified Public Accountants. The study further investigates 11 Chinese mainland audit organizations that audited

¹²² Accounting and Financial Reporting Council. Official website. URL: <https://www.afrc.org.hk/en-hk/Documents/Publications/periodic-reports/Overview-of-the-Market-for-Listed-Entity-Audits-in-Hong-Kong.pdf> (accessed: 15. 03.2023)

H-share enterprises in Hong Kong from 2014 to 2018, with the relevant data mainly obtained from the Wind database and aggregated H-share audit information disclosed by the relevant audit organizations.

From 2014 to 2018, the number of audit reports issued by the "Big Four" and other mainland qualified H-share audit organizations in collaboration with their Hong Kong audit organizations increased significantly as a proportion of the total number of H-share companies, compared with a significant downward trend in the proportion of reports issued by other Hong Kong audit organizations (see Table 1.6). The role of mainland audit organizations in H-share audits tends to depend on the accounting standards applicable to the financial statements issued. For example, in an H-share audit of a company that issues an audit report under Chinese enterprise accounting standards, the mainland audit organization assumes the role of lead auditor signing the audit report. Accordingly, in an audit report issued under international or Hong Kong financial reporting standards, the Hong Kong audit organization assumes the role of lead auditor signing the audit report.

Table 1.6 Issuance of annual audit reports in the H-share audit market in 2014-2018

Year	Number of companies	"Big Four" firms and cooperative audit organizations with Hong Kong	Proportion	Other mainland audit organizations and cooperative audit organizations with Hong Kong	Proportion	Other mainland audit organizations with Hong Kong	Proportion
2014	210	125	60%	23	11%	62	30%
2015	233	149	64%	33	14%	55	24%
2016	245	169	69%	41	17%	35	14%
2017	252	181	72%	44	17%	27	11%
2018	271	194	72%	43	16%	34	13%

Source: compiled by author based on data from Wind¹²³ and research report on key issues of the CPA industry in 2020¹²⁴

The audit fees for the audit of cooperation projects between the international "Big Four" and other mainland H-share qualified audit organizations with the relevant Hong Kong audit organizations from 2014 to 2018 are shown in Table 1.7. As can be seen from the table, the total audit fees of the

¹²³ Wind Economic Database. URL: <https://www.wind.com.cn/portal/zh/EDB/index.html> (accessed: 15. 03.2023)

¹²⁴ CPA industry research report preparation group. Research report on key issues of the CPA industry in 2020 // Beijing: China Financial and Economic Press. 2021.P. 493.

international "Big Four" have an absolute advantage over other mainland audit organizations, but the percentage of audit fees for cooperation projects between other mainland audit organizations and their Hong Kong partner audit organizations has increased from 3.1% in 2014 to 6.4% in 2018. The growth rate of audit fees has fluctuated unevenly over the 5 years, this may be due to fluctuations in audit fees in relation to changes in economic conditions and possible differences in the fees of H-share qualified audit organizations at the time of application each year. In addition, due to the increasing number of listed companies being audited and the relatively low audit fees of most new companies resulting from their small scale, this has led to a more pronounced downward trend in average audit fees.

Table 1.7 The distribution of mainland audit organization fees for H-share audits in 2014-2018

Year	Fees of "Big Four" firms and cooperative audit organizations with Hong Kong (RMB million)	Proportion	Fees of other mainland audit organizations and cooperative audit organizations with Hong Kong (RMB million)	Proportion	total audit fees (RMB million)	Rate of growth in fees	Average fees for audit services (RMB million)
2014	1,636.28	96.9%	52.35	3.1%	1,688.63		11.41
2015	1,854.56	97.0%	56.39	3.0%	1,910.96	13.2%	10.50
2016	1,690.53	94.4%	100.96	5.6%	1,791.49	-6.3%	8.53
2017	1,957.91	95.6%	91.14	4.4%	2,049.05	14.4%	9.11
2018	1,849.61	93.6%	125.50	6.4%	1,975.11	-3.6%	8.33

Source: compiled by author based on data from Wind¹²⁵ and research report on key issues of the CPA industry in 2020¹²⁶

In addition, although the Statement on Equivalence of Accounting Standards and Auditing Standards between Mainland China and Hong Kong clarifies that mainland audit organizations can report in accordance with Chinese accounting standards and issue opinions in accordance with Chinese auditing standards, there is still a clear situation of low proportion of audit opinions issued by mainland audit organizations in the annual audit of corporate reports. On the one hand, the reason for this situation is due to regulatory reasons, although the mainland audit organizations have been authorized to audit H-shares

¹²⁵ Wind Economic Database. URL: <https://www.wind.com.cn/portal/zh/EDB/index.html> (accessed: 15. 03.2023)

¹²⁶ CPA industry research report preparation group. Research report on key issues of the CPA industry in 2020 // Beijing: China Financial and Economic Press. 2021.P. 493.

since December 2010, there is a certain impact on mainland audit organizations auditing H-shares, because the regulatory authorities of both sides have not achieved significant consistency in cross-border regulation. In terms of regulatory system and cost of punishment, domestic regulation of audit organizations is based on the state model supplemented by industry self-regulation, and the industry lacks internal motivation to improve audit quality, and the more lenient penalties in practice result in relatively low legal risks borne by audit organizations. On the other hand, from considerations of differences in standards. The question of whether to use continental standards to issue opinions depends largely on the actual situation and requirements of the clients of capital market investors. For example, investors in the capital markets of certain countries or regions do not understand continental auditing and accounting standards. Even if regulation allows it, they are still reluctant to invest in companies using continental standards or will not give a reasonable valuation to those companies. Due to the fact that there are still some differences between accounting standards and international financial reporting standards, they perceive risks regarding the information transparency of companies using standards with which they are not familiar. Thus, listed companies usually prefer to use standards that are easily accepted by investors.

In conclusion, Hong Kong, as a highly integrated economic, commercial and financial center, is an important overseas investment and financing market for Chinese enterprises. Strengthening cooperation between the audit markets of these two regions is of strategic importance and is conducive to the "going international" strategy of Chinese enterprises. Hong Kong auditors have good international experience and language advantage, and their technological audit methods, standardized industry management and rich international audit practices make positive contributions to the rapid learning and growth of mainland audit organizations. The participation of mainland audit organizations in H-share audit, exchange and integration with local audit organizations in Hong Kong contribute to the good development of the H-share audit market. Thus, joint development with major audit organizations in the Mainland market will also contribute to the growth and development of local audit organizations in Hong Kong. In addition, the accounting curriculum in Hong Kong has been fully translated into English, international financial reporting standards and operational guidelines have been introduced into the teaching content, and the latest versions of international accounting textbooks are used as teaching materials, effectively aligning the curriculum with international standards. Major mainland audit organizations set up branches in Hong Kong and employ Hong Kong auditors, and advanced knowledge is transferred internally, which can promote the development of internationalization experience in mainland audit organizations.

1.3.2 Audit in Macao

Independent auditing in Macao emerged in the late 1970s. The first batch of accountants and auditors in Macao were registered with the Macao Accountants and Auditors Registration Committee in August-September 1978. At the same time, a number of accounting and auditing firms such as PricewaterhouseCoopers, Shun Tat Accounting House, Bowen & Fai Auditing House, Leung & Au Yeung, etc. were registered in Macao. Some foreign accounting and auditing firms such as KPMG, Deloitte & Touche have also been incorporated in Macao. The main audit services performed by accountants and auditors in Macao include: obligatory audit; tax services; accounting services; Management consulting; litigation assistance; company secretarial services; special circumstances audit and preparation reports¹²⁷.

The Macao Auditors and Accountants Registration Committee is the Macao government's regulatory authority for auditors and accountants and reports to the Financial Services Bureau. Its main regulatory powers include: approving applications for registration of accountants and auditors and accounting and auditing firms. Organizing examinations for the qualification of accountants and auditors. Supervising the practice of accountants, auditors and accounting and auditing firms. Taking disciplinary action against accountants, auditors and accounting and auditing firms for non-compliance. Conducting research on the development of the accounting and auditing profession. Developing standards of accounting and auditing practice; coordinating and organizing the education of the accounting and auditing profession¹²⁸.

The first law regulating accounting and auditing in Macao was the "Rules for the Supervision of Accountants and Auditors" adopted by the government in June 1978. This was followed by the "General Rules for Accountants", the "General Rules for Auditors" and the "Regulations on the Committee for the Registration of Auditors and Accountants" between Macao and Portugal. In November 1999, when the "General Rules for Accountants" and "General Rules for Auditors" came into effect, the "Regulations for the Supervision of Accountants and Auditors" were abolished. In order to further align Macao's audit laws with those of advanced international countries, the "Professional and Practical Qualification System for Auditors" was promulgated on September 21, 2020, which simultaneously repealed and replaced the "General Rules for Accountants" and "General Rules for Auditors" as the main law governing the audit

¹²⁷ Wu Jiaqi. Public audit in Macao// Guangdong Audit. 2007.№02.P.20-25.

¹²⁸ Zhang Shufang, Guan Baoying. A brief discussion on the characteristics of the audit system in Macao// Hubei Audit. 1997.№01.P.45.

industry in Macao. The main content of this amendment is the unification of registered auditor and accountant, collectively referred to as certified auditor, which effectively eliminates the inconsistency between Macao and the common international designation and promotes further convergence with international standards.

The consolidation of auditor (CPA) qualifications into two categories, professional and practicing, and will help to further develop the auditing profession and improve the professional standards of personnel. As shown in Table 1.8, the number of auditors and accountants in 2014-2022 shows an increasing trend. In addition, it has been established that the Auditors and Accountants Registration Committee will no longer be controlled by the Finance Bureau, but will act as a collegial body of state management, and thus the independence of the industry will be enhanced by moving from "state regulation" to "industry self-regulation". In addition, a special committee, independent of the Auditors and Accountants Registration Committee, has been established to deal with issues such as professional accreditation, examination organization, standard setting and discipline.

Table 1.8 Change in the number of auditors and accountants in Macao from 2014 to 2022

Category	2014	2015	2016	2017	2018	2019	2020	2021	2022
auditors	114	114	115	115	113	-	123	-	147
accountants	177	181	184	189	187	-	195	-	224
Total	291	295	299	304	300	0	318	0	371

Source: compiled by the author based on data of the Professional Accountants Committee¹²⁹

The auditing standards of the Macao Special Administrative Region published by the "Committee of Professional Auditors" for implementation on January 1, 2022¹³⁰, As shown in Figure 1.6, consist of auditing standards and general auditing standards. In addition, the "Standard on Auditing Financial Statements", which is formally promulgated from November 1, 2022, and the "Code of Ethics for Certified Public Accountants", which is promulgated from August 1, 2021, provide a framework for standardization of auditing activities in Macao.

¹²⁹ Professional Committee of Accountants. Official website. URL:

https://www.dsf.gov.mo/CPC/Publish/Comunicacoes/c_ApresentacaoTrabalho2022.pdf (accessed: 14. 03.2023)

¹³⁰ Committee of Professional Auditors. Professional Council of Accountants Circular No. 2/2021/ CPC, adopted by the Professional Council of Accountants in plenary session on August 24, 2021. URL:

https://www.dsf.gov.mo/CPC/Publish/Comi_Norm_Disc/files/C_Aviso_22021CPC.pdf (accessed: 14. 03.2023)

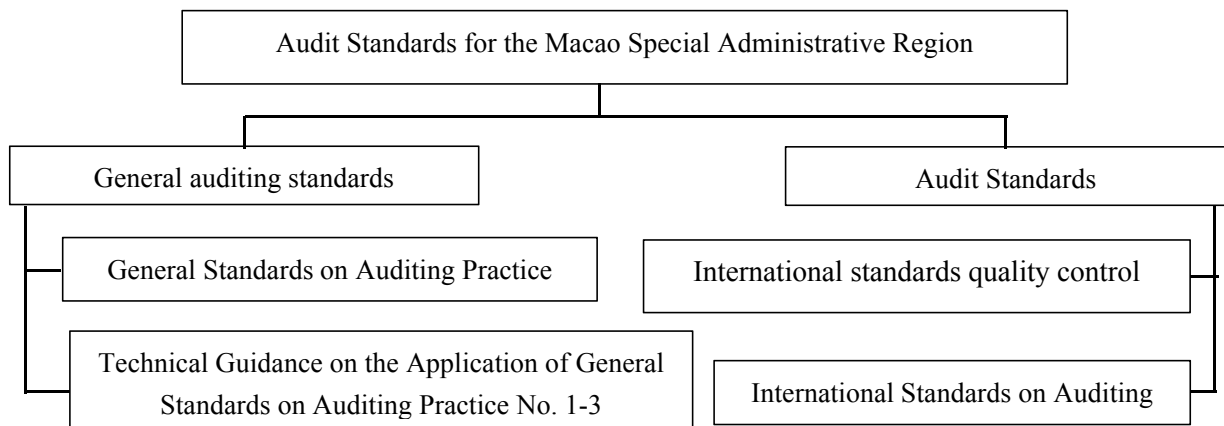


Figure 1.6 Macao Special Administrative Region Audit Standards Framework

Source: Government of the Macao special administrative region financial services bureau¹³¹

Since Macao came under the administration of the People's Republic of China in 1999, the audit market in Macao has also developed rapidly, and the audit regulatory system has been continuously improved. In 2003, mainland China and Macao signed the "Closer Economic Partnership Agreement", which launched a new development of cooperation between the mainland and Macao in audit services by implementing accounting and auditing services, extending the validity of the temporary practice license for Macao audit firms, and relaxing the restrictions on the experience of Macao accountants in the mainland. In allowing Macao auditors to qualify for the Chinese auditor (CPA) qualification, the number of years of audit practice experience in Macao is equated with mainland audit experience. Qualified audit professionals from Macao can partner with mainland firms. This has facilitated the joint development of audit services between the two regions. Although audit organizations and auditors in Macao are small in number, the economic development of the region has facilitated the implementation of not many mainland policies, which has increased the demand for audit services.

1.3.3 Audit in Taiwan

In the mid-20th century, the auditing business of auditors in Taiwan was limited to company registrations, patent and trademark applications, and a few tax relief cases. 1960s and 1970s gradually saw the development of financial and tax assurance services, and in the 1980s and 1990s, with the

¹³¹ Government of the Macao special administrative region financial services bureau. Official website. URL: <https://www.dsf.gov.mo/CPC/Informacoes.aspx?lang=en> (accessed: 14. 03.2023)

development of the economy, financing assurance, investment consulting, and international services came into being. The most famous accounting firms in Taiwan are the so-called "Big Five", i.e., Qinye, Anhou, Zicheng, Zhongxin и Zhiyun. In addition, there are a number of small and medium-sized audit firms. As of the end of 2000, there were about 756 audit firms in Taiwan, of which 70% were individual firms and 30% were partnership firms¹³².

In Taiwan, there are the Taiwan Provincial Association of Certified Public Accountants, the Taipei City Association of Certified Public Accountants and the Kaohsiung City Association of Certified Public Accountants, etc., which have been organized into the National Federation of CPA Associations (NFCPAA). There are no group members in the accountants' associations, only individual members. Auditing in Taiwan covers the following aspects:

1. the assurance of financial reports or other financial information;
2. design of accounting systems, management or tax consulting, auditing, investigation, organization, liquidation, appraisal, financial analysis, asset valuation or financial trust and other matters;
3. acting as inspector, liquidator, bankruptcy administrator, arbitrator, executor, reorganizer, reorganization supervisor, or other fiduciary;
4. acting as an agent in tax cases or as an attestation of income tax returns related to profit-making matters;
5. acting as an agent for business registration or trademark registration and related matters;
6. to act as a representative in tax administrative litigation or in accordance with the provisions of the Administrative Litigation Act in respect of petitions under the preceding five paragraphs;
7. certification services such as continuous auditing, system reliability certification, and investment performance certification;
8. other matters related to accounting, auditing, or taxation.

Taiwan's Accountants Act, initially enacted and published by the National Government on June 30, 1945, was published on January 31, 2018 after 18 revisions. The law consists of eight chapters and 81 articles, which regulate accountants' qualifications, registration, examination, the Association, scope of

¹³² Yu Dongmei, Hu Zhiqiang. The evolution of the audit system in Taiwan and its inspiration// Journal of Tongling College. 2011.№04.P.49-51.

business and responsibilities. The amendments will help improve the professional competence of auditors, the quality of the audit activity in general and avoid possible disputes in practice¹³³.

In Taiwan, auditing standards are approved by the Ministry of Finance of the Republic of China and the NCFPAA and the Taiwan Accountants Research and Development Foundation, a public organization, are responsible for their development. The content of auditing standards in Taiwan is basically the same as in the United States. On October 4, 2022, the Accounting Research and Development Foundation (ARDF) in Taiwan issued the latest revision of the "Quality Control Standards" (QCS). The revised quality control standards are effective from December 15, 2022. The auditing standards consist of one quality control standard, 33 auditing standards, one review standard, two assurance standards and two standards for other related services. In general, convergence with international standards on auditing has been maintained. So far, the Taiwan Association has become a full member of the International Federation of Accountants (IFAC) and the International Fiscal Association (IFA). This has accelerated Taiwan's internationalization process, facilitated the exchange of competencies and skills internationally, enhanced auditors' professional competence and internationalization of experience, and promoted the expansion of international business¹³⁴.

In Taiwan's audit market, the major clients of audit firms are capital market and small and medium-sized enterprises (SMEs). Table 1.9 shows the statistics of the number of listed companies on TWSE (the Taiwan Stock Exchange Corporation), listed companies on TPEX (Taipei Exchange), Go Incubation Board for Startup and Acceleration Firms (GISA) in Taiwan from 2007 to 2021, and it can be found that the growth of companies has been slow in recent years. While the number of SMEs in Taiwan grew steadily from 2007 to 2021, the growth rate of audit organizations has shown a downward trend in recent years due to some retired auditors taking auditor training and education courses and setting up separate audit firms without actually managing them to continue their membership. However, there has been a steady upward trend in the number of auditors.

¹³³ Ma Xiuru, Xu Jiajun, Xiao Ningjun. Accountants meet compliance: secrecy or whistle blowing? //Accounting Research Monthly. 2020.No415.P.93-98.

¹³⁴ Li-Jen He, Hsin-Hui Yu. The Impacts of the Establishment and Quality of Audit Committee on the Disclosure of Key Audit Matters// Journal of Management and Business Research.2022.vol39.No03.P.301-356.

Table 1.9 Audit market development indicators in Taiwan for 2007-2021

Year	Capital market				Малые и средние предприятия (тыс.)	Audit organization	Number of auditors
	Listed companies on the TWSE	Companies on TPEX	Emerging stock companies	GISA			
2007	698	547	246	0	1,237	854	18,308
2008	718	539	233	0	1,235	932	19,013
2009	741	546	223	0	1,232	943	18,632
2010	758	564	285	0	1,248	954	18,858
2011	790	607	277	0	1,280	1012	19,749
2012	809	638	285	0	1,307	1050	20,338
2013	838	658	261	0	1,331	1042	20,054
2014	854	685	284	61	1,353	1048	20,338
2015	874	712	284	80	1,384	1034	20,400
2016	892	732	271	99	1,408	1050	20,819
2017	907	744	274	119	1,437	1111	21,344
2018	928	766	256	144	1,453	1134	21,591
2019	942	775	248	162	1,491	1140	21,968
2020	948	782	253	179	1,548	1155	22,375
2021	959	788	296	192	1,595	1200	22,296

Source: compiled by the author based on data from the Financial Supervisory Commission R.O.C. (Taiwan)¹³⁵, National Statistics, R.O.C.(Taiwan)¹³⁶, Taipei Exchange¹³⁷, Small and Medium Enterprise Administration, Ministry of Economic Affairs¹³⁸

Further analysis of Table 1.9 shows that while the number of small and medium-sized enterprises and the number of practicing auditors continues to increase, there has not been a corresponding increase in the number of audit firms. The reason for this may be that the insufficient capital market makes it difficult for the growth of business demand for auditing, and that existing auditors are mainly engaged in traditional auditing services, resulting in an imbalance between supply and demand in the overall market in the absence of the development of new business services, which restricts the development of the auditing market. In terms of the number of auditors, although a substantial number of auditors have

¹³⁵ Financial Supervisory Commission R.O.C. (Taiwan). Official website. URL: https://www.fsc.gov.tw/ch/home.jsp?id=136&websiteslink=onemessage_list.jsp&parentpath=0,4 (accessed: 16. 03.2023)

¹³⁶ National Statistics, R.O.C. (Taiwan). Official website. URL: <https://nstatdb.dgbas.gov.tw/dgbasall/webMain.aspx?k=dgmain&mode3=1100> (accessed: 16. 03.2023)

¹³⁷ Taipei Exchange. Official website. URL: <https://www.tpex.org.tw/web/gisa/announce/GisaSum.php?l=zh-tw> (accessed: 16. 03.2023)

¹³⁸ Small and Medium Enterprise Administration, Ministry of Economic Affairs. Official website. URL: <https://www.moeasmea.gov.tw/list-tw-2344> (accessed: 16. 03.2023)

passed the examinations in recent years, there has not been a corresponding number of individuals qualified as practicing auditors, this has created a shortage of personnel that will constrain the future development of the audit industry.

From Table 1.10, it can be seen that the total annual income of audit organizations was NT\$ 34.3 billion in 2021, an increase of NT\$ 609 million, compared to NT\$ 33.69 billion in 2020, an increase of 1.8%. In 2021, income from public offering security activities amounted to NT\$4.53 billion, representing 13.2% of total income. Income from income tax security amounted to NT\$6.01 billion, representing 17.5%. Other financial security income amounted to NT\$ 7.88 billion, representing 22.98%. Income from other tax operations amounted to NT\$ 4.52 billion, representing 11.6%. Other professional income amounted to NT\$ 11.14 billion, representing 32.4%. Non-professional income (e.g. rental income and interest income) amounted to NT\$ 220 million, representing 0.64% of total income.

Table 1.10 Business income structure of audit firms in Taiwan from 2012-2021

Year Projects (NT\$: million)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Income from implementation activities	26,808	27,408	28,372	28,149	28,924	30,179	30,840	32,310	33,221	34,087
Income from assurance engagements	18,881	18,696	19,452	19,410	19,791	20,608	20,738	21,589	21,726	22,241
Income from public offering assurance	4,866	5,584	6,805	5,696	5,862	6,088	5,372	4,401	4,185	4,529
Income from financing assurance	4,204	2,186	2,601	3,455	3,637	3,855	3,745	3,809	3,728	3,815
Income from other financial assurance	4,878	5,328	4,327	4,458	4,539	4,815	5,962	7,549	7,458	7,882
Income tax assurance income	4,933	5,599	5,720	5,801	5,753	5,851	5,660	5,829	6,357	6,015
Percentage of income from audit services (%)	69.71	67.84	68.02	68.37	68.05	67.71	66.80	66.27	64.47	64.83
Income from non-assurance engagements	7,927	8,712	8,921	8,739	9,133	9,570	10,102	10,721	11,495	11,846
Income from tax planning	659	716	752	835	915	971	1,117	1,169	1,233	1,419
Income from tax administrative relief	240	185	182	208	138	189	106	127	90	67

Table 1.10 (continued)

Income from other tax operations	2,460	2,952	3,131	3,000	3,341	3,428	3,607	3,926	4,524	4,520
Income from management consultancy	1,026	1,267	1,287	1,126	1,209	1,203	1,306	1,515	1,364	1,617
Income from enterprise registration	933	910	991	986	1,104	1,079	1,164	1,229	1,349	1,210
Income from other implementation activities	2,608	2,683	2,578	2,583	2,427	2,699	2,803	2,754	2,936	3,013
Income from non-performance activities	276	150	225	241	158	256	206	267	477	220
Percentage of income from non-audit services (%)	30.29	32.16	31.98	31.63	31.95	32.29	33.20	33.73	35.53	35.17
Total	27,084	27,558	28,598	28,390	29,082	30,435	31,046	32,577	33,698	34,307

Source: compiled by the author based on data from the Financial Supervisory Commission R.O.C. (Taiwan)

Audit income from public offering assurance, financing assurance, other financial assurance and income tax assurance accounted for approximately 64.83% in 2021, and non-audit income from tax planning, tax administrative relief, other tax operations, management consultancy, enterprise registration and other implementation activities accounted for approximately 35.16%. In terms of business structure, the income of audit organizations is still concentrated on audit income, which is mainly maintained at about 65%, however, the proportion of audit income tends to decrease from 2017. In terms of the share of non-audit services components, it is mainly tax consulting services.

In order to expand the scope of activities between mainland China and Taiwan, Taiwan audit organizations have decided to practice on the mainland by providing services such as assurance and consulting. In this study, the number of Taiwan audit organizations practicing in the mainland and the income from mainland activities during the period 2007-2021 are selected to research the practice activities of Taiwan audit organizations in the mainland, and the research finds (see Table. 1.11) that the average proportion of the number of audit organizations practicing in the mainland to the total number during the period 2007-2021 is 2.97%, but there is a decreasing trend. In terms of audit organizations' assignment income, the average ratio to the total income of audit organizations was 2.56%, and the engagement income also decreased in line with the number of audit organizations practicing in the

mainland. Thus, it can be concluded that Taiwan is mainly focused on providing audit services in the region. The reasons that audit organizations in Taiwan choose to practice in mainland China are mainly to fulfill the requirements of their clients and expand the market for their services. In terms of practice form, auditors mainly choose Taiwan engagements, while about 10% choose mainland auditors.

Table 1.11 Practices of Taiwan audit organizations in mainland China in 2007-2021

Year	Number of audit organizations in Taiwan	Number of audit organizations practicing in mainland China	Income of the audit organization in Taiwan (NT\$: million)	Income of Taiwan audit organization in Mainland China (NT\$: million)	Percentage of the total number of audit organizations	Percentage of total income
2007	854	34	22,519	480.61	3.98%	2.13%
2008	932	32	24,199	520.42	3.98%	2.15%
2009	943	29	23,762	497.66	3.43%	2.09%
2010	954	37	24,227	681.02	3.08%	2.81%
2011	1 012	43	26,118	408.25	3.88%	1.56%
2012	1 050	33	27,084	427.79	4.25%	1.58%
2013	1 042	30	27,558	1 106.66	3.14%	4.02%
2014	1 048	34	28,598	1 130.42	2.88%	3.95%
2015	1 034	25	28,390	973.90	3.24%	3.43%
2016	1 050	22	29,082	537.07	2.42%	1.85%
2017	1 111	26	30,435	1 014.48	2.10%	3.33%
2018	1 134	25	31,046	844.36	2.34%	2.72%
2019	1 140	22	32,577	719.31	2.20%	2.21%
2020	1 155	20	33,698	806.22	1.93%	2.39%
2021	1 200	19	34,307	731.79	1.73%	2.13%
average number					2.97%	2.56%

Source: compiled by the author based on data from the Financial Supervisory Commission R.O.C. (Taiwan)

In conclusion, the audit market in Taiwan has more traditional audit services and is primarily an audit service in the region. There are many new trends for auditors in international practice, and most of them are non-audit services, such as corporate social responsibility report assurance services and carbon accounting coaching and other non-audit services. With the rapid development of the digital economy and the inevitable trend of accounting and auditing innovation driven by changes at all levels, audit organizations are gradually adapting their business services to the possible future implications.

Overall, with the return of Hong Kong and Macao to China and the implementation of the "One Country, Two Systems" policy, the unique market economy development experience of Hong Kong and Macao has become a model for mainland China, and the signing of CEPA (Close Economic Partnership Agreement between Mainland China, Hong Kong and Macao) has provided opportunities for the development of the audit market between mainland China, Hong Kong and Macao. Based on the characteristics of the audit markets in Hong Kong, Macao and Taiwan, the audit standards in all three regions are based on international standards on auditing, and these regions pay close attention to the development and changes in international auditing and continuously enrich and improve local auditing standards in line with the development of international standards on auditing. Hong Kong, Macao and Taiwan completed the convergence with international standards on auditing (ISAs) in 2010, 2022 and 2013 respectively. In terms of industry regulation, Hong Kong and Macao emphasize industry self-regulation. In terms of governance system, they have formed a set of governance systems in line with international standards and formulated a series of industry rules and regulations. However, in terms of audit service objectives, all of them are dominated by capital markets and small and medium-sized enterprises, and the international "big four" firms have a large market share. Chinese audit organizations show an increasing trend of audit services in Macao, Hong Kong and Taiwan.

Conclusion to Chapter 1

The modern development of the audit market in China began with the introduction of the "reform and opening up" policy in 1978, which was based on the principles of a socialist market economy with Chinese characteristics. To research the periodization of audit development in China use the method of logical addition of chronological dominants, which was proposed by the Russian scholar I.N. Guzov on the basis of the analysis of the audit market in Russia. The study identifies 6 main periods in the evolution of the audit market in China.

Period 1 — the origin of audit ("wild" audit) (1978-1986);

Period 2 — the formation of pro-government auditing (1986 -1993);

Period 3 — government regulation and emergence of obligatory audit (1993-1998);

Period 4 — strengthening of audit independence and standardization (1998-2005);

Period 5 — convergence and transition to international standards (2005-2017);

Period 6 — self-regulation (2017-present).

At each period, there has been a qualitative strengthening of China's audit market based on the development of the legal and regulatory framework and the improvement of auditing standards, which played an active role in the evolution. Currently, China has basically formed an independent audit legal system with Chinese characteristics, based on the Constitution as the core and the "Audit Law", the "Law on Certified Public Accountants", audit standards and other laws, regulations and departmental rules as the main components, constituting a hierarchical and unified system. From the perspective of government regulation, the audit industry is administered by the Ministry of Finance, the Ministry of Industry and Commerce, the Ministry of Taxation and the China Securities Regulatory Commission (CSRC).

From the perspective of firm audit organizations, the major segments of the Chinese audit market are identified based on the quantitative analysis of large and small audit organizations. Based on the results of dynamic statistical observations, the current structure of organizational and legal forms of audit market participants in China is formalized. At present, audit organizations in China exist mainly in the form of general partnerships and limited liability companies, with large and medium-sized audit organizations having the form of general partnerships (of which 104 large audit organizations have the form of special general partnerships), large and medium-sized audit organizations provide audit and other related services to listed companies, state-owned enterprises, and others. Meanwhile, small audit organizations are most commonly structured as limited liability companies. At the same time, the

"Big Four" international audit firms have undertaken localized reforms in China, from the original Sino-foreign limited liability cooperative to a special general partnership. While the consolidation of Chinese audit firms has enhanced their competitiveness in the audit market, there still exists a significant disparity between them and the "Big Four" international audit firms.

In the process of reforming China's market economy, the advanced experience of market economy development in Hong Kong, Macao and Taiwan has also been utilized. The peculiarity of China's audit market formation is the presence of different accounting and auditing systems of the world on its territory (the coexistence of systems is a unique phenomenon). In terms of the characteristics of the audit markets in Hong Kong, Macao and Taiwan, the auditing standards in these three regions are based on the international standards on Auditing (ISA) and have converged with ISA in 2010, 2022 and 2013 respectively. In 2010, Mainland China and Hong Kong signed the Agreement on Permanent Equivalence of Accounting and Auditing Standards, which facilitated the gradual convergence of accounting and auditing standards in the three regions.

In terms of industry regulation, the Hong Kong and Macao regions emphasize the focus on industry self-regulation. However, in terms of audit objects, local audit organizations are dominated by capital market and small and medium-sized enterprises, whereas the "Big Four" international audit firms hold a significant market share. In terms of auditor qualifications, mutual exemptions from some subjects of the auditor qualification examination have been implemented. In addition, auditors in Hong Kong and Macao are permitted to mutually recognize their auditing experience when applying for auditor qualification in Mainland China.

CHAPTER 2. ANALYSIS OF CHINESE AUDITING STANDARDS

2.1 History and features of Chinese auditing standards

2.1.1 History of the development of auditing standards in China

Chinese auditing standards play an important role in improving audit quality, reducing audit risks and protecting the public interest. Since the 1990s, the Ministry of Finance and the Institute of Certified Public Accountants have been striving to develop a system of auditing standards that meets the requirements of economic development. There are five stages in the system of improving Chinese auditing standards, the criterion of which is the emergence of new typologies of standards.

Period 1 — Development of Audit Practice Rules (1991-1993). After the formation of the Chinese Institute of Certified Public Accountants (CICPA), the development of auditing standards was prioritized, and the CICPA established a special auditing standards development department, which was mainly engaged in research and development of auditing standards. From 1991 to 1993. The Ministry of Finance of the People's Republic of China issued seven practice rules, including the Rules for the Inspection and Verification of Financial Statements by CPAs (for Trial Application). These practice rules played a positive role in formalizing, legalizing and professionalizing the audit industry in China¹³⁹. However, with the continuous development of market economy, the demand for traditional audit services is becoming more and more high, at the same time, the types of audit services are becoming more diversified. Thus, audit organizations offer a wider range of audit services, and under these circumstances, the originally developed Rules of Practice could no longer meet the needs of auditors to perform various audits.

Period 2 — the development of the first version of independent auditing standards (1994-2004). With the adoption of the Law of People's Republic of China on Certified Public Accountants in 1993, the CICPA was entrusted with the function of formulating auditing standards and rules in accordance with the law. With the authorization and approval of the Ministry of Finance in May 1994, the CICPA began to formulate independent auditing standards. Independent auditing standards are a code of conduct to be followed by auditors when auditing historical financial statements. Until 2004, the Ministry of Finance published independent auditing standards in six parts. After 10 years of development,

¹³⁹ Ma Jianwei, Pan Duanlian. Interpretation of Chinese Certified Public Accountants' Practice Guidelines // Fudan University Press. 2008. P.461.

the system of independent auditing standards in China has been basically formed, including introduction, basic independent auditing standards, major independent auditing standards, practice bulletins of independent auditing, practice guidelines and relevant basic standards. The system is summarized in Figure 2.1.

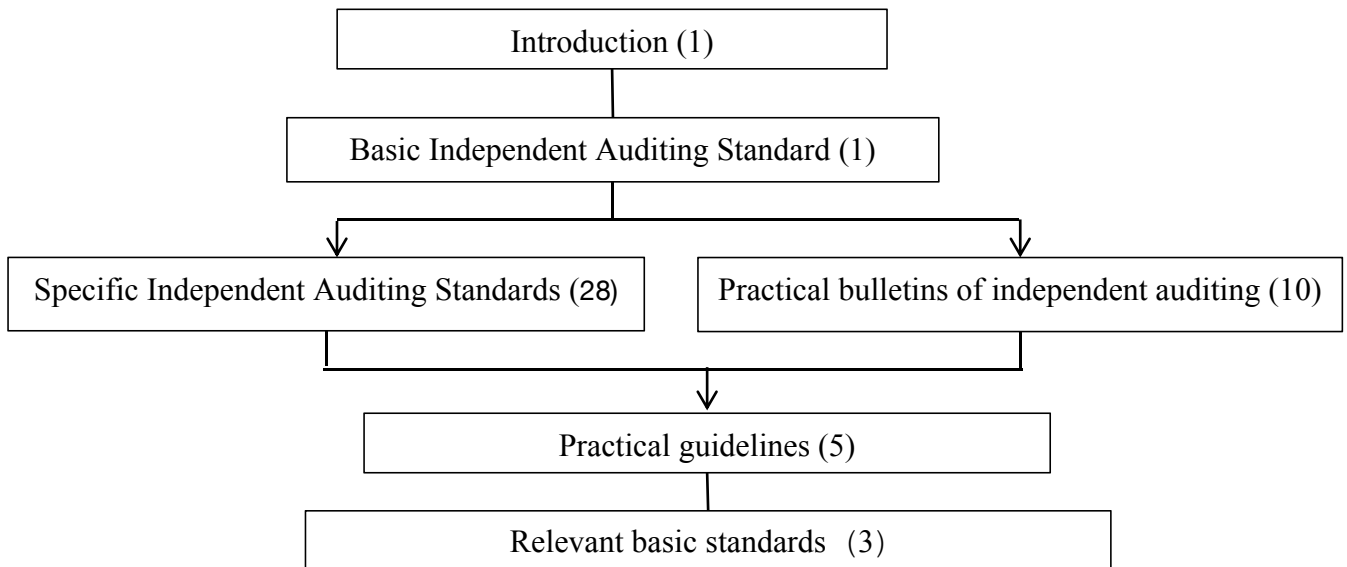


Figure 2.1 System of independent audit standards

Source: compiled by the author

As can be seen from Figure 2.1, the core of independent auditing standards are basic standards, specific standards and practice bulletins, and guidelines on the code of practice. Basic independent auditing standards are the basic requirements for auditors' qualifications and the basic rules of practice, and are the methodological basis for the development of specific independent auditing standards, practice bulletins and practice guides of independent auditing. The Specific Independent Auditing Standards refer to specific rules for auditors to conduct general audit engagements and issue audit opinions based on the Basic Independent Auditing Standards. The Practice Bulletin of Independent Auditing is a specific regulation of auditor's conduct in issuing audit opinions on audit engagements of special industries, special purposes, special nature, etc., formulated in accordance with the Basic Independent Auditing Standards. Practice Guides are guidelines for action¹⁴⁰. Due to the different nature of these three levels of independent auditing standards, their impact on audit practice was also different. Basic standards, special standards and practice bulletins are mandatory norms that auditors should follow when conducting an

¹⁴⁰ Wang Xiaojie, Tian Aiqin. Awareness of the legal status of independent auditing standards// Finance and Accounting Monthly.2010. №02.P.68-69.

audit, while practice guides are guidance documents that auditors can refer to for application in each specific case.

Period 3 — development of the second version of auditing standards (2005-2008). With the development of the economy in China, audit services are becoming more and more diverse, including not only audit engagements but also review engagements, other assurance engagements and related services. This leads to the fact that it is inappropriate to refer to auditing standards as "independent auditing standards". In addition, the auditing environment has changed, the business environment of enterprises has become more complicated, and as a result, auditing activities face greater risks, so it is urgent to improve auditing standards, improve auditing efficiency, and maintain the stable and orderly operation of the market economy.

After the outbreak of the Enron incident in the United States in 2001, which attracted great attention from the standard-setting bodies in the United States, the United States enacted the Sarbanes-Oxley Act in 2002, and the International Auditing and Assurance Standards Board (IAASB) also revised its standards¹⁴¹. Both the necessity and feasibility of revising and improving the standards indicate that China must accelerate the international convergence of practice standards. In 2005, the Chinese Institute of Certified Public Accountants (CICPA) put forward a schedule of international convergence in its "Overall Concept of International Convergence of Auditing Standards"¹⁴², which is shown in Table 2.1.

Table 2.1 The schedule of convergence with international standards in 2005-2006

Plan	Developing, revising and publishing auditing standards	Published for consultation	International convergence
2005	17	5	About 89.1% at the end of 2005
2006	5	0	About 100% at the end of 2006
Total	22	5	

Source: compiled by the author

On February 15, 2006, the Ministry of Finance of the People's Republic of China issued a new system of auditing standards — China Standards on Auditing and Quality Control, the new framework of

¹⁴¹ Zhu Xiaoping, Zhao Hong. Impact of the Sarbanes-Oxley Act on the development of auditing standards in China and the United States// Forestry Finance and Accounting. 2004.No08.P.3-4.

¹⁴² Chinese Institute of Certified Public Accountants. Overall concept of international convergence of auditing standards. [Electronic resource] URL: https://www.cicpa.org.cn/ztzl1/Professional_standards/International_norms/200804/t20080428_60781.html (accessed: 16.04.2023)

auditing standards maintains the convergence with the international standards. It includes 48 items, of which 22 items are newly formulated and 26 items are revised and finalized. The new system of standards consists of three parts: standards on assurance engagements, standards on related services and standards on quality control of audit firms. Among them, the standards on assurance engagements include 1 basic standard on assurance engagements, 41 standards on auditing, and 1 standard on review. There are 2 other standards on assurance engagements, 2 standards on related services and 1 standard on quality control¹⁴³.

The new auditing standards were implemented in Chinese audit organizations from January 1, 2007. In order to promote the implementation of the auditing standards system and the effective development of the audit industry, the CICPA issued the "Application Materials of China Standards on Auditing and Quality Control". The issuance of application materials greatly improved the operability of the practice standards and laid a solid foundation for the smooth implementation of the new auditing standards system in 2007. The issuance of these standards and other documents marks the formal establishment of a system of auditing standards that meets the requirements of the development of China's market economy and converges with international practices. The implementation of the new system of auditing standards will play an important role in enhancing the quality of the auditor's practice, strengthening the quality control and risk prevention of the auditing organization, improving the quality of financial information, reducing the decision-making risk of investors, realizing effective resource allocation, promoting economic development and maintaining financial stability.

Period 4 — development of the third version of auditing standards (2009 - 2015). After the IAASB completed the Clarity Project to clarify, update and reform ISAs, in 2009. The CICPA conducted a new revision of Chinese auditing standards in accordance with the ISA Clarity Project, which mainly included 38 standards. Its revision was completed on November 1, 2010, and the standards became effective on January 1, 2012. In terms of content, the new standards (2010) do not differ from the 2006 standard, but the new auditing standards are more structured. Each standard basically consists of five chapters: General, Definitions, Objectives, Requirements and Provisions, with particular emphasis on Chapter 4, which sets out specific requirements for the conduct of auditors' activities and explains the specific operating procedures auditors use in practice. Except for minor formal differences from ISA, the revised Chinese Auditing Standards are fully compliant with ISA in all aspects.

¹⁴³ Jiang Ling, Li Jiaoyan. The comparison and reference of Chinese and American auditing standards// Times Economic and Trade.2018№04.P.51-53.

Period 5 — development of the fourth version of auditing standards (2016-present). In 2015, IAASB published revised international standards on auditing (ISAs), which reforms the standard model of the audit report that has been used for many years, enriching and supplementing the information provided in the audit report. In response to this trend, the Ministry of Finance issued new revised auditing standards on December 23, 2016, which are effective January 1, 2018. The CICPA made significant revisions to six auditing standards, including Auditing Standard No. 1501, "Forming an opinion and report on financial statements," and developed auditing standard No. 1504, "Communicating key audit matters in the independent auditor's report."

With the implementation of the new standards, auditor's reports are categorized as unmodified opinion, emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report, and modification to the opinion in the independent auditor's report. With the implementation of the new standards, auditor's reports are categorized as unmodified opinion, emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report, and modification to the opinion in the independent auditor's report. The revised standard improves the presentation of management's responsibility for the financial statements (particularly with respect to the responsibility for going concern), adds responsibility for management's assessment of the audited entity's ability to continue as a going concern and the appropriateness of the use of going concern assumptions, and enhances the presentation of key audit matters, other information and the communicative value of the auditor's report. In describing the auditor's responsibilities and audit work, the auditor's responsibilities related to going concern, detecting fraud, communicating with management, exercising professional judgment in presenting key audit matters, and maintaining professional skepticism are added. Also added are definitions of key audit concepts such as "reasonable assurance," "materiality," and "interpreting ethical requirements." At the same time, clarifications have been made to the procedure for signing the auditor's report and the auditor's signature requirements have been increased¹⁴⁴. This reform of the audit opinion model is a significant change based on International standards on auditing (ISA).

In order to ensure the convergence of Chinese auditing standards with ISAs, the CICPA revised 18 auditing standards on February 19, 2019, including Chinese Auditing Standard No. 1101, "Overall objectives of the independent auditor and the conduct of an audit in accordance with International

¹⁴⁴ Wang Shenggen. Focus and application analysis of the China's CPA practice standards. Dalian :Northeast University of Finance and Economics Press, 2018.c.611.

Standards on Auditing" The revised standard covers three areas, including utilizing the work of internal auditors, responding to violations of laws and regulations, and auditing financial statement disclosures.

On November 19, 2020, the Ministry of Finance issued three standards, including China Quality Control Standards No. 5101, "Quality operations management." The quality control standards cover all the requirements and contents of international quality control standards, with most of the provisions being in line with international standards, and some provisions, although having minor differences from international standards, are specific to the application of the principles of international standards in China.

On December 9, 2021, the CICPA revised three auditing standards, including Auditing Standard No. 1601, "Special considerations—Audits of financial statements prepared in accordance with special purpose frameworks," Auditing Standard No. 1603, "Special considerations-Audits of single financial statements and specific elements, accounts or items a financial statement," and Auditing Standard No. 1604, "Engagements to report on summary financial." The three auditing standards establish rules and provide guidance on engaging, planning and conducting an audit, forming an opinion and issuing an opinion.

In 2022, the CICPA revised 11 standards, including "Basic Standards on Assurance Engagements," to maintain the internal consistency of the standards system. Textual changes were made to the relevant provisions related to quality control standards for audit firms and special purpose auditing standards.

The five period revision of auditing standards has essentially brought Chinese auditing standards into full convergence with ISAs. This has laid a solid foundation for the audit industry's "going international" strategy. The latest standards issued by the Ministry of Finance include 1 basic standard on assurance engagements, 45 auditing standards, 1 standard on review engagements, 2 standards on other assurance engagements, 2 standards on related services and 2 standards on quality control of audit organizations. The basic structure of the system of auditing standards is presented in Figure 2.2.

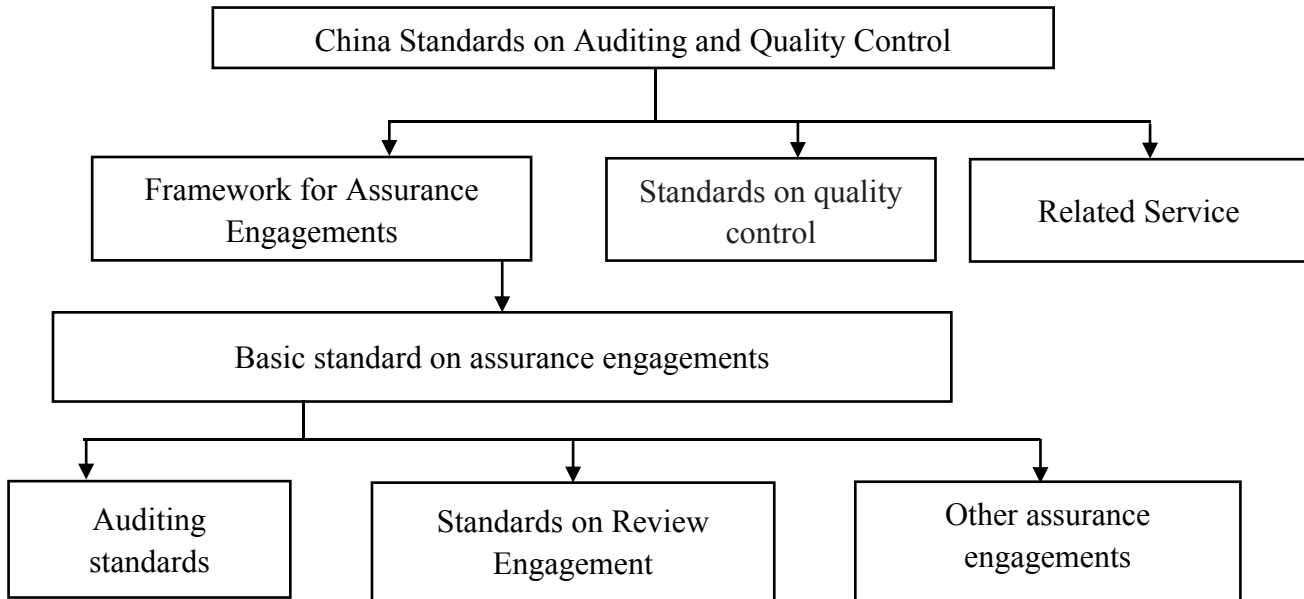


Figure 2.2 Structure of China Standards on Auditing and Quality Control

Source: compiled by the author

As can be seen in Figure 2.2, China Standards on Auditing and Quality Control are divided into two levels: the first level is the basic standards on assurance engagements, and the second level is the auditing standards, review standards and other assurance engagements. Auditing standards are used to govern the performance of audits of historical financial information (primarily financial statements) by auditor (CPA) and require auditors to use a combination of audit techniques to obtain a reasonable level of assurance about the reliability of financial reporting. The Standards on Review Engagements is used to govern a auditor's performance of an engagement to review historical financial information (primarily financial statements) and requires the auditor to obtain a limited level of assurance about the reliability of financial reporting using primarily questioning and analytical procedures. The standard on other assurance engagements, which is used to regulate assurance engagements performed by auditors on non-historical financial information. Thus, this system of China Standards on Auditing and Quality Control provides standards of practice and guidance for auditors in performing various practices and facilitates the assessment of the quality of various services provided by auditors to their clients¹⁴⁵.

2.1.2 Features of the system of Chinese auditing standards

Compared to the system of auditing standards in effect until 2010, the new system of auditing standards has the following features and innovations.

¹⁴⁵ Huang Jing. Reflections on corporate auditing based on the new auditing standards// Marketing World. 2022.No08.P.149-151.

First, the new system of auditing standards not only complies with international convergence requirements, but also takes into account the actual needs of China. The new system of auditing standards adopts the basic principles and procedures of ISAs, reflecting the requirements of convergence with them and risk-oriented auditing technique. In terms of item composition, China's system of auditing standards includes all items of international standards on auditing. The content of the auditing standards fully adopts all the basic principles and basic procedures of ISAs. In all significant aspects, the auditing standards comply with ISAs, including audit objectives and principles, risk assessment and response, gathering and analyzing audit evidence, forming and presenting audit opinions and report, and establishing responsibility for auditors' practices. In the case of application materials, in particular examples, which are contained in ISAs, since Chinese auditing standards are industry-specific regulations, it is not convenient to include them in the main text of the standards, but the CICPA has published the Application Materials of China Standards on Auditing and Quality Control, which plays a very important role in helping auditors understand and correctly apply the standards.

Secondly, the new auditing standards, fully based on international standards on auditing, also take into account the actual needs of China and develop auditing standards for capital verification. Internationally, the capitalization system is divided into two types: authorized capital system and authorized capital system. China has chosen the authorized capital system¹⁴⁶. According to Article 29 of the Company Law of the People's Republic of China, "after shareholders pay their capital contributions, they shall be inspected and certified by the capital verification institution established by law."¹⁴⁷ However, because there are very few countries and regions in the world where capital audits are performed by financial controllers, and because of the lack of universality, the system of international standards on auditing does not include capital auditing standards.

The new auditing standard is based on the current announcement on capital verification practices and fully takes into account the relevant requirements of the Company Law of the People's Republic of China, the Regulations on the Registration and Administration of Companies of the People's Republic of China promulgated by the State Council and the Administrative Regulations on the Registration of Registered Capital of Companies promulgated by the State Administration for Industry and Commerce, to

¹⁴⁶ Chen Yanjing. Is there fourth type of capital system? Rethinking the classification of corporate capital systems// Lex Russica.2018.vol12. №145.P.109-118.

¹⁴⁷ The Company Law of the People's Republic of China. Adopted at the Fifth Meeting of the Standing Committee of the Eighth National People's Congress on 29 December 1993. Adopted at the Fifth Meeting of the Standing Committee of the Eighth National People's Congress on 29 December 1993. URL: <http://www.mofcom.gov.cn/article/b/bf/200207/20020700031341.shtml> (accessed: 19. 04.2023)

form an audit standard on capital verification, which comprehensively regulates the definition of capital verification, types of capital verification, audit procedures and capital verification reports.

Third, the new auditing standards system is based on risk-oriented technique. The system of auditing standards on audit risk standards includes: Chinese Auditing Standard No. 1101 - "Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing", Chinese Auditing Standard No. 1211 - "Identifying and assessing the risks of material misstatement", Chinese Auditing Standard No. 1231 - "The auditor's responses to assessed risks" and Chinese Auditing Standard No. 1301 - "Audit Evidence", which reflect the idea of risk-based auditing and require auditors to pay attention to the internal environment of the audited entity as well as the external environment in which the enterprise is located¹⁴⁸.

Fourth, the new system of auditing standards makes strict requirements for quality control of the audit organization's activities. Establishing an effective quality control system is the basis for ensuring that audit organizations and auditors comply with laws and regulations, code of ethics and professional auditing standards. Quality Control Standard No. 5101 - "Quality operations management" systematically summarizes lessons learned from failed audits in recent years and requires audit organizations to develop a comprehensive quality control system, including seven areas: embedding management's responsibility for the quality of the practice, ensuring compliance with codes of practice, client relations and the adoption and maintenance of specific practices, human resources, conducting the audit, preparing practice documents, and monitoring¹⁴⁹.

Fifth, the new auditing standards system emphasizes the consideration of fraud in the audit of financial statements. In order to suppress the current practice of fraud by the management and governance of enterprises, the auditing standards system established Chinese Auditing Standard No. 1141 - "The auditor's responsibilities relating to fraud in an audit of financial statements". Although auditing does not specifically focus on fraud, the new auditing standards provide more detailed and systematic regulation on how the auditor should regulate the auditor's examination of financial statements for fraud, including how to detect fraud, assess the risks of material misstatement due to fraud. Thus, the new auditing standards will help auditors effectively mitigate audit risk associated with fraud by management and governance.

¹⁴⁸ Li Mochou, Zhou Hong, Xia Lijun. Do Risk-oriented Auditing Standards Improve Accountants' Sensitivity to Clients' Risks? // Journal of Finance and Economics.2015.vol41.No09.P.96-107.

¹⁴⁹ Lv Xinyi. Test on the view of business quality control standards // Money China.2016.No12.P.69.

Finally, a new model of audit opinions. On the one hand, the revision of the auditor's report standard improves the information content of the auditor's report and enhances its relevance and decision-making usefulness. A section on key audit matter is added to the audit report of listed companies to describe the key audit matter, difficulties and information specific to the audit activities, and to improve the relevance and decision usefulness of the audit report. In the key audit matter, the auditor should state the reasons why the matter was determined to be a key audit matter and how the audit was conducted¹⁵⁰. On the other hand, revising the auditor's report standard enhances the communication value of the auditor's report and increases audit transparency. Changes in the content and wording of the auditor's report enable users of financial statements to better understand the positioning of the audit, the key concepts and the respective responsibilities of the auditor, management and governance. In particular, the auditor's and management's responsibility for the going concern assumption, the meaning of key audit concepts such as "reasonable assurance," "materiality," and "risk-based auditing," the auditor's responsibility for detecting fraud, the auditor's responsibility for communicating with management, and the project partner's ultimate responsibility for audit quality will be highlighted.

Thus, the reform of the audit opinion model not only reflects China's positive response to major changes in international standards and achieves a dynamic convergence of Chinese auditing standards with international standards on auditing, but also contributes to improving audit quality and enhancing the value of audit opinions. The implementation of the new system of auditing standards will play an important role in improving the quality of audit practice, strengthening quality control and risk prevention of audit organizations, enhancing the quality of financial information, reducing investor decision-making risks, achieving more efficient resource allocation, promoting economic development and maintaining financial stability.

2.2 Comparative analysis of Chinese auditing standards and international standards on auditing

Analyzing the convergence of Chinese auditing standards with international standards on auditing. The authoritative institution responsible for setting international standards on auditing is the IAASB, which is also an affiliated body of the IFAC. As an independent international standard-setting board, it

¹⁵⁰ Chen Kaifeng. The impact of changes in new auditing standards on information disclosure // National Circulation Economy. 2022.№18.P.154-156.

promotes the convergence of international and national standards by developing high-quality international standards on quality control, auditing, review engagements, other assurance engagements, and related services engagements¹⁵¹. The latest edition of ISAs revised by the IAASB includes one basic standard on assurance engagements, 37 auditing standards, 2 standards on other assurance engagements, 2 standards on related services and 2 standards on quality control for audit firms, and 1 international auditing practice notes¹⁵². Among them, international standards on auditing cover all aspects of the audit from engagement to issuance of the audit report, covering seven areas: general principles and responsibilities, risk assessment and response to assessed risks, audit evidence, using the work of others, audit conclusions and reporting, Specialized areas, international Auditing Practice notes.

The postulates of auditing in China, which standards most closely approximate international norms and guidelines in a number of important respects¹⁵³. The translation of international standards on auditing into Chinese was authorized and approved by the IFAC. In 2012, mainland China, together with Hong Kong, Macao and Taiwan, established a Committee to verify the translation of IFAC publications, organized by the CICPA with the participation of the Hong Kong Institute of Certified Public Accountants (HKICPA), the Union of Professional Accountants Associations of Macao and the Taiwan Institute of Certified Public Accountants (TICPA). In 2013, the first translation of the compilation of International Standards on Auditing and Quality Control (2012) in 3 volumes into Chinese was completed, providing a synergy opportunity between Mainland China and Hong Kong, Macao and Taiwan. At the same time, CICPA is involved in the translation of international standards and promotes the continuous dynamic convergence of Chinese auditing standards with international auditing standards.

In recent years, the IAASB has worked on several key projects to improve audit quality and address fundamental audit issues by developing new standards or revising previous standards. The focus has been on the need for the audit industry to focus on a proactive approach to quality management and the use of professional skepticism¹⁵⁴. At present, Chinese auditing standards have achieved convergence with international standards on auditing in the following aspects.

First, as the CICPA is a member of the IFAC, the convergence with the international standards on

¹⁵¹ Guo Yanting. Problems and countermeasures of convergence in international auditing standards// International Business Accounting.2015.№06.P.72-75.

¹⁵² IAASB. Official website. URL: <https://www.iaasb.org/standards-pronouncements> (accessed: 26. 04.2023)

¹⁵³ Liu, Yali. Audit markets in russia and china. Uchet. Analiz. Audit = Accounting. Analysis. Auditing. 2022. T. 9, № 2. P. 87-94.

¹⁵⁴ Cao Danting, Xiang Shouren, Feng Shaoqin, Hou Qingsong. Implications of changes in international auditing standards for audit information disclosure in China// Friends of Accounting.2017.№18.P.93-96.

auditing was fully considered in the development of the auditing standards system, and the main framework and contents of the Chinese auditing standards system fully reflect the convergence with the international standards on auditing. As shown in Table 2.2 and Appendix 2, from the 53 standards that constitute Chinese standards, 44 standards conform to ISAs, with 37 auditing standards (Audit of Historical Financial Information) having completely similar contents.

Table 2.2 Comparison of composition between Chinese standards and international standards

Project	Basic standard on assurance engagements	Auditing standards	Standards on Review Engagements	Auditing Practice Notes	Other assurance engagements	standards on quality control	Related Service	Total
Chinese	1	45	1	0	2	2	2	53
ISA	0	37	2	1	5	2	2	49

Source: compiled by the author

Second, the convergence of the content of standards. Except for some standards such as "Basic Standards on Assurance Engagements", Chinese Auditing Standard No. 1153 — "Communications between predecessor and successor CPAs" and Chinese Auditing Standard No. 1602 — "Capital Verification", the contents of the Chinese auditing standards system are almost identical to the items of international standards on auditing.

Third, Chinese auditing standards converge with international standards on auditing in terms of regulated objects and engagement classifications. In terms of regulated objects, both Chinese auditing standards and ISAs regulate both the quality control of the audit organization and the auditor's practice. In terms of engagement classification criteria, both Chinese auditing standards and ISAs categorize engagements into assurance engagements and related services. Assurance engagements are further categorized into historical financial information audit engagements and review engagements, as well as other assurance engagements. In addition, the categories of non-audit engagements in the standards of both organizations overlap to a large extent.

Fourth, convergence of audit concept. Chinese auditing standards borrow advanced concepts from international standards on auditing and change the original traditional risk-based audit model to a risk-based audit model, which requires auditors to conduct audit engagements with a more expansive

view of the environment outside the auditee, start with industry analysis, identify the auditee's operational risks, assess the auditee's material misstatement risk areas, and then take auditor's actions in response to the identified risks.

Thus, from the contents of the new auditing standards, it can be seen that the China auditing standards system has fully adopted all the basic principles and important procedures of ISAs and maintained a high degree of consistency with ISAs in such aspects as quality control of audit organizations, audit objectives and principles, risk assessment and audit procedures in response to assessed risks, collection and analysis of audit evidence, formation and presentation of audit opinions, and has indeed achieved convergence of the standards' positions and contents. In terms of audit concept, China has adopted the advanced model of international risk-oriented audit, which also places higher requirements on auditors.

Analyzing the differences between the Chinese auditing standards system and the system of international standards on auditing. Due to the differences in social systems, cultural traditions, practical environment and auditors' awareness level, Chinese auditing standards have their own specificity when converging with international standards on auditing. Compared with the system of international standards on auditing, there are still some differences in the new system of auditing standards in China.

First, Chinese auditing standards include a special standard — 1602 "Capital Verification". Capital verification is a obligatory procedure for the establishment and registration or change of capital of enterprises in China. The purpose of capital verification is to enhance the credibility of the enterprise's authorized capital received or changes in authorized and paid-up capital. Therefore, the Chinese auditing standard system is based on the current announcement of capital verification practice and fully considers the relevant requirements of the "Company Law of the PRC", the "Regulations on the Registration of Companies of the PRC" issued by the State Council of the PRC and the "Administrative Regulations on the Registration of Registered Capital of Companies" issued by the State Administration of Industry and Commerce, therefore, No.1602 "Capital Verification" was formulated, which is in accordance with the developing market economy of China and is the main feature of the Chinese auditing standards system¹⁵⁵.

Second, the framework retains No.1153 — "Communications between predecessor and successor

¹⁵⁵ Share Analysis on the international convergence of China's auditing standards. [Electronic resource] URL: <https://www.shenjishi.com/audit/1893.html> (accessed: 29. 04.2023)

CPAs". The issue of communication between predecessor and successor auditors is governed by the Code of Ethics for Auditors developed by the Ethics Committee of IFAC and is not addressed in the IAASB framework. China has developed a specific standard on No.1153 "Communication between predecessor and successor CPAs" which has been retained in the new system. It can be expected that the implementation of this standard will be used to change the phenomenon of audit firm switching, which has increased among listed companies in recent years, and to improve the current poor and overly competitive environment in which auditors practice. The more effective communication between predecessor and successor auditors, the more it helps auditors to know the characteristics of clients, the effectiveness of internal controls, etc., so that audit quality is improved as a result.

Third, Chinese auditing standards system does not distinguish between auditing standards and audit practice statements (APS). In contrast, ISAs distinguish between auditing standards and international auditing practice statements (IAPS). Chinese auditing standards No.1611 - 1633 are in accordance with IAPS 1000-1013. As auditing standards and audit practice provisions oblige auditors to do different things, it may affect the quality of the audit.

Thus, the existence of specialized auditing standards in China compared to ISAs creates a national specificity to the auditing standards system.

2.3 Empirical analysis of the implementation condition of auditing standards in China

Analyze the overall effect of implementing auditing standards in China. Using descriptive statistics and comparative analysis methods to research the overall effect of the implementation of auditing standards based on auditors' data of listed companies listed on the Shanghai and Shenzhen Stock Exchanges (A-shares¹⁵⁶). In order to evaluate the overall effect of implementation over the 20 years before and after the implementation of refined Chinese auditing standards in 2010, This study collects data on audits performed on listed companies in China from 2003 to 2021. The main indicators include consolidation of audit organizations, Is a large auditing organization, membership of international accounting and auditing organization, audit tenure, proportion of income from listed companies, audit income, total income of audit organizations, proportion of modification of audit opinions, scale of the audit organization, and level of issue modification of auditor's reports. Detailed indicators are shown in

¹⁵⁶ A shares (Chinese: A 股), also known as domestic shares (Chinese: 内资股), are shares that are denominated in Renminbi and traded in the Shanghai and Shenzhen stock exchanges, as well as the National Equities Exchange and Quotations.

Table 2.3.

Table 2.3 Value of selected variables

Variable names	Variable symbols	Meaning of variables
Standards implementation	Standard _{it}	Audit organization <i>i</i> performs the audit standard (2010) in year <i>t</i> , accepting - 1, if not accepting - 0.
Consolidation	M&A	If audit organization <i>i</i> was consolidated in year <i>t</i> , -1, if not, -0.
Is a large audit organization	Big _i	If audit organization <i>i</i> is a "Big Four" or not "Big Four" firm and is among the Top 10 audit organizations in China, accepting - 1, if not accepting - 0.
Internationalization	Inter _{it}	Audit organization <i>i</i> In year <i>t</i> for cooperation with international organizations - 1, if not - 0.
Audit tenure	Tenure _{it}	The median audit tenure of listed companies audited by audit organization <i>i</i> in year <i>t</i> .
Proportion of income from listed companies	Lfee _{it}	Fees of audit organization <i>i</i> for audit services of listed companies in year <i>t</i> , divided by the total income of the audit organization.
Scale of the audit organization	Size _{it}	The natural logarithm of the total audit income of audit organization <i>i</i> in year <i>t</i> .
Level of issue modification of auditor's reports	Opinion _{it}	Proportion of modification of auditor's reports issued by audit organization <i>i</i> from the total number of auditor's reports in year <i>t</i> .

Source: compiled by the author

Descriptive statistics of the data. After data collection and processing, this study obtained 740 annual observations from 41 audit organizations involved in auditing listed companies (see Table 2.4).

Table 2.4 Descriptive statistics for qualitative variables

N=740	Standards	%	M&A	%	Big	%	Inter	%
n=0	353	48%	707	96%	564	76%	454	61%
N=1	387	52%	33	4%	176	24%	286	39%

Source: compiled by the author

As shown in Table 2.4, the 2012-2021 observations account for 52% of the total sample of 740 observations following the implementation of new auditing standards in 2010. The consolidation of audit organizations during the research period occurred in 4% of observations. 39% of audit organizations

cooperate with foreign audit organizations. The audit market for listed companies in China shows a high level of internationalization. International "Big Four" firms or large domestic audit organizations are present in 24% of observations.

Table 2.5 Descriptive statistics for quantitative variables

variable names (N=740)	Minimum value	Maximum value	Mean	Standard deviation	25% quartile	Median	75% quartile
Tenure	1.0000	15.0000	6.2554	2.6336	4.0000	6.0000	8.0000
Lfee	0.0026	1.6800	0.1556	0.1230	0.0700	0.1300	0.2000
Size	7.2000	13.4900	10.1831	1.4501	9.0350	10.1045	11.2500
Opinion	0.0000	1.0000	0.0700	0.0890	0.0100	0.0500	0.1000

Source: compiled by the author

Table 2.5 shows that the mean value of Tenure is 6.26 years and the mean value of LFee is less than 16%, this indicates that for most of the audit organizations, the proportion of audit services of listed companies is not high. The average value of the proportion of modification of auditor's report (Opinion) is 8.9%, this indicates that audit organizations issue fewer modification of auditor's reports.

Comparative analysis before and after the implementation of the audit standard. The following statistical hypotheses are proposed in order to identify the statistical significance of the differences in the mean values before and after the implementation of Chinese auditing standards (2010):

H₀: The effect of audit standards implementation (2010) on the consolidation of audit organizations (M&A), is the large audit organization (Big), the internationalization of audit organizations (Inter), the tenure of audit organizations (Tenure), the proportion of income from listed companies (Lfee), the scale of audit organizations (Size), the level of issue modification of auditor's reports (Opinion) is not significant.

H₀: The effect of audit standards implementation (2010) on the consolidation of audit organizations (M&A), is the large audit organization (Big), the internationalization of audit organizations (Inter), the tenure of audit organizations (Tenure), the proportion of income from listed companies (Lfee), the scale of audit organizations (Size), the level of issue modification of auditor's reports (Opinion) is significant.

This research compares data before and after the implementation of auditing standards in 2010 and performs the T-criterion for independent samples: handling in SPSS. The T-criterion for independent samples procedure compares the mean values for two groups of observations and automates the calculation of the t-criterion effect size¹⁵⁷. The t-value is obtained from a statistical test. It is taken from the Student's t-distribution for a suitable number of degrees of freedom¹⁵⁸. The position of the t-value in the distribution sets the probability of obtaining it at random. If this probability is below the significance level, the result is considered statistically significant¹⁵⁹. P-level is the probability of erroneous rejection of the null hypothesis (H₀) calculated during the statistical test. To decide whether to reject the null hypothesis based on the results of a statistical test, the p-value is compared to the critical significance level (α -level¹⁶⁰) adopted by the researcher. If the p-level is less than the significance level (α -level), the null hypothesis is rejected. Otherwise, the data are said to be consistent with the null hypothesis. The lower the p-level, the more significant the test statistic is called. The lower the p-level, the stronger the grounds to reject the null hypothesis. Thus, the p-level is in decreasing dependence on the reliability of the result¹⁶¹. In this case, the calculations of empirical values of t-criterion before and after the implementation of auditing standards are presented in Table 2.6.

Table 2.6 Descriptive statistics of data before and after the implementation of auditing standards in China

variable names	Before implementation of auditing standards (2010) (I) N=358		After implementation of auditing standards (2010) (II) N=387		t-value (I - II)	p-value
	Mean	Standard deviation	Mean	Standard deviation		
M&A	0.07	0.257	0.02	0.142	3.241	0.001**
Big	0.22	0.415	0.25	0.435	-1.031	0.303
Inter	0.32	0.468	0.44	0.498	-3.422	0.001**
Tenure	5.977	2.400	6.509	2.809	-2.755	0.006**
Lfee	0.183	0.151	0.131	0.083	5.746	0.000**
Size	9.311	1.289	10.979	1.085	-18.946	0.000**
Opinion	0.09	0.098	0.06	0.077	3.620	0.000**

Note: ** represent significance at the 1% level, respectively.

¹⁵⁷ T-criterion for independent samples. [Electronic resource] URL:

<https://www.ibm.com/docs/ru/spss-statistics/saas?topic=tests-independent-samples-t-test> (accessed: 10. 11.2023)

¹⁵⁸ Ryadinskaya, E.N., Bondar, L.S., Bogrova, K.B. Various options for calculating Student's t-criterion in psychology // Vestnik of Donetsk National University. Series D: Philology and Psychology. 2020. № 2.P.146-154.

¹⁵⁹ t-value. [Electronic resource] URL: <https://www.ibm.com/docs/ru/cognos-analytics/11.1.0?topic=terms-t-value> (accessed: 10. 11.2023)

¹⁶⁰ α -level: A threshold level of statistical significance; the probability of erroneously rejecting the null hypothesis. The lower the α -level, the lower the risk of making this error. It is set arbitrarily by the researcher (usually 0.05, 0.01 or 0.001).

¹⁶¹ p-level. [Electronic resource] URL: <http://statistica.ru/glossary/general/p-uroven/> (accessed: 10. 11.2023)

Source: compiled by the author

This study uses t-criterion for independent samples to examine the implementation effect of auditing standards (2010) on consolidation(M&A), whether the large audit organization (Big), internationalization (Inter), audit tenure (Tenure), proportion of income from listed companies (Lfee), scale of audit organization (Size), level of issue modification of opinions to auditor's reports (Opinion). As can be seen in Table 2.6, for the variable "M&A", the empirical value of Student's t-criterion equal to - 3.241 and p-value is the level of statistical significance equal to - $0.001 < 0.01$, so the hypothesis H_1 is accepted, i.e., the implementation effect of auditing standards (2010) on consolidation of audit organizations (M&A) has significant differences ($p < 0.01$). Specific difference comparison which shows that the mean value before the implementation of auditing standards (0.07) is significantly higher than the mean value after the implementation of auditing standards (0.02). This is the result of the consolidation of audit organizations after the "unbundling and restructuring" of audit organizations in 1998 and the implementation of a series of measures taken by the Ministry of Finance to encourage audit organizations in China to "become bigger and stronger". On the one hand, the consolidation of audit organizations is designed to satisfy regulatory requirements for smoothly conducting obligatory audits. The Ministry of Finance and CSRC have repeatedly formulated or revised the methods for securities audit authorization, and the continuous upgrading of qualifications has directly promoted the merger of audit organizations, which most often occurred before 2012. On the other hand, consolidation enhances the market competitiveness of audit organizations and allows them to best adapt to client requirements and competition in the audit market. Meanwhile, the implementation of auditing standards (2010) regulates the quality of the audit organization's practice and reduces audit risk.

For the variable "Big", the empirical value of Student's t-criterion equal to - -1.031 and p-value is the level of statistical significance equal to - $0.303 > 0.05$, so the hypothesis H_0 is accepted, i.e., the implementation effect of auditing standards (2010) on is a large audit organization (Big) is not significant ($p > 0.05$). Although the mean value before the implementation of auditing standards (0.22) is significantly lower than the mean value after the implementation of standards (0.25), overall the criterion of mean value is not significant. This is because the "Big Four" international auditing firms used ISAs as the main professional standard before and after the implementation of Chinese auditing standards (2010) and have more experience in applying the new Chinese auditing standards. Thus, the implementation of auditing

standards (2010) did not significantly affect the "Big Four" international auditing firms practicing in China. Large domestic audit organizations providing audit services to listed companies are gradually narrowing the gap with the audit quality of "Big Four" international firms, so the effect of the implementation of auditing standards on auditing for large domestic audit organizations is reduced.

For the variable "Inter", the empirical value of Student's t-criterion equal to -3.422 and p-value is the level of statistical significance equal to $0.001 < 0.01$, so hypothesis H_1 is accepted, i.e., the effect of the implementation of auditing standards (2010) on the internationalization of audit organizations (Inter) has significant differences ($p < 0.01$). Specific difference comparison which shows that the mean value before the implementation of auditing standards (0.32) is significantly lower than the mean value after the implementation of auditing standards (0.44). This is because Chinese auditing standards (2010) are based on international standards on auditing (ISA), and the convergence of Chinese auditing standards with ISA provides opportunities for the internationalization of Chinese audit organizations. By the end of 2021, 19 out of 44 audit organizations have joined the International Audit Network to provide audit services for economic activities outside China.

For the variable "Tenure", the empirical value of Student's t-criterion equal to -2.755 and p-value is the level of statistical significance equal to $0.006 < 0.01$, so hypothesis H_1 is accepted, i.e., the effect of the implementation of auditing standards (2010) on the tenure of audit organizations (Tenure) has significant differences ($p < 0.01$). Specific difference comparison which shows that the mean value before the implementation of auditing standards (5.977) is significantly lower than the mean value after the implementation of auditing standards (6.509). With the implementation of auditing standards (2010), improvement of technical audit methodology, improvement of auditors' professional competence, auditors' knowledge and experience in working with specific clients will become more adequate, with the increase of auditor's period of authority, it will also improve the quality of audit.

For the variable "Lfee", the empirical value of Student's t-criterion equal to -5.746 and p-value is the level of statistical significance equal to $0.000 < 0.01$, so hypothesis H_1 is accepted, i.e., the implementation effect of auditing standards (2010) on the share of audit organizations in the fees of listed companies (Lfee) has significant differences ($p < 0.01$). Specific difference comparison which shows that the mean value before the implementation of auditing standards (0.183) is significantly higher than the mean value after the implementation of auditing standards (0.131). Due to the implementation of auditing standards (2010), audit organizations provide audit services not only to listed companies but also extend

to other business entities including state-owned enterprises, small and medium enterprises.

For the variable "Size", the empirical value of Student's t-criterion equal to -18.946 and p-value is the level of statistical significance equal to $0.000 < 0.01$, so hypothesis H_1 is accepted, i.e., the implementation effect of auditing standards (2010) on the scale of audit organizations (Size) has significant differences ($p < 0.01$). The specific difference in the comparison which shows that the mean value before the implementation of auditing standards (9.311) is significantly lower than the mean value after the implementation of auditing standards (10.979). This is due to the continuous improvement in the regulation of China's audit market, the increase in the number of listed companies, the expansion of audit services and the increase in audit fees. As a result, there is a significant difference before and after the implementation of auditing standards (2010).

For the variable "Opinion", the empirical value of Student's t-criterion equal to -3.620 and p-value is the level of statistical significance equal to $0.000 < 0.01$, so hypothesis H_1 is accepted, i.e., the implementation effect of auditing standards (2010) on the level of issuance of modification of audit opinions (Opinion) has significant differences ($p < 0.01$). Specific comparison of the differences shows that the mean value before implementation of audit standard (0.09) is significantly higher than the mean value after implementation of audit standards (0.06). This may be due to the implementation of new financial reporting standards in 2006, which improved the quality of financial information of listed companies and thus reduced the proportion of issue modification of opinion to the auditor's reports.

Thus, it can be concluded that different samples before and after the implementation of auditing standards (2010) has no significance for the variable is a large audit organization (Big). And different samples before and after the implementation of auditing standards (2010) on the variable consolidation (M&A), internationalization (Inter), audit tenure (Tenure), proportion of income from listed companies (Lfee), scale of audit organization (Size), level of issue modification of audit opinions has significance. This means that since the implementation of Chinese auditing standards in 2010, the information environment of audit clients in China has changed significantly, the complexity of assurance engagements for audit organizations has increased, and although the total income of audit organizations has increased, audit fees have increased, and the scale of audit organizations has expanded, the proportion of listed company audit income has decreased, indicating that the proportion of audit engagements of other (non-listed) companies in China has increased, and audit organizations have further diversified their activities. On the other hand, there is a slight increase in the share of modification audit opinions issued

by audit organizations as the average tenure of audit engagements by audit organizations increases. In addition, Chinese audit organizations accelerated the process of merger and internationalization, while the average value of the audit organization merger variable decreased as the Ministry of Finance of the PRC issued the "Opinions on Accelerating the Development of China's Audit Industry" in October 2009, which proposed the strategy of audit organizations to "become bigger and stronger" and actively encouraged audit organization mergers¹⁶². After the adoption and implementation of Chinese auditing standards in 2010, the scope and quality of audit organizations have improved qualitatively.

In conclusion, the obtained effects and implications of the implementation of auditing standards from the data analysis are multifaceted. The implementation of Chinese auditing standards (2010) had the most effective effect on improving the quality of audit of audit organizations, resulting in an increase in audit fees, and stricter audit procedures reduced the proportion of audit organizations issuing modification of audit opinions, thereby reducing audit risk. At the same time, the convergence of Chinese auditing standards with ISAs has facilitated the internationalization of Chinese audit organizations and accelerated the process of audit organization unification.

The impact of auditing standards on the receipt of regulatory sanctions by audit organizations. In China, the audit industry is regulated by multiple agencies and adopts a regulatory model led by government regulation and supplemented by industry self-regulation. Among the government regulatory agencies, the Ministry of Finance of the PRC, the China Securities Regulatory Commission (CSRC), the National Audit Office and the People's Bank of the PRC regulate the quality of auditors' practice. And self-regulation of the industry is mainly carried out by the Chinese Institute of Certified Public Accountants (CICPA). At present, the Ministry of Finance, CSRC and CICPA are the main regulators of auditor practice quality in China, and the National Audit Office and the People's Bank of the PRC play a supporting role in regulating auditor practice quality. Therefore, this study analyzes the regulation of audit quality by various regulators and details the regulatory sanctions imposed by the Ministry of Finance, CSRC and CICPA.

Regulation by the Ministry of Finance of the PRC. Since 1999, the Ministry of Finance has been organizing and conducting inspections of the quality of accounting information, and publishes annual announcements to the public on the inspection of the quality of accounting information. Under the

¹⁶² Department of Accounting, Ministry of Finance. Report on the development of the CPA profession in China-analysis of data based on the information reported by accounting firms from 2010 to 2014. 11 December 2015. [Electronic resource] URL: <https://www.cicpa.org.cn/ztl1/hyghckzl2/hyghckzl5/202003/W020210419762275944613.pdf> (accessed: 29. 04.2023)

unified organization and leadership of the Ministry of Finance, the Office of the Commissioner of the Ministry of Finance and the provincial finance departments have specialized accounting supervision and inspection agencies, each focusing on and coordinating with the other. The Office of the Commissioner of the Ministry of Finance is mainly responsible for supervising and inspecting the practice quality of large accounting firms qualified for securities and futures business, and inspects all firms qualified for securities and futures business once every three years. Provincial finance departments are mainly responsible for supervising and inspecting non-securities and futures qualified accounting firms within their jurisdictions, and inspect all non-securities and futures qualified firms in their locations once every five years¹⁶³. Up to December 31, 2021, the Ministry of Finance has issued a total of 41 announcements on the quality inspection of accounting information. Starting from the 18th and 19th Accounting Information Quality Inspection Bulletins issued in 2010, the Ministry of Finance has started to announce the inspection and handling of the quality of practice of firms with securities and futures qualifications by the Commissioner's Office on a household basis.

Analysis of the number of penalties before and after the implementation of auditing standards. Table 2.7 shows the administrative penalties announced by the Ministry of Finance for audit organizations from the beginning of the quality of accounting information inspection in 1999 to December 31, 2021. Among them, the data of the quality of practice inspection in 1999, 2002, 2003 and 2018-2020 are not available due to the fact that the relevant disclosure of the Ministry of Finance could not be found.

Table 2.7 Statistics of the audit organization on penalties of the Ministry of Finance of the PRC

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of audit organizations penalized	8	-	13	3	-	-	8	29	88	215	175	99
Number of inspected audit organizations	82	-	125	91	-	-	18	60	637	1198	714	543
Proportion (%)	9.76	-	10.40	3.30	-	-	44.44	48.33	13.81	17.95	24.51	18.23

¹⁶³ Liu Shengliang. Effectiveness, problems and future prospects of accounting supervision in China — a study based on the Ministry of Finance's 2018 accounting information quality inspection announcement// Fiscal supervision.2018.No22.P.8-12.

Table 2.7 (continued)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Number of audit organizations penalized	68	99	122	170	178	84	193	93	-	-	-	85
Number of inspected audit organizations	969	1398	1618	1668	1383	1133	1389	1529	-	-	-	1705
Proportion (%)	7.02	7.08	7.54	10.19	12.87	7.41	13.89	6.08	-	-	-	4.99

Source: compiled by the author based on data of the Ministry of Finance of PRC¹⁶⁴

As shown in Table 2.7, the number of auditing organizations selected by the Ministry of Finance prior to 2005 was generally small at around 100. In 2006, in order to implement Premier Wen Jiabao's important directive to "step up efforts to supervise and inspect accounting and comprehensively control accounting misstatement"¹⁶⁵, the Ministry of Finance strengthened the quality inspection of accounting information and quality control of audit organizations. The number of auditing organizations audited from 2006 to 2009 averaged more than 500 per year. As 2007 was the first year of implementation of the second version of auditing standards by audit organizations, in order to promote the effective implementation of auditing standards, the Ministry of Finance strengthened the inspection of enterprises and audit organizations, the number of audited audit organizations reached the highest level of 1198 inspections compared to the previous year, almost doubling the number of inspections. After that, with the implementation of 2010 audit standards, the Ministry of Finance again conducted a more comprehensive quality inspection of audit organizations in 2012, with 1618 audit organizations inspected.

As the number of auditing organizations inspected by the Ministry of Finance increased, the number of penalties also increased naturally. Before 2005, the number of penalties was lower, and in 2006, the number of penalties started to increase as the number of inspected audit organizations increased, with the highest number of penalties in 2007 and then gradually decreased. The increase in the number of penalties from 2012 to 2014 is consistent with the background of Chinese auditing standards at the time of their promulgation and implementation, and reflects the fact that auditors faced high audit risk at that time, and audit risk decreased with the implementation of the standards.

¹⁶⁴ Ministry of Finance of the People's Republic of China. Official Website. URL: <http://jdjc.mof.gov.cn/jianchagonggao/> (accessed: 01. 05.2023)

¹⁶⁵ Accounting yearbook of China 2011. URL: https://www.zgcznet.com/yhfw/gkcx/gkcxzgjnj/kjnj2011nj/kjnj2011njwz/202008/20200814/j_2020081412563600015973810589497815.html (accessed: 01. 05.2023)

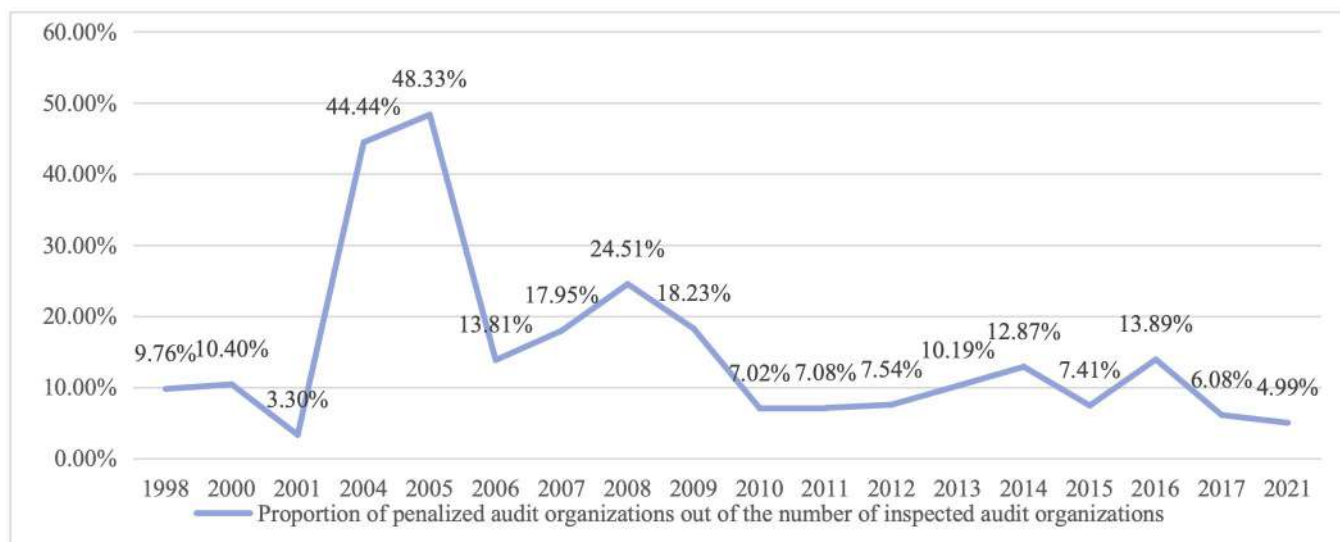


Figure 2.3 Proportion of penalized audit organizations out of the number of inspected audit organizations from 1998 to 2021

Source: compiled by the author

As shown in Figure 2.3, before the implementation of auditing standards in 2006, there were significant fluctuations in the proportion of penalized audit organizations from the total number of inspected audit organizations. And after the implementation of the second version of auditing standards in 2006, there is an overall downward trend in the proportion of penalties, especially since 2008, the proportion of penalties has been decreasing year by year. It can be seen that the implementation of auditing standards has effectively reduced the proportion of punished audit organizations by the Ministry of Finance and reduced audit risks.

Analyzing the types of punishment before and after the implementation of auditing standards. The Ministry of Finance has adopted various types of administrative penalties for different degrees of violations by audit organizations and auditors. The specific types of penalties are summarized in Table 2.8.

Table 2.8 Type and number of announced penalties of the Ministry of Finance

Year/ number	Referral to CICPA Industry Self-Regula- -tion Discipline	Interv- iew and Remin- der	Issue a letter of superv- isory concer n	Issuing rectificat- ion notice /ordering rectificati -on	Criti- cize	War- -ning	Confisc- ation of illegal income /fine	Suspe- nsion of opera- tion	Revocation of firm's practicing license Dissolution	Total
1998	-	-	-	-	-	1	6	6	1	14
2000	-	-	-	7	2	2	1	1	-	13
2001	-	-	-	-	-	1	3	-	-	4
2004	4	-	-	3	-	3	-	1	1	12
2005	-	-	-	15	1	11	1	3	-	31
2007	-	-	-	-	-	105	37	51	22	215
2008	-	-	-	-	-	98	37	55	14	204
2009	-	6	2	33	-	44	11	8	-	104
2010	-	-	2	53	-	49	14	6	-	124
2011	-	-	-	17	-	63	13	4	2	99
2012	-	-	3	32	-	72	6	5	4	122
2013	-	-	-	51	-	101	8	8	2	170
2014	-	2	45	36	-	70	13	8	4	178
2015	-	-	9	4	-	56	8	5	2	84
2016	56	-	50	28	-	36	6	15	2	193
2017	-	-	12	9	-	45	9	9	9	93
2021	-	-	-	-	-	27	28	20	10	85
2022	-	-	-	-	-	109	106	44	16	275
Total	60	8	123	281	1	889	297	242	88	1989
	3%	0.40%	6%	14%	0.05%	45%	15%	12%	4%	100%

Source: compiled by the author

As shown in Table 2.8, the types of penalties imposed by the Ministry of Finance on auditing organizations and auditors include: referral to the CICPA for industry self-regulation and discipline, interviews and conversations as a reminder, issuance of a letter of supervisory concern, issuance of a notice of rectification/order for rectification, notification of criticism, warnings, confiscation of unlawful income or fines, suspension of the firm's operation, and revocation of a firm's practicing qualification or its dissolution. Among the most serious penalties is the revocation of the qualification to practice or dissolution of the auditing organization, but the proportion of such penalties is relatively small. The most frequently used penalty by the Ministry of Finance is warning, with a proportion of 45%, while the types of penalties such as confiscation of unlawful income or fines, suspension of business operation, and

issuance of notice of rectification have also been used more frequently, with all of them amounting to more than 12%. Compared with the previous years, in 2007 and 2008, the Ministry of Finance increased the severity of penalties, adopting relatively severe penalties such as warnings, confiscation of illegal incomes and fines, suspension of the business operation of the auditing organizations, and revocation of auditing organizations' practicing qualifications or dissolution of the auditing organizations. Starting from 2009, the Ministry of Finance began to punish audit organizations by adopting measures such as interviews and conversations as a reminder, issuing letters of supervisory concern, ordering rectification or issuing notices of rectification, with a ratio of about 40% per year, and with the promulgation and implementation of the third version of auditing standards in 2010, the intensity of administrative penalties is still dominated by warnings, etc., with the intensity of penalties being increased in comparison with the previous administrative penalties.

Regulation by the China Securities Regulatory Commission (CSRC). The CSRC began to regulate the audit quality of audit organizations shortly after its establishment in 1992. The CSRC mainly investigated and punished listed companies that violated the law, and then inspected the auditing organizations that participated in the audits of listed companies that violated the law. 1993 was the first year that the CSRC issued the first fines to the auditing organizations, and between 1993 and 1997, the CSRC issued seven decisions on the penalties for the auditing organizations and the auditors¹⁶⁶. After the unbundling and restructuring of audit organizations in 1998, the CSRC issued more and more penalties to audit organizations and auditors for providing false audit reports. In 2001, the CSRC began to disclose the penalties imposed in the form of administrative penalty decisions and market prohibition decisions on its official website. The statistics of announcements of administrative penalties and market prohibition decisions published on the CSRC website as of December 31, 2021, disclose the regulation by the CSRC of the quality of securities-qualified audit firms (see Table 2.9).

¹⁶⁶ Hu Shiwei. The repositioning of the regulatory role of the Securities and Futures Commission under the registration system // *Legality Vision*.2015.№14.P.245.

Table 2.9 Announcements of administrative penalties issued by the CSRC

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Issuance of administrative penalty decisions	-	-	-	30	18	29	49	43	38	35	49	56
Decision on penalties for auditing organizations	-	-	-	3	4	4	4	2	1	4	6	5
Proportion (%)	-	-	-	10.0	22.2	13.8	8.16	4.65	2.63	11.4	12.2	8.93
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Issuance of administrative penalty decisions	47	55	31	76	103	95	139	118	130	146	110	124
Decision on penalties for auditing organizations	2	2	1	8	3	1	4	4	5	2	2	5
Proportion (%)	4.26	3.64	3.23	10.5	2.91	1.05	2.88	3.39	3.09	1.37	1.82	4.03

Source: compiled by the author based on data from CSRC¹⁶⁷

Table 2.9 shows that from 2001 to 2021, CSRC published a total of 1,521 administrative penalty decisions on its official website, among which 72 administrative penalty decisions were issued in relation to audit organizations and auditors. From 2001 to 2021, there is an increasing trend of the number of administrative penalties issued by CSRC, indicating that CSRC's supervision of the securities market is getting more and more intense every year. The downward trend in the number of administrative penalties issued by the CSRC to audit organizations and auditors is decreasing. This may be due to the improvement of audit quality of audit organizations.



Figure 2.4 Proportion of issued decisions on penalties for CSRC audit organizations out of the total number of administrative penalties

¹⁶⁷ China Securities Regulatory Commission. Официальный сайт. URL: http://www.csrc.gov.cn/csrc/c100200/common_list.shtml (дата обращения: 05. 05.2023).

Source: compiled by the author

As shown in Figure 2.4, the proportion of issued decisions on penalties for CSRC audit organizations out of the total number of administrative penalties ranged from a high of 22.22% in 2002 to a low of 1.05% in 2015. The overall trend is for this proportion to decrease over the 2001-2021 period, except for one increasing fluctuation that occurred in 2007 and 2013. The proportion of penalties was about the same in 2007 and 2008, and the gradual decreasing trend resumed in the following years. 2007 was the first year when the second version of auditing standards was published and implemented, and 2013 was the second year after the implementation of the third version of auditing standards, indicating that the increase in the proportion of penalty decisions for audit organizations may be related to the expansion of CSRC regulation and oversight.

Analyzing the types of penalties before and after the implementation of auditing standards. CSRC has adopted various types of administrative penalties for different degrees of violations and misconduct by audit organizations. These include: issuance of a correction or correction order, notice of criticism, warning, confiscation of illegal income and fines, suspension of business license, and prohibition of access to the securities market. As Table 2.10 shows, the most serious penalties are suspension of business license and prohibition of access to the securities market, but the CSRC rarely uses these penalties, having used them only twice since the implementation of auditing standards in 2010, which amounted to 5% of the total. In contrast, the CSRC uses penalties such as fines, warnings and confiscation of illegal income more frequently, and the proportion of all three penalties combined was 95% after 2010, with fines being the most frequently used at 79%.

Table 2.10 Types of announcements of CSRC penalties

Type of penalty	2001-2009		2010-2021	
	number	%	number	%
issuance of a correction or correction order	5	15%	0	0%
notice of criticism	0	0%	0	0%
warning	5	15%	3	8%
confiscation of illegal income	1	3%	3	8%
fines	22	67%	31	79%
suspension of business license	0	0%	2	5%
prohibition of access to the securities market	0	0%	0	0%
Total	33	100%	39	100%

Source: compiled by the author

Regulation of the situation by the National Audit Office of the PRC. The main responsibility of the National Audit Office of the PRC is to monitor and verify the quality of audit services of large and medium-sized state-owned enterprises. However, since 1995, when China clarified the unified authority of the Ministry of Finance to manage the audit industry, the National Audit Office has gradually ceased to monitor the quality of independent audits as the functions of state-owned and independent audits diverge and the number of enterprises with other forms of ownership increases. From May to September 2004, the National Audit Office organized an audit quality inspection of 16 audit organizations authorized to audit listed companies, mainly for 2001-2003, and issued "Audit Results Announcement No. 4 for 2005 (No. 12 in total) - Audit Quality Inspection Results of 16 Audit Organizations". The audit found inaccuracies or omissions in 19 audit reports issued by 37 auditors from 14 audit organizations¹⁶⁸. In addition, the National Audit Office has not disclosed other penalties for audit organizations and auditors. Due to its limited authority, the National Audit Office currently plays a supporting role in regulating the independent audit industry in China.

Regulation by the China Institute of Certified Public Accountants (CICPA). The CICPA is self-regulating the independent audit industry in China in accordance with the Law on Certified Public Accountants. CICPA generally conducts annual quality assessment of audit organizations for quality control. The CICPA has established and started to apply the system of quality inspection of audit organizations since 2004, and as of the end of 2021, the system has been applied for 17 consecutive years. In 2004, the CICPA conducted the first industry-wide practice quality inspection and implemented a systematic comprehensive inspection of audit organizations on a five-year cycle. This initiated the formation of the self-regulatory system of the independent audit industry in China, consisting of a reporting assignment system, a notice reminder system, an integrity file system, a self-regulatory disciplinary system and a practice quality inspection system¹⁶⁹.

In 2007, CICPA adjusted the inspection cycle of auditing organizations with qualifications for securities and futures practice from five years to three years, and the inspection was directly organized by CICPA, thus realizing the convergence with international practice. In 2009, CICPA revised the "Practice Quality Inspection System for Accounting Firms", stipulating that auditing organizations with qualifications for practicing securities and futures should be subject to practice quality inspection at least

¹⁶⁸ Liu Dazhu. Auditing Yearbook of China. China Times Economic Press.2006.P.755.

¹⁶⁹ Li Xinxin,Wang Tianyu. Regulatory framework of the Chinese Institute of Certified Public Accountants // Oriental Enterprise Culture.2010.No15.P.248.

once in every three years, and clarifying the division of responsibilities between CICPA and local CICPA associations in the inspection of practice quality of firms with qualifications for practicing securities and futures in the system¹⁷⁰.

CICPA overall quality control. From the first disclosure of auditing organizations' practice quality inspections in 2005 through the end of 2021, the CICPA has disclosed a total of 17 practice quality inspections to the public, as shown in Table 2.11.

Table 2.11 Statistics on CICPA practice quality inspections in 2014-2021

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012
Inspection by the local CPA association	824	1457	1248	1324	1246	1551	1552	1671	1493
CICPA inspection	0	0	0	37	20	41	52	31	24
Total number of inspected audit organizations	824	1457	1248	1361	1266	1592	1604	1702	1517
Total number of audit organizations	4578	5604	5800	7011	7284	7605	7752	7976	8128
Proportion of inspected audit organizations out of the total number of audit organizations in China	18%	26%	22%	19%	17%	21%	21%	21%	19%
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021
Inspection by the local CPA association	1486	1438	1381	1248	1262	1236	1296	-	1000
CICPA inspection	29	29	27	14	5	5	5	-	0
Total number of inspected audit organizations	1515	1467	1408	1262	1267	1241	1301	-	1000
Total number of audit organizations	8209	8295	8374	8460	8605	9005	9393	9825	10142
Proportion of inspected audit organizations out of the total number of audit organizations in China	18%	18%	17%	15%	15%	14%	14%	-	10%

Source: compiled by the author based on data from CICPA¹⁷¹

From Table 2.11 and Figure 2.5, it can be seen that the total number of audit organizations inspected by the CICPA shows an increasing trend every year, while the proportion of the number of inspected audit organizations out of total number of audit organizations within China shows a decreasing trend from year to year, with a very clear decrease from 2012 onwards. On the one hand, this is due to the fact that after the implementation of new auditing standards in 2010, the audit quality of audit organizations has improved, although the coverage of the practice quality inspection of audit organizations by the CICPA has gradually increased, to an average of 18%, due to the rapid growth of the number of audit organizations, the practice quality of audit organizations has improved and the efficiency

¹⁷⁰ Fu Dong. Regulations and regulatory documents for certified public accountants - Opinions of the Chinese Institute of Certified Public Accountants on improving and strengthening the supervision of the profession // China State Finance Magazine. 2011.P.602-603.

¹⁷¹ The Chinese institute of certified public accountants. Official website. URL: https://www.cicpa.org.cn/ztzl1/Industry_regulation/zxzyzljctg/ (accessed: 09. 05.2023).

of the CICPA has improved.

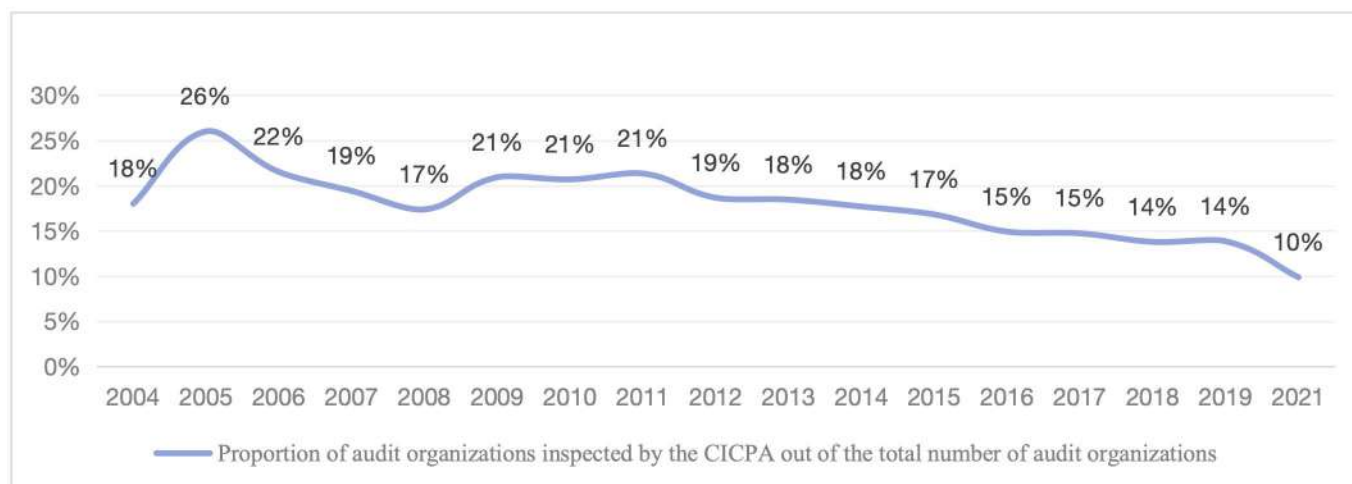


Figure 2.5 Proportion of audit organizations inspected by the CICPA out of the total number of audit organizations in China in 2004-2021

Source: compiled by the author

Analysis of the number and types of penalties before and after the implementation of auditing standards. For the 2004 and 2005 quality of practice audits, the CICPA disclosed only the total number of audit organizations that were disciplined and did not disclose specific types of penalties. For the remaining years, specific types of disciplinary penalties were disclosed. Table 2.13 shows the industry disciplinary penalties issued by the CICPA for audit organizations in each year.

Table 2.12 Industry discipline on practice quality inspection by the CICPA in 2006-2021

Year	2006	2007	2008	2009	2010	2011	2012	2013	Итого	Доля
Industry notice and criticism	111	102	101	89	57	48	50	37	595	56%
Public Reprimand	34	54	32	32	15	15	21	25	228	22%
Discipline	0	3	0	0	53	25	52	99	232	22%
Total	145	159	133	121	125	88	123	161	1055	100%
Year	2014	2015	2016	2017	2018	2019	2000	2021	Итого	Доля
Criticism in the industry	47	42	46	51	46	40	-	57	329	46%
Public Reprimand	16	18	12	23	23	26	-	53	171	24%
Discipline	27	26	26	26	28	30	-	56	219	30%
Total	90	86	84	100	97	96	-	166	719	100%

Source: compiled by the author

Table 2.12 shows that the CICPA applies three main types of penalties to audit organizations: industry notice and criticism, public reprimand, and discipline. Among them, public reprimand is the

most serious penalty, and industry notice and criticism is the most used penalty, with a proportion of 52%.

As can be seen in Figure 2.6, there is an overall downward trend in the number of industry disciplinary penalties imposed by the CICPA on audit organizations. Prior to the implementation of auditing standards in 2010, the number of penalties imposed by the CICPA on audit organizations fluctuated steadily, and the number of penalties has been declining since 2006. Since the implementation of the new auditing standards in 2010, the number of audit organizations penalized has reached 161 and 166 in 2013 and 2021. However, as the scale and intensity of CICPA inspections decreased each year, the number of audit organization penalties showed a stable trend. This shows that since the implementation of auditing standards in 2010, the number of audit organizations subjected to industry disciplines has indeed decreased and audit risk has decreased.



Figure 2.6 CICPA penalty auditing organizations from 2006 to 2021

Source: compiled by the author

The analysis of the overall implementation and efficiency of the auditing standards in 2010 and the impact of the implementation of the standards on the regulatory penalties imposed on audit organizations shows that the Ministry of Finance of the People's Republic of China, the CSRC and CICPA are the main regulators of the audit practice quality in China, with other departments such as the National Audit Office playing a supporting regulatory role. In terms of the scope of regulation, the Ministry of Finance and the CICPA have the broadest scope of regulating audit organizations. In terms of severity of penalties, the Ministry of Finance has the harshest penalties, which can revoke an audit organization's license and an auditor's license to practice auditing. This is followed by the CSRC, with the

harshest penalties being suspension from the audit industry and debarment from the securities market. The CICPA uses industry disciplinary measures because it is the industry's self-regulatory organization, so the CICPA's penalties are weaker than those of the Ministry of Finance and the CSRC, which have public reprimand as their most severe penalty. However, all three organizations use less severe penalties.

From the comparative analysis of penalties before and after the implementation of the auditing standard it can be concluded, on the one hand, the regulatory authorities have strengthened control over the audit quality, and the control scope is increasing every year. The Ministry of Finance has been conducting annual random quality inspections of audit organizations' practice quality since 1998, gradually increasing from 82 at the beginning to 1,705 in 2021. CICPA has implemented the system of practice quality inspection of audit organizations since 2004, and the average number of audit organizations inspected annually has reached 18%, especially after the implementation of new auditing standards in 2010, to ensure the implementation of new standards, regulators have focused on strengthening the practice quality control of audit organizations.

On the other hand, the number of regulatory penalties imposed on audit organizations tends to decrease, although the intensity and scope of penalties imposed by various regulators are increasing. After the implementation of the 2010 auditing standards, the Ministry of Finance and the CICPA demonstrate a downward trend in the number of penalties imposed on audit organizations. There is also a downward trend in the penalties imposed by the CSRC, but these data are not representative due to the small amount of data available after implementation of the standard. It is clear that the implementation of the 2010 auditing standards did reduce the number of regulatory penalties imposed on audit organizations and reduced the risk of administrative penalties and industry disciplinary actions against audit organizations.

Condition on implementation of Chinese new auditing standards. The new audit reporting standards have improved the informativeness and transparency of audit opinions. The auditor's report is the culmination of the auditor's work and reflects not only the results of the audit work but also the reliability of the financial information of the enterprise¹⁷². Under the influence of the revision of international standards on auditing in December 2016. The Ministry of Finance issued 12 standards, including No.1504 — "Communicating key audit matters in the independent auditor's report". The new auditing standards establish new disclosure requirements for audit opinions. The most significant aspect

¹⁷² Chen Kaifeng. The impact of changes in new auditing reporting standards on information disclosure// National Circulation Economy.2022.№18.P.154-156.

of this revision to auditing standards is the addition of a paragraph on key audit matters, followed by changes to the going concern paragraph, emphasis of matter paragraph, and other matters paragraph¹⁷³. Auditing Standard No.1504 specifies that for audit engagements of companies with A+H shares for use on the mainland, the new auditing standard should be applied as of January 1, 2017. For audit engagements to audit the financial statements of companies with shares traded on the Shanghai and Shenzhen Stock Exchanges, the new auditing standard should be applied from January 1, 2018.

Communication on the fulfillment of key audit matters. In 2020, the 4,265 listed companies identified 8,152 key audit matters, an average of 1.91 matters per company. 37 listed companies did not report on key audit matters, of which 36 companies issued modification to the opinion in the independent auditor's reports that are not permitted to include key audit matters in accordance with 1502 — "Modifications to the opinion in the independent auditor's report". 1 company was qualified and the auditor determined that there were no other key audit matters to be included in the auditor's report other than those described in the basis for forming the auditor's report. During the period 2017-2019, the 3,759, 3,776, and 3,765 listed companies disclosed 7,789, 7,865, and 7,648 key audit matters, respectively, with an average number of key audit matters of 2.07, 2.08, and 2.03, respectively. Table 2.13 shows the distribution of the number of key audit matters disclosed by listed companies during 2017-2020.

Table 2.13 Distribution of the number of key audit matters disclosed by listed companies in 2017-2020

Number of key audit matters	Number of companies				Proportion			
	2017	2018	2019	2020	2017	2018	2019	2020
1	592	578	663	1122	15.75%	15.31%	17.61%	26.31%
2	2419	2423	2406	2470	64.35%	64.17%	63.90%	57.91%
3	651	667	622	606	17.32%	17.66%	16.52%	14.21%
4	82	100	64	63	2.18%	2.65%	1.70%	1.48%
5	12	8	9	4	0.32%	0.21%	0.24%	0.09%
6	3	0	1	0	0.08%	0.00%	0.03%	0.00%
Total	3759	3776	3765	4265	100%	100%	100%	26.31%

Source: compiled by the author based on data from CSMAR¹⁷⁴ and Accounting Yearbook of China 2020¹⁷⁵

¹⁷³ Tong Mei. Changes in the new auditing reporting standards and their impact// Times Business and Economics. 2019.№35.P.95-96.

¹⁷⁴ China Stock Market & Accounting Research Database. Официальный сайт. URL: <https://www.gtarsc.com> (дата обращения: 12.05.2023)

¹⁷⁵ Accounting Yearbook of China 2020. Official website. URL: <https://www.zgcnet.com/cjqk/zgkunj/index.html> (accessed: 12.05.2023)

As shown in Table 2.13, more than 97% listed companies disclosed 1-3 key audit matters after the implementation of the new auditor reporting standards in 2017-2020. Among them, the highest number of listed companies disclosed 2 key audit matters. The number of listed companies that disclosed 5 or more key audit matters in 2017-2020 was 15, 8, 10 and 4 respectively, accounting for less than 0.5%.

The coverage of key audit matters is mainly concentrated in high-risk audit areas such as income recognition, receivables, goodwill and inventory. From Table 2.14, it can be seen that the number of relevant key audit matters from 2017 to 2020 is 5,616, 5,820, 5,762 and 6,531 respectively, which account for more than 70% of the total, with an increasing trend every year.

Table 2.14 Main fields of distribution of key audit matters from 2017 to 2020

Key audit matters	2017	2018	2019	2020
Income	2,575	2,628	2,708	3,375
Accounts receivable	1,391	1,367	1,313	1,520
Commercial reputation	850	1,047	988	890
inventory (of material)	800	778	753	746
Total of the first four rows	5,616	5,820	5,762	6,531
Total key audit matters	7,789	7,865	7,648	8,152
Proportion	72.10%	74.00%	75.34%	80.12%

Source: compiled by the author based on data from China Accounting Yearbook 2020¹⁷⁶

In terms of the industry distribution of key audit matters for listed companies in 2020, the highest number of key audit matters was mainly in four industries, such as manufacturing, information transmission, software and information technology services, wholesale and retail trade, and financial industry (see Table 2.15). Of these industries, the average number of key audit matters disclosed in the financial industry was 2.37. It also indicates that the change in the number of key audit matters is an important reflection of changes in the operating and financial environment of listed companies, on the basis that auditing standards require the identification of key audit matters.

¹⁷⁶ Accounting Yearbook of China 2020. Official website. URL: <https://www.zgcznet.com/cjqk/zgkjnj/index.html> (accessed: 16. 05.2023)

Table 2.15 Industry distribution of key audit matters for listed companies in 2020

Industry	Number of key audit matters	Number of listed companies	Average number
Production	5,213	2,762	1.89
Information transmission, software and information technology services	654	356	1.84
Wholesale and retail trade	328	173	1.90
Financial services	289	122	2.37
Real estate	242	120	2.02
Production and supply of electricity, heat, gas and water	214	120	1.78
Construction	199	103	1.93
Transportation, warehousing and postal services	186	106	1.75
Management of water resources, environment and public facilities	147	79	1.86
Mining	143	78	1.83
Research and technical services	130	66	1.97
Rental and business services	119	62	1.92
Culture, Sports and Entertainment	114	60	1.90
Agriculture, forestry, livestock and fisheries	91	48	1.90
Integrated areas	23	13	1.77
Education	22	12	1.83
Health and social work	22	13	1.69
Accommodation and food	14	8	1.75
Housing, repair and other services	2	1	2.00
Total	8,152	4,302	1.89

Source: compiled by the author based on data from China Accounting Yearbook 2020¹⁷⁷

Thus, the implementation of the new auditor reporting standards has increased and improved both the information content of the auditor's report and the quality of the audit, but there are still some shortcomings. First, the number of key audit matters was generally low, with some industries averaging only one key audit matter. According to the 1504 Application Guidelines, the auditor's decision-making process for determining key audit matters is to screen out a smaller number of matters from those that have been communicated to management. If "fewer" becomes generally accepted, it could lead to questions from stakeholders about the informativeness of the auditor's report. Second, the reasons for identifying key audit matters and the description of audit measures are too standardized, and the key audit

¹⁷⁷ Accounting Yearbook of China 2020. Official website. URL: <https://www.zgcznet.com/cjqk/zgkjj/index.html> (accessed: 16. 05.2023)

matters in the same industry are usually very similar and are not related to the actual situation of the enterprise or do not reflect the industry characteristics, so the information value of key audit matters is greatly reduced. Thus, the level of communication of key audit matters needs to be further improved.

Conclusion to Chapter 2

This chapter explores the evolution of Chinese auditing standards to reveal the existing features and innovations. Comparison is made between Chinese auditing standards and international standards on auditing. It is confirmed that Chinese auditing standards have similar features in terms of content structure, guidelines and audit models with ISAs. Based on the research results, it was found that according to the characteristics of the transition process in China, the Chinese Institute of Certified Public Accountants (CICPA) has maintained the auditing standards of "Communications between predecessor and successor CPAs" and "Capital Verification". However, there are some aspects that need improvement, for example, there is no distinction between auditing standards and practice statements in the Chinese auditing standards system.

In addition, this chapter analyzes the overall effect of the implementation of auditing standards by using descriptive statistics and data comparison methods on listed companies in China's Shanghai and Shenzhen stock exchanges and the auditing organizations that audited them. Based on the use of the model, it is determined that the effect of the implementation of auditing standards in 2010 is to reduce audit risk and improve audit quality. In addition, the analysis of the effect of the 2010 audit standards implementation on regulatory penalties imposed on audit organizations shows that the Ministry of Finance, CSRC and CICPA are the main regulators of the quality of audit practice in China, and the implementation of audit standards has indeed reduced the number of cases where audit organizations are penalized by regulators and reduced the risk of administrative penalties and industry discipline for audit organizations. Warnings and financial penalties are emphasized in the audit market regulation.

Following the implementation of the new audit report standard issued in 2016, this chapter examines China's application of key audit matters disclosed by listed companies. It is determined that the amount of information in the audit report expands after the implementation of the new audit report standard.

CHAPTER 3. METHODOLOGY OF COMPARATIVE ANALYSIS OF AUDIT MARKETS IN CHINA AND RUSSIA

In recent years, the role of audit in ensuring the security of the economic information security is increasingly appreciated by all subjects of economic relations¹⁷⁸. However, with the rapid development of the audit market, what is the condition of scale and its regional development in China? What is the current development of the audit services market sector related to the audit of publicly important organizations? What features reflect the audit market in China compared with the audit market in Russia? These issues, which require urgent research, are attracting more and more attention of the scientific community. It is worth noting that although the number of audit organizations and auditors in China has increased dramatically in the short term, in terms of audit organization scale, the majority are small audit organizations¹⁷⁹. Thus, the most important aspect of this study in analyzing the development of the audit market in China and Russia is to analyze the statistical data of the audit market and construct a long time series of comparable indicators to analyze the overall situation, the scale of development and future development strategies of the audit industry in China and Russia.

Therefore, based on the statistical methodology of the audit services market proposed by the scholar E.M. Gutzeit¹⁸⁰, this study explores the basic conditions of the audit services market in China and Russia, the development of the scale of the audit services market, the dynamics of the audit services sector related to publicly important organizations, as well as present trends in the development of cooperation between the audit markets of Russia and China.

Statistical data on the audit services market in China started to be published in 2008, and statistical data on the audit services market in Russia since 2005. To maintain consistency, this study uses data on the audit services market in China and Russia for 2008-2021 and applies the statistical methodology of the audit services market proposed by E. M. Gutzeit. All data mentioned in this research are converted according to the exchange rate¹⁸¹ of the year published on the World Bank website, which is shown in Table 3.1.

¹⁷⁸ Liang Qijing, Zhang Li. Research on the impact of big data development on certified public accountants' audit// China Small and Medium Enterprises.2022.№03.P.98-99.

¹⁷⁹ Liu Li. Research progress and development direction of CPA audit// Modern Accounting.2020.№07.P.16-22.

¹⁸⁰ Gutzeit, E.M. On methodological improvement of statistics of the audit services market // Auditor. 2020. Т. 6, № 9. P. 10-19.

¹⁸¹ The official exchange rate is the rate determined by government authorities or the legal foreign exchange market. It is an annual average (the value of a unit of local currency against the US dollar) based on monthly averages.

Table 3.1 Changes in the exchange rate of USD-RMB/RUB in 2008-2021

Indicator	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
USD to CNY	6.95	6.83	6.77	6.46	6.31	6.20	6.14	6.23	6.64	6.76	6.62	6.91	6.90	6.45
USD to RUB	24.85	31.74	30.37	29.38	30.84	31.84	38.38	60.94	67.06	58.34	62.67	64.74	72.10	73.65

Source: compiled by the author based on World Bank data¹⁸²

3.1 Basic conditions of the audit market in China and Russia

The main development of the audit market in China and Russia. Due to the fact that not all the data on the audit services market in China are publicly available, this study, based on the methodology proposed by scholar E. M. Gutzeit, chooses mainly the following indicators: audit services volume in current prices; proportion of the audit services volume in GDP; audit services volume in comparable prices; proportion of audit income out of audit services volume; audit income in current prices; audit income in comparable prices; Income from non-audit services at current prices; Income from non-audit services at comparable prices¹⁸³.

Among them, indicators in rows 1 and 16 are obtained from the data website of the World Bank; data in rows 3, 7 and 10 are obtained from the websites of the CICPA and the Ministry of Finance. The data for Russia are obtained from the official website of the Ministry of Finance of RF, and the rest of the data are calculated. Basically, the calculation 6 rows of indicators in comparable prices refers to the calculation of the audit services volume after deducting the price change coefficient and is calculated using 2008 as the base period. The other indicators etc. can be derived from the corresponding indicators in comparable prices and the relevant indicators are shown in Table 3.2.

Table 3.2 Main indicators of the audit services market in China and Russia

Indicator		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1. GDP in current prices, trillion \$.	PRC	4.59	5.10	6.09	7.55	8.53	9.57	10.48	11.06	11.23	12.31	13.89	14.28	14.69	17.73
	RF	1.66	1.22	1.52	2.05	2.21	2.29	2.06	1.36	1.28	1.57	1.66	1.69	1.49	1.78
2. GDP in comparable prices, trillion \$.	PRC	4.59	5.03	5.56	6.09	6.57	7.09	7.61	8.14	8.70	9.30	9.92	10.52	10.75	11.65
	RF	1.66	1.20	1.31	1.41	1.40	1.38	1.15	0.71	0.65	0.76	0.73	0.72	0.63	0.64
3. audit services volume in current prices, billion \$.	PRC	4.46	4.64	5.54	6.81	8.08	8.96	9.59	10.53	10.54	10.53	11.99	12.69	13.88	16.39
	RF	2.02	1.56	1.62	1.73	1.65	1.62	1.40	0.92	0.85	0.95	0.93	0.88	0.83	0.84

¹⁸² World Bank. Official website. URL: <https://databank.worldbank.org/home.aspx> (accessed: 01. 06.2023).

¹⁸³ Gutzeit, E.M. The market of audit services: 2021 // Audit journal. 2022. № 3. С.11-22.

Table 3.2 (continued)

Indicator		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
4. Growth of audit services volume to previous year, %	PRC	-	4.01	19.36	22.94	18.65	10.87	7.03	9.87	0.01	-0.07	13.86	5.86	9.36	18.16
	RF	-	-22.5	3.47	6.93	-4.35	-1.80	-14.0	-34.1	-7.50	11.51	-1.69	-5.51	-5.81	1.33
5. proportion of the audit services volume in GDP, %	PRC	0.097	0.091	0.091	0.090	0.095	0.094	0.092	0.095	0.094	0.086	0.086	0.089	0.094	0.092
	RF	0.121	0.128	0.106	0.085	0.075	0.071	0.068	0.068	0.067	0.060	0.056	0.052	0.056	0.047
6. audit services volume in comparable prices, billion \$.	PRC	4.46	4.57	5.06	5.49	6.23	6.63	6.97	7.76	8.16	7.95	8.56	9.34	10.15	10.77
	RF	2.02	1.53	1.39	1.19	1.05	0.98	0.78	0.48	0.43	0.46	0.41	0.37	0.35	0.30
7. audit income in current prices, billion \$.	PRC	0.00	0.00	4.05	4.97	5.73	6.59	6.90	7.68	7.51	8.45	9.84	10.37	11.24	13.23
	RF	0.97	0.73	0.79	0.80	0.83	0.84	0.71	0.45	0.41	0.47	0.47	0.45	0.44	0.41
8. proportion of audit income out of audit services volume, %	PRC	0.00	0.00	73.07	72.95	70.98	73.51	71.99	72.87	71.33	80.22	82.09	81.75	81.02	80.71
	RF	48.0	46.5	48.7	46.0	50.0	51.6	50.6	49.2	48.7	49.6	50.1	50.9	52.7	49.3
9. audit income in comparable prices, billion \$.	PRC	0.00	0.00	3.70	4.01	4.42	4.88	5.01	5.65	5.82	6.38	7.03	7.64	8.23	8.69
	RF	0.97	0.71	0.68	0.55	0.52	0.50	0.40	0.24	0.21	0.23	0.20	0.19	0.18	0.15
10. Income from non-audit services at current prices, billion \$.	PRC	-	-	1.49	1.84	2.34	2.37	2.69	2.86	3.02	2.08	2.15	2.32	2.63	3.16
	RF	1.05	0.84	0.83	0.93	0.83	0.79	0.69	0.47	0.44	0.48	0.47	0.43	0.39	0.43
11. Income from non-audit services at comparable prices, billion \$.	PRC	-	-	1.36	1.49	1.81	1.76	1.95	2.10	2.34	1.57	1.53	1.71	1.93	2.08
	RF	1.05	0.82	0.71	0.64	0.52	0.47	0.39	0.24	0.22	0.23	0.20	0.18	0.17	0.15
12. Inflation rate using consumer price index, %	PRC	5.9	-0.7	3.2	5.6	2.6	2.6	1.9	1.4	2.0	1.6	2.1	2.9	2.4	1.0
	RF	14.1	11.6	6.8	8.4	5.1	6.8	7.8	15.5	7.0	3.7	2.9	4.5	3.4	6.7

Source: compiled by the author based on data of the World Bank, Ministry of Finance of the RF¹⁸⁴, CICPA¹⁸⁵, Ministry of Finance of the PRC¹⁸⁶

As shown in Table 3.2, the audit services volume in current prices in China increases from \$4.46 billion in 2008 to \$16.39 billion in 2021, with an average annual growth rate of 10.76%, which is much higher than the average inflation rate in China (2.46%). And the audit services volume in comparable prices increases from \$4.46 billion in 2008 to \$10.77 billion in 2021. Although the audit services volume in China is increasing, the growth rate tends to be first upward and then downward. The gradual slowdown in the growth rate, especially in 2017 saw negative growth, is due to the reform of the

¹⁸⁴ Ministry of Finance of the RF. Official website. URL: https://minfin.gov.ru/ru/performance/audit/audit_stat/mainindex/ (accessed: 01. 06.2023).

¹⁸⁵ The Chinese institute of certified public accountants. Official website.

URL: https://www.cicpa.org.cn/ztz11/Industry_regulation/zxxzyzljctg/ (accessed: 01. 06.2023).

¹⁸⁶ Ministry of Finance of the PRC. Official website. URL: <http://jdjc.mof.gov.cn/jianchagonggao/> (accessed: 01. 06.2023)

administrative approval system and commercial system in China, where the abolition of annual inspection of enterprises and the clearing of front-end intermediary services¹⁸⁷ have had some impact on the income of traditional audit services of small and medium-sized audit organizations¹⁸⁸. Regarding audit income in China, the proportion of audit income in audit services volume of China has been decreasing since 2008, and has been on an upward trend since 2017, and in 2021, audit income accounts for 80.71% of audit services.

Income from non-audit services in comparable prices declined slightly, although in recent years the Ministry of Finance of the PRC and the CICPA have been actively supporting the provision of non-audit services by audit organizations. At present, traditional audit services still dominate in the country.

In 2018, the CICPA revised the "Catalog of guidance on the practice of CPAs" to encourage audit organizations to actively develop other (non-core) services, and in order to encourage audit organizations to actively develop other (non-core) services, the CICPA identified the types of work they can engage in, which include 271 audit services, 149 consulting services, and 17 innovative activities (among which audit services account for less than 50%) on the accounting services demonstration bases¹⁸⁹. In addition, the CSRC requires listed companies to disclose the fees for non-audit services, which enhances the transparency of information in the audit market, but the development of non-audit services in China is not encouraging at present.

Compared to the development of the audit market in China, the audit services volume in current prices in Russia is decreasing from \$2.02 billion in 2008 to \$0.84 billion in 2021, with an average annual growth rate of -5.69%, which is much lower than the average inflation rate in Russia (7.45%). And the audit services volume in comparable prices decreases from \$2.02 billion in 2008 to \$0.3 billion in 2021. On the one hand, this is due to the impact of the exchange rate instability, and on the other hand, to the decrease in income as a result of the reduction in the number of audited economic entities. Among other things, the proportion of audit income in audit services volume in Russia overall has been on a downward trend since 2008, which naturally led to an increase in the proportion of non-audit services. However,

¹⁸⁷ Front-end intermediary services means the paid services that the department requires the applicant to entrust to enterprises, institutions, public organizations and other agencies (collectively referred to as intermediary service agencies) as a condition for obtaining administrative approvals in the performance of administrative approvals, as well as services such as analysis and evaluation entrusted by the administrative agency to intermediary service agencies, including various types of technical expertise, evaluation, assessment, appraisal, consulting, etc.

¹⁸⁸ Du Luxi. Research on the impact of new situation on CPA audit and response strategy // *Audit Vision*.2022.№07.P.14-18.

¹⁸⁹ Qing X, Wang H, Zhang X. Non-audit services, auditor independence and its economic consequences: review and prospect // *Accounting Forum*. 2018.Vol.17.№02.P.100-121.

these two indicators do not show a significant trend in 2008-2021. On the other hand, income from non-audit services in comparable prices continues to show a downward trend between 2008 and 2021. Since 2008, audit income remained at 49.42% while income from non-audit services accounted for 50.58% of the total income.

A comparative analysis of audit income in China and Russia shows that although there is an upward trend of audit income from year to year in China, traditional audit services still dominate, with audit income accounting for more than 80% of total income. In contrast, although the total audit income in Russia is on a downward trend, the proportion of audit income to total income is slightly decreasing, while the proportion of income from no-audit services is on an upward trend and will account for 50.7% of total income in 2021. This suggests that to promote the internationalization of the audit market in China, auditor assurance engagements should be carried out while increasing the proportion of non-audit services.

The scale of audit profitability in China and Russia. The scale of development of the audit market is not only an inevitable result of economic development, but also the market's need for the development of auditing activities. In particular, auditors play a significant role¹⁹⁰. Without a sufficient number of auditors, it is difficult to scale up the audit organization and develop other forms of services¹⁹¹. Therefore, to measure the overall scale of the audit services market by the number of auditors means to take into account the fact that the audit industry is characterized as an industry with intensive use of human capital. Thus, this study selects the indicators of average fees of audit organizations in China and Russia and investigates in the categories of small, medium and large audit organizations, which are of great importance to study the scale of audit market in China and Russia. In particular, it helps to improve the regulation of audit organizations and auditors. Due to the fact that the data on the grouping of audit organizations in China and Russia started to be published in 2010, this study selects the data for 2010-2021 as the research sample to examine the scale of the audit market in China and Russia. The research data are obtained from the official website of the Ministry of Finance of the RF, the website of the CICPA, the Ministry of Finance of the PRC and the CSMAR database. Specific indicators are summarized in Table 3.3.

¹⁹⁰ Lu W. On Audit Study in Economics // Teaching and Research.2014.№04.P.70-77.

¹⁹¹ Luo Yao. Research on the influence of auditors' industry expertise on external auditing of enterprises // Communication of Finance and Accounting.2022.№01.P.59-62.

Table 3.3 Some indicators of the audit services market on a scale basis

Indicator		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
1. Audit income in current prices, billion \$.	PRC	4.05	4.97	5.73	6.59	6.90	7.68	7.51	8.45	9.84	10.37	11.24	13.23	
	RF	0.79	0.80	0.83	0.84	0.71	0.45	0.41	0.47	0.47	0.45	0.44	0.41	
2. Audit income in comparable prices, billion \$.	PRC	3.70	4.01	4.42	4.88	5.01	5.65	5.82	6.38	7.03	7.64	8.23	8.69	
	RF	0.68	0.55	0.52	0.50	0.40	0.24	0.21	0.23	0.20	0.19	0.18	0.15	
3. Number of audit organizations, thousand units.	PRC	6.97	7.10	7.21	7.29	7.32	7.29	7.38	7.43	7.88	8.22	8.63	8.87	
	RF	6.3	6.2	5.7	5.5	5.3	5.1	5.0	4.8	4.7	4.5	4.2	3.9	
Audit income in current prices, billion \$.	4. Small AO	PRC	1.34	1.20	1.38	1.71	1.56	1.61	1.62	1.86	2.01	2.03	2.19	2.43
		RF	0.211	0.200	0.192	0.180	0.163	0.107	0.096	0.115	0.109	0.108	0.107	0.095
	5. Medium AO	PRC	0.77	0.59	0.69	0.83	0.74	0.92	1.00	1.24	1.60	1.73	1.81	2.13
		RF	0.133	0.135	0.124	0.121	0.080	0.049	0.047	0.057	0.051	0.055	0.049	0.048
	6. Large AO	PRC	1.89	3.18	3.67	4.05	4.60	5.14	4.90	5.34	6.22	6.61	7.25	8.68
		RF	0.444	0.460	0.511	0.538	0.464	0.296	0.271	0.300	0.308	0.286	0.282	0.272
Audit income in comparable prices, billion \$.	4. Small AO	PRC	1.23	0.97	1.07	1.27	1.14	1.19	1.25	1.41	1.44	1.50	1.60	1.59
		RF	0.18	0.14	0.12	0.11	0.09	0.06	0.05	0.06	0.05	0.05	0.04	0.03
	5. Medium AO	PRC	0.70	0.48	0.53	0.61	0.54	0.68	0.77	0.94	1.15	1.27	1.32	1.40
		RF	0.114	0.093	0.079	0.073	0.045	0.026	0.024	0.027	0.022	0.023	0.021	0.017
	6. Large AO	PRC	1.73	2.56	2.82	3.00	3.34	3.79	3.79	4.03	4.44	4.87	5.30	5.70
		RF	0.38	0.32	0.32	0.32	0.26	0.15	0.14	0.14	0.13	0.12	0.12	0.10
Number of audit organization, units.	4. Small AO	PRC	6639	6728	6776	6801	6834	6720	6801	6823	7130	7407	7755	7920
		RF	5513	5413	5130	4917	4828	4672	4540	4358	4263	4095	3818	3533
	5. Medium AO	PRC	298	332	385	441	434	516	529	565	696	761	815	899
		RF	706	707	502	517	408	367	395	379	371	342	319	308
	6. Large AO	PRC	34	44	44	46	48	49	48	46	49	51	55	51
		RF	82	81	68	66	64	61	65	62	66	63	63	59
Average fees in current prices, million \$.	4. Small AO	PRC	0.202	0.178	0.204	0.252	0.229	0.240	0.238	0.273	0.282	0.274	0.282	0.306
		RF	0.038	0.037	0.037	0.037	0.034	0.023	0.021	0.026	0.025	0.026	0.028	0.027
	5. Medium AO	PRC	2.58	1.79	1.78	1.88	1.70	1.79	1.89	2.20	2.31	2.27	2.22	2.37
		RF	0.19	0.19	0.25	0.23	0.20	0.13	0.12	0.15	0.14	0.16	0.15	0.16
	6. Large AO	PRC	55.7	72.2	83.3	87.9	95.9	105.0	102.1	116.0	127.0	129.6	131.7	170.1
		RF	5.42	5.70	7.47	8.15	7.30	4.84	4.17	4.80	4.68	4.54	4.48	4.65
Average fees in comparable prices, million \$.	4. Small AO	PRC	0.185	0.144	0.157	0.186	0.166	0.177	0.184	0.206	0.202	0.202	0.206	0.201
		RF	0.033	0.026	0.024	0.022	0.019	0.012	0.011	0.013	0.011	0.011	0.012	0.010
	5. Medium AO	PRC	2.356	1.445	1.374	1.390	1.233	1.314	1.464	1.661	1.646	1.674	1.625	1.555
		RF	0.162	0.132	0.157	0.140	0.110	0.070	0.061	0.072	0.060	0.068	0.064	0.056
	6. Large AO	PRC	50.9	58.2	64.2	65.1	69.7	77.3	79.0	87.6	90.7	95.5	96.4	111.8
		RF	4.66	3.94	4.74	4.90	4.09	2.52	2.12	2.31	2.05	1.92	1.89	1.68

Source: compiled by the author based on data of the World Bank, Ministry of Finance of the RF, CICPA, Ministry of Finance of the PRC, CSMAR

Table 3.3 shows that the number of auditors and audit organizations in China shows a steady

growth from 2010 to 2021 under the continuous economic development. In terms of the scale of audit organizations, small and medium audit organizations in China now account for more than 99% of the total number, and are still characterized by small scale and weak competitiveness. In terms of audit income of audit organizations, the audit income of large audit organizations in China far exceeds the audit income of small and medium audit organizations, which on average exceeds the audit income of medium audit organizations by 4.5 times and exceeds the audit income of small audit organizations by 2.9 times.

Certainly, in terms of average audit fees for audit organizations, average audit fees for small audit organizations show an increasing trend between 2010 and 2021, rising from \$202 thousand in 2010 to \$306 thousand in 2021. Medium audit organizations show a decreasing trend between 2010 and 2016, decreasing from \$2.58 million in 2010 to \$1.89 million in 2016, a decrease of \$0.69 million. There is then an increase between 2017 and 2021, with average audit fees for medium audit organizations reaching \$2.37 million in 2021, but still below the average audit fee in 2010. In contrast, the average audit fees for large audit organizations in China show a significant increase from 2010 to 2021 and will reach \$170.1 million in 2021, which is three times higher than in 2010. This means that large audit organizations still dominate in China, although their share of the total number of audit organizations is relatively small. Of course, the analysis of the dynamics of audit fees should be conducted in comparable prices. As can be seen from Table 3.2, the trend of average audit fees for small audit organizations from 2010 to 2021 corresponds to the trend of average audit fees in current prices, which is generally steadily increasing. In contrast, average audit fees for medium audit organizations decrease monotonically from 2010 to 2016 and gain momentum from 2017 to 2021. Large audit organizations remain on a linear growth trend.

Thus, in recent years, the audit market in China has increased its expansion capacity, the number of large audit organizations has increased, along with a significant increase in their proportion of the audit industry and further concentration of market share. On the other hand, as the Ministry of Finance of the PRC encourages audit organizations to become larger and stronger, the scale of consolidation of audit organizations that can provide international audit services has also grown rapidly¹⁹².

Compared to the scale of the audit services market in China, the number of audit organizations and auditors in Russia monotonically decreases in 2010-2021, with the number of audit organizations decreasing from 6.3 thousand in 2010 to 3.9 thousand in 2021. In general, the number of large audit

¹⁹² Xu Hanyou. Has the development of accounting firms on a larger scale improved audit efficiency // Accounting Friends.2023. №02.P.2-11.

organizations does not change much in 2010-2021, accounting for about 1.2% of the total number, and the proportion of medium audit organizations shows a downward trend year by year. On the contrary, the proportion of small audit organizations increases slightly from 87.5% in 2010 to 90.6% in 2021. This is much the same as the scale proportion of audit organizations in China, where large audit organizations account for only 0.6% of the total number of audit organizations. The downward trend in the number of audit organizations and auditors in Russia is caused by the introduction of professional self-regulation of audit activities and the form of examinations, and according to the scholar I.N. Guzov, this downward trend will continue in the future¹⁹³.

From the perspective of audit income of audit organizations, the proportion of audit income of large audit organizations in the total audit income in Russia from 2010 to 2021 is 63%, which is 2.6 times higher than that of small audit organizations and 4.9 times higher than that of medium audit organizations, which is about the same as the average proportion of audit income of large, medium and small audit organizations in China. Among them, audit fees for small and medium audit organizations in Russia from 2010 to 2021 show a year-on-year decreasing trend, while large audit organizations show a slight increase from 2010 to 2013 from \$444 million in 2010 to \$538 million in 2013, an increase of \$94 million. However, it shows a decreasing trend from 2014, decreasing to \$272 million by 2021. This is in accordance with the overall level of audit income in Russia. As for the average audit fees for audit organizations, the average audit fees for large, medium and small audit organizations tend to increase and then decrease. Of course, in comparable prices, small audit organizations in Russia reached an average annual audit fee of \$16.9 thousand in 2010-2021, the average annual audit fee for medium audit organizations was \$96 thousand, and the average annual audit fee for large audit organizations reached \$3.07 million, which shows that large audit organizations still dominate the Russian audit market.

Thus, although the development of the audit industry in China has come under tremendous pressure in recent years, the development trend remains stable. Audit income has been growing steadily and shows concentration on large and medium audit organizations, reflecting the continuous expansion and steady development of audit organizations in performing basic audit services. In addition to traditional audit services, the audit services are expanding into non-audit services such as special audit services, accounting services and consulting services, which also reflects the expansion and innovation of

¹⁹³ Guzov, I.N. Audit in Russia: stages and factors of development // Socio-economic development of Russia and China through the eyes of Russian and Chinese economists. Saint Petersburg - Beijing : Scythia-Print, 2019. P. 159-174.

the credit enhancement function in the audit industry. Compared with Russia, although the audit service income in Russia shows a downward trend, the market proportion of large, medium and small audit organizations is about the same as that in China, which is still dominated by large audit organizations. In addition, the proportion of non-audit services in Russia is much higher than that in China, so China should carry out assurance assignments while increasing other types of engagement in order to promote the international development of China's audit market.

3.2 Audit of publicly important organizations

Analyzing audits of listed companies in China. Listed companies are an important part of China's social economy and play an integral and important role in China's social economy. The development of listed companies is directly related to the restructuring of China's economy, so it has always been of great concern. Since the establishment of Shenzhen Stock Exchange and Shanghai Stock Exchange, the audit industry has actively promoted the healthy development of the A-share stock market by providing audit services related to the issuance and listing, subsequent financing and periodic disclosure to investors. According to the statistics of the China Association for Public Companies (CAPCO), there were 4,774 listed companies with A-share listings in the Chinese stock market as of December 31, 2021¹⁹⁴. Table 3.4 shows that from 2010 to 2021, with the increase in the number of listed companies in China, the total assets and total market value of listed companies also tend to increase. Among them, the number of A-share listed companies serviced by audit organizations increases from 2241 in 2010 to 4774 in 2021, the total assets increase from RMB 86.39 trillion to RMB 348.85 trillion, and the total market capitalization increases from RMB 26.54 trillion to RMB 91.88 trillion.

Table 3.4 Statistics of listed companies with A-shares in 2010 - 2021

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Number of listed companies	2241	2485	2584	2536	2653	2842	3136	3513	3607	3814	4264	4774
Total assets (trillion RMB)	86.39	103.28	119.36	133.16	150.32	172.56	202.45	221.21	242.53	281.09	314.22	348.85
Total market capitalization (trillion RMB)	26.54	21.48	23.04	23.91	37.11	53.13	50.77	56.71	43.49	59.29	79.72	91.88

Source: compiled by the author based on data from CSMAR, Huxixintan¹⁹⁵

¹⁹⁴ Lin Jintian. Analysis of the characteristics of disclosure of key audit matters in audit reports of listed companies for 2017-2021 // The Chinese Certified Public Accountant.2023.No03.P.31-36.

¹⁹⁵ Huxixintan. [Electronic resource] URL: <http://www.xindaoyi.com/market-value-of-gdp/> (accessed: 15. 08.2023)

In conclusion, as China's capital market reform deepens and the relevant system is further improved, the role of audit organizations as the "gatekeepers" of capital market disclosure becomes more prominent, and the above series of developments highlight that audit organizations play a more important role in verification, helping listed companies to improve their quality. Therefore, this study analyzes the financial statement audit of listed companies and the condition of the audit market in China by selecting indicators such as the number of listed companies disclosing annual audit reports, income from audit of listed companies' financial statements, total assets of listed companies, the fees per audit and Level of issuance of unmodified audit opinions, using 2010-2021 as the period. Table 3.5 summarizes the specific indicators, the income from auditing the financial statements of listed companies and the number of listed companies are taken from the CSMAR database, while the rest of the indicators are obtained by calculation.

Table 3.5 — Auditing of listed companies in China

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Income from audit of listed companies in current prices, million \$.	438.80	498.89	618.47	645.41	698.92	770.47	817.12	934.71	1073.0	1074.1	1156.2	1667.4
Income from audit of listed companies in comparable prices, million \$.	400.73	402.51	476.52	477.91	507.80	567.24	632.68	705.96	766.1	791.0	846.0	1095.4
Total assets of listed companies in current prices, trillion \$.	12.76	15.98	18.91	21.49	24.47	27.71	30.47	32.73	36.66	40.69	45.53	54.09
Total assets of listed companies in comparable prices, trillion \$.	11.65	12.90	14.57	15.91	17.78	20.40	23.59	24.72	26.17	29.96	33.32	35.54
Number of audited listed companies	2241	2485	2584	2536	2653	2842	3136	3513	3607	3814	4264	4774
the fees per audit of listed companies in current prices, thousand \$.	195.81	200.76	239.35	254.50	263.45	271.10	260.56	266.07	297.49	281.62	271.16	349.26
the fees per audit of listed companies in comparable prices, thousand \$.	178.82	161.97	184.41	188.45	191.41	199.59	201.75	200.96	212.40	207.39	198.41	229.44
Average total assets in current prices, billion \$.	5.69	6.43	7.32	8.47	9.22	9.75	9.72	9.32	10.16	10.67	10.68	11.33
Average total assets in comparable prices, billion \$.	5.20	5.19	5.64	6.28	6.70	7.18	7.52	7.04	7.26	7.86	7.81	7.44
Level of issuance of unmodified audit opinions,%	94.5	95.2	96.2	96.5	96.3	96.4	96.6	96.3	93.8	92.8	93.9	94.6

Source: compiled by the author based on data from CSMAR

Table 3.5 shows that as of June 30, 2021, a total of 4,774 listed companies have disclosed the fees of the auditing organization that issued the annual audit report. From a total audit income perspective, total audit income from financial statement audit shows a significant upward trend from 2010 to 2021, increasing from \$438.8 million in 2010 to \$1,667.4 million in 2021, with an average annual growth rate of 13%, which is mainly in line with the average annual growth rate of audit income and at the same time due to the increase in their number.

Total income from financial statement audit in comparable prices also shows a growth trend with an average annual growth rate of 10%, which is similar to the average GDP growth rate in China. In terms of the fee per audit in current prices and comparable prices, it per financial statement audit of listed companies maintains a continuous growth from 2010 to 2021, except for a slight decrease in 2019 due to the impact of viral infection in the country. Based on analyzing the change in total assets of listed companies from 2010 to 2021, there is an even growth trend in total assets of listed companies, which reached \$54.09 trillion by 2021, with an average annual growth rate of 14%. At the same time, the average annual growth rate of total assets of listed companies in comparable prices also reached 11%; the average assets of listed companies reached \$9.37 billion in current prices and \$6.9 billion in comparable prices. The fee per audit of listed companies reached \$26.87 million in current prices and \$19.78 million in comparable prices. Thus, the fees per audit of listed companies, representing 2.86% of average total assets, indicates that audit fees are positively related to asset scale in China - the larger the scale of assets, the higher the audit fees. Meanwhile, as the scale of listed companies increases, the ratio of audit fees to total assets of the company decreases significantly; the larger the scale of listed companies' assets, the greater the complexity and scope of audit activity, and the decrease in the ratio affects the audit quality of listed companies¹⁹⁶.

Focus on unmodified audit opinions issued by audit organizations in China. Their proportion from 2018-2021 shows an increasing trend at first and then a decreasing trend; the average proportion, which reached 96.6% in 2016, fell to 92.2% in 2019, becoming the lowest in the 10-year period. In contrast, the number and proportion of modified audit opinions in 2018-2021 reached the highest on historical level. A modified audit opinion issued by an audit organization indicates that there are significant issues in a listed company's financial statements or that the audit organization was unable to

¹⁹⁶ Chen S. Analysis of the current situation and development strategy of listed company auditing. *Chinese Industry & Economy*.2023;(02):67-69.

obtain sufficient and appropriate audit evidence due to limitations in the scope of the audit, which is a signal of significant risk in its financial statements¹⁹⁷. Reasons for audit organizations to issue modified audit opinions include questionable income recognition, poor reasonableness and accuracy of accounts receivable estimates, significant uncertainties regarding going concern, and pending litigation indicating that the companies' financial statements are not of high quality and the accounting framework needs to be strengthened¹⁹⁸.

The international audit and consulting groups of the "Big Four" have stable clients in China, and with the huge market driven by China's economic development, they have shown rapid growth in business income and have consistently ranked in the top 4 in terms of business income from 2010 to 2021, with a high degree of competitive advantage. Therefore, compare the audit volumes of listed companies audited by international audit and consulting groups (the "big four"), China's "top 10" audit firms and the rest of the audit organizations. Using 2010-2021 as the time period, in order to analyze the status of audit organizations serving listed companies, the following indicators are selected to analyze the audit income of the international "Big Four", the audit income of China's Top-10 audit organizations, the number of served listed companies, the average audit fee of listed companies and level of issuance of unmodified audit opinions, the data are taken from the CSMAR database. Among them, the specific indicators are shown in Table 3.6.

¹⁹⁷ Liu Yali. Statistics of the audit services market in China // Uchet. Analiz. Audit = Accounting. Analysis. Auditing. 2023.T.10.№6.P.82-92.

¹⁹⁸ Wang X. Analysis of Opinion Types of Audit Reports of Listed Companies and Audit Response // The Chinese Certified Public Accountant. 2023.№01.P.76-81.

Table 3.6 Statistics on audit organizations serving listed companies in China

Indicator		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Income from audit of listed companies in current prices, million \$.	Big Four	256.58	266.95	298.45	289.41	290.20	301.54	298.77	328.18	403.16	394.53	399.26	447.82
	Top 10 AOs in China	104.71	130.93	200.48	234.76	299.25	343.10	390.16	448.18	486.90	508.87	573.31	998.57
	Other AOs	77.52	101.01	119.54	121.23	109.46	125.82	128.19	158.35	182.97	170.68	183.65	220.99
Income from audit of listed companies in comparable prices, million \$.	Big Four	234.31	215.38	229.95	214.30	210.85	222.00	231.33	247.87	287.85	290.54	292.15	294.19
	Top 10 AOs in China	95.62	105.64	154.47	173.84	217.42	252.60	302.09	338.50	347.64	374.74	419.50	656.00
	Other AOs	70.79	81.49	92.10	89.77	79.53	92.63	99.25	119.60	130.64	125.69	134.39	145.18
the number of served listed companies	Big Four	138	158	160	155	161	174	190	216	239	283	319	355
	Top 10 AOs in China	1,059	1,155	1,386	1,492	1,742	1,852	2,135	2,345	2,385	2,584	2,924	3258
	Other AOs	1,044	1,172	1,038	889	750	816	811	952	983	947	1,021	1161
the fees per audit of listed companies in current prices, thousand \$.	Big Four	1,859.2	1,689.5	1,865.3	1,867.2	1,802.5	1,733.0	1,572.5	1,519.3	1,686.9	1,394.1	1,251.6	1,261.5
	Top 10 AOs in China	98.87	113.36	144.65	157.35	171.79	185.26	182.75	191.12	204.15	196.93	196.07	306.50
	Other AOs	74.25	86.18	115.16	136.37	145.95	154.19	158.06	166.34	186.13	180.23	179.88	190.35
the fees per audit of listed companies in comparable prices, thousand \$.	Big Four	1,697.9	1,363.1	1,437.2	1,382.6	1,309.6	1,275.9	1,217.5	1,147.5	1,204.4	1,026.6	915.8	828.7
	Top 10 AOs in China	90.29	91.46	111.45	116.51	124.81	136.40	141.50	144.35	145.76	145.02	143.47	201.35
	Other AOs	67.81	69.53	88.73	100.98	106.04	113.52	122.38	125.63	132.90	132.73	131.62	125.05
Level of issuance of unmodified audit opinions,%	Big Four	99	98	98	99	98	100	99	99	99	97	99	99
	Top 10 AOs in China	95	95	96	96	96	96	97	97	95	94	96	96
	Other AOs	94	95	96	96	96	96	96	95	91	87	87	89

Source: compiled by the author based on data from CSMAR

As shown in Table 3.6, although the number of "Big Four" clients in China's listed company audit market is only 6.5% of the number of listed companies, the income from financial statement audit in current prices of "Big Four" listed companies in China shows an annual growth trend with an average annual growth rate of 5%. The average annual share of financial statement audit income of the "Big Four" companies in the total audit income of listed companies is 41%. In contrast, fees per audit of the "Big Four" listed companies on a comparable basis have declined year-over-year as the number of clients has increased, with fees per audit of listed companies declining from \$1,697.9 thousand in 2010 to \$828.7 thousand in 2021. Compared to the "Big Four" and the "top 10" Chinese audit firms, although the number of "top 10" clients is 61.9% of the number of listed companies, the average annual proportion of audit income is maintained at the same level as the "Big Four". Fees per audit, although showing an upward trend between 2010 and 2021, still has a significant gap compared to the "Big Four", whose fees are significantly higher than other audit organizations in China. Overall, the fees per audit of Chinese audit organizations (including the "top 10") show a year-on-year increase in contrast to the trend of the "Big Four".

In terms of the level of issued unmodified audit opinions, the proportion of unmodified audit opinions issued by the "Big Four" is 99%, while the proportion of unmodified audit opinions issued by China's "top 10" is 96%, which is slightly lower than that of the "Big Four", and the average annual percentage of the other audit organizations is only 93%. This is because the "Big Four" has more advanced audit technology, volunteer labor, so the audit quality is much higher than the other Chinese audit organizations. On the contrary, the proportion of unmodified audit opinions of Chinese audit organizations in the period of 2010-2021 shows a decreasing trend, which also indicates that the audit quality of Chinese audit organizations is also gradually improving.

The choice of "Big Four" auditors by large listed companies is that most of them are involved in international business and need audit organizations with international experience to provide more professional services in order to be recognized by international investors¹⁹⁹. On the other hand, these large clients need not only audit services provided by audit organizations, but also need them to provide more internal control auditing and other services, especially in the financial industry, and the "Big Four" have an advantage in this regard.

¹⁹⁹ Gao Xinzhi, Sun Yanyang. Review and prospect of "international Big Four" research: influencing factors, audit behavior and economic consequences// China Certified Public Accountants. 2022.No09.P.25-29.

Audit of publicly important organizations in Russia. Data on the audit of publicly important organizations in Russia began to be published in 2016, so this study chooses the analysis of publicly important organizations audit in Russia for 2016-2021 based on the research methodology of scholar E. M. Gutzeit²⁰⁰. The indicators of audit income, average fees for the audit of publicly important organizations in current and comparable prices were selected. The analysis of the audit market in Russia with regard to publicly significant organizations was carried out in the context of large, medium and small audit organizations, where the relevant data were partially obtained from the official website of the Ministry of Finance of RF and calculated. The indicators are presented in Table 3.7.

Table 3.7 Audit of publicly important organizations in Russia

Indicator		2016	2017	2018	2019	2020	2021
Audit income from publicly important organization in current prices, million \$.	Throughout the RF	263.12	273.47	210.03	186.11	177.78	180.98
	Small AO	9.74	11.21	8.61	7.26	6.58	5.97
	Medium AO	11.84	12.31	10.29	8.75	8.18	8.69
	Large AO	241.55	249.95	191.13	170.10	163.02	166.50
Audit income from publicly important organization in comparable prices, million \$.	Throughout the RF	133.53	131.70	91.95	78.90	74.85	65.40
	Small AO	4.94	5.40	3.77	3.08	2.77	2.16
	Medium AO	6.01	5.93	4.51	3.71	3.44	3.14
	Large AO	122.58	120.38	83.68	72.12	68.64	60.16
Number of audited publicly important organization, units.	Throughout the RF	3940	3553	3295	2983	2973	2946
	Small AO	1722	1556	1364	1175	1018	922
	Medium AO	977	867	827	743	815	822
	Large AO	1241	1130	1104	1065	1140	1205
Average audit fees for publicly important organization in current prices, thousand \$.	Throughout the RF	66.8	77.0	63.7	62.4	59.8	61.4
	Small AO	5.7	7.2	6.3	6.2	6.5	6.5
	Medium AO	12.1	14.2	12.4	11.8	10.0	10.6
	Large AO	194.6	221.2	173.1	159.7	143.0	138.2
Average audit fees for publicly important organization in comparable prices, thousand \$.	Throughout the RF	33.9	37.1	27.9	26.5	25.2	22.2
	Small AO	2.9	3.5	2.8	2.6	2.7	2.3
	Medium AO	6.2	6.8	5.4	5.0	4.2	3.8
	Large AO	98.8	106.5	75.8	67.7	60.2	49.9

Source: compiled by the author based on the data of the Ministry of Finance of the RF

As shown in Table 3.7, audit income from publicly important organizations in Russia generally tends to decline from 2016 to 2021, where audit income from publicly important organizations in 2016 was \$263.12 million, briefly increased to \$273.47 million in 2017, increasing by \$10.35 million, and

²⁰⁰Gutzeit, E.M. Improvement of statistics, analysis and regulation of audit of publicly important organizations // Audit. 2020. № 7.P. 4-9.

since 2018 there has been a significant decline with an average annual growth rate of -9%. Specifically, the \$3.2 million increase in 2021 compared to 2020 at current prices can be attributed to the total number of audit clients.

The significant decrease in audit income from publicly traded organizations in Russia in comparable prices is likely due to financial sanctions on Russia after 2014 and exchange rate changes. In terms of audit organization scale, large audit organizations dominate the proportion of income from audits of publicly important organizations, accounting in annual average terms for 91.6% of total audit income in 2016-2021, while the industry contribution of small and medium audit organizations is only 8.4% of total income, with small audit organizations accounting for only 3.78%. In terms of the number of clients served by audit organizations, the number of clients of small audit organizations has almost doubled in Russia as a whole over the period 2013-2021, and in 2021 the number of clients of small audit organizations has almost tripled compared to 2013. However, the number of clients of large audit organizations remains largely stable.

As for the average fee for the audit of publicly important organizations, in general, the trend of change in the average fee for the audit of publicly important organizations corresponds to the trend of change in the average audit fee in general. Table 3.5 shows that there is a definite downward trend for audit organizations in general, large and medium audit organizations. However, small audit organizations show a slight upward trend in average audit fees, which may be a transitory increase due to changes in the number of clients served, but because of their small proportion of audit income, these organizations are not representative of changes in the overall audit market for publicly important organizations.

Thus, the analysis of the audit of publicly important organizations in Russia concludes that the audit market in Russia, audit organizations serving the sector of publicly important organizations are mainly large audit organizations, which significantly outnumber small and medium audit organizations. However, it also indicates more favorable conditions for market development and that large audit organizations have better technical methods and are more competitive than small and medium audit organizations.

For an in-depth analysis of the scale of the overall audit services market in Russia, this study constructs Table 3.8, in which audit income and the number of audited organizations and income from the audit of publicly important organizations are given on the basis of data from the Ministry of Finance of RF, while audit income and the number of other economic entities are obtained by calculation.

Table 3.8 Audit of publicly important organizations in comparison with the audit of other economic entities

Indicator	2016	2017	2018	2019	2020	2021
Audit income in current prices, billion \$.	414.69	470.98	467.68	448.95	437.80	414.99
Audit income in comparable prices, billion \$.	210.45	226.82	204.75	190.34	184.33	149.95
Audit income from publicly important organization in current prices, million \$.	263.12	273.47	210.03	186.11	177.78	180.98
Audit income from publicly important organization in comparable prices, million \$.	133.53	131.70	91.95	78.90	74.85	65.40
Audit income from the other economic entities in current prices, million \$.	281.16	339.28	375.73	370.05	362.95	349.60
Audit income from the other economic entities in comparable prices, million \$.	76.92	95.12	112.79	111.44	109.48	84.56
Number of audited organizations, units.	74537	78087	78688	80118	88832	76480
Number of audited publicly important organization, units.	3940	3553	3295	2983	2973	2946
Number of audited other economic entities, units.	70597	74534	75393	77135	85859	73534
Average audit fees for publicly important organization in current prices, thousand \$.	66.78	76.97	63.74	62.39	59.80	61.43
Average audit fees for publicly important organization in comparable prices, thousand \$.	33.9	37.1	27.9	26.5	25.2	22.2
Average audit fees for other economic entities in current prices, thousand \$.	3.98	4.55	4.98	4.80	4.23	4.75
Average audit fees for pother economic entities in comparable prices, thousand \$.	1.09	1.28	1.50	1.44	1.28	1.15

Source: compiled by the author based on the data of the Ministry of Finance of the RF

As shown in Table 3.8, in terms of proportion of total audit income in Russia, audit income for publicly important organizations significantly decreases during 2016-2021, reaching 63.4% in 2016, decreasing to 40.6% in 2020. Compared with 2020, there is an upward trend in 2021, increasing by 3%. On the contrary, audit income from other economic entities demonstrates an upward trend in 2016-2021. At the same time, in 2016-2021, average audit fees for publicly important organizations in comparable prices show a general downward trend and average \$28.8 thousand per year. This may be due to the

change in the number of publicly significant organizations. For the other economic entities, the average audit fees in 2016-2021 do not show a significant trend in both current and comparable prices and remain mostly at the average level. Thus, it also indicates that if the audit income from publicly important organizations continues to decline in the future, it will seriously affect the overall development of the audit market in Russia.

Thus, the total audit income of financial statement audit of listed companies in China shows an upward trend, but the international firms "Big Four" occupy the dominant share, and the "Top 10" domestic auditing firms have an equal proportion of income with them, while the other auditing firms in China account for about 20%. In terms of average audit fees, the fee level of the international "Big Four" is much higher than that of Chinese audit organizations, and the audit quality is also higher due to the advanced technological level. However, with the support of Chinese policies, the average audit fees of Chinese audit organizations are also gradually increasing, and the audit quality is gradually improving. In Russia, the audit income from publicly important organizations shows a downward trend with a decrease in total audit income, which is partly due to the impact of sanctions and partly may be due to the decrease in the number of audit clients. In terms of average audit fees, large audit organizations continue to dominate, a situation similar to that of the listed company audit market in China.

3.3 Trends of cooperation development in the audit market of China and Russia

With the rapid economic development of China and Russia, the audit market is also developing. This research makes a comparative analysis of the audit markets in China and Russia to identify both similarities and differences in the process of their development. In general, the audit market in China has shown continuous growth, while in contrast, the audit market in Russia has mainly shown continuous decline. But in terms of the scale of audit organizations, both China and Russia show a concentration of audit services in large audit organizations. In terms of audit services volume, Russia has a balanced development of audit services and non-audit services, while China is still dominated by traditional audit services, with non-audit services accounting for only 20%.

In the process of developing independent auditing in China, government regulators have played an important role in promoting major regulatory policies, such as rebuilding the audit system, "unbundling

and restructuring" audit organizations, and consolidating audit organizations²⁰¹. In general, these regulatory measures have promoted the rapid development of the audit market in China and maintained competition in the independent audit market in China. However, in the process of the development of the audit market in China, many regulatory measures were introduced which were not mature enough and had a certain negative impact on the development of the audit market, and preserving old audit techniques in audits of state-owned organizations. Industry self-regulation is somewhat lacking in China, resulting in weak day-to-day regulation of the independent audit industry and excessive government regulation.

The construction of Chinese auditing standards, which are the result of obligatory auditing changes, auditing standards are formulated and revised to maintain convergence with international auditing standards. Foreign audit has a long history of development, and in the process of continuous practice, different problems will arise in different historical periods, and audit standards need to be revised and improved according to the new situation to be able to meet the needs of the environment at that time and solve some problems arising at that time²⁰².

The background of the implementation of relevant auditing standards in China is not so much due to the need to solve real problems, but rather to see the changes in international standards and comprehend their practical application. If China does not speed up the development and revision of relevant auditing standards, it will lead to a widening gap with international auditing standards, so Chinese auditing standards are revised quite quickly. However, this affects the applicability of auditing standards in practice.

In addition, the supervision and management by the CICPA is not very powerful, and the regulatory measures for the industry are not strict. For example, with regard to audit fees, the reality is that the Chinese audit industry faces unfairly low competition. Low audit fees play a role in limiting audit quality. As audit fees are too low, in order to make a profit, the audit organization certainly considers controlling related costs, one of the initiatives is to reduce audit procedures and reduce the investment of audit resources, which is seriously inconsistent with the requirements of auditing standards. However, the CICPA has issued a Notice on Strongly Combating and Regulating Unreasonable Low-Price Competition in the Audit Industry, which does not contain specific provisions on how to define unreasonable low-price

²⁰¹ Nan Hai. Research on the development trend of audit practice and audit risk control of CPA // The Chinese Certified Public Accountant. 2020.№04.P.81-84.

²⁰² Ji Feng. Audit reflections: international convergence of auditing standards, interaction and others // The Chinese Certified Public Accountant. 2020.№06.P.24-25.

competition, how to punish such behavior, etc.. It is because of the lack of industry regulation that such low-price competition will continue to exist, which in turn affects the application of auditing standards. The regulatory environment of the audit industry in China is actually relatively lenient, judging from the CICPA's notice on quality control of audit organizations, which only imposes industry disciplinary penalties on audit organizations and auditors with serious problems. These include public censure, notice of criticism, and warning. Such disciplinary measures do not play a significant role and are of little value in improving the quality of practice and the rigorous implementation of auditing standards.

In terms of the income structure of the audit market in China during 2008-2021, audit income in China shows a steady upward trend, and mainly audit income accounts for more than 80% of the total income of the audit organization. The development trend of non-audit services is slightly increasing, but there is a big gap compared with overseas audit organizations such as Russia. The reasons for the slow development of non-audit services in China may stem from many sources. First, there is a lack of incentives to expand non-audit services. In general, audit services generate much more income than non-audit services, and audit services are more profitable for audit organizations, so audit organizations tend to devote more time and energy on how to obtain and maintain relevant qualifications. It can be seen that the severe restriction of real economic interests makes China's audit industry lack motivation to expand the scope of its own activities. Secondly, in terms of non-audit services, their business scope mainly focuses on some traditional non-audit services, including capital verification, valuation, tax agency, management consulting and training, etc. This situation affects the competitiveness of Chinese auditors.

China's level of economic development, technological development and other factors play a significant role in promoting the development level of digital economy²⁰³. Meanwhile, the development of digital technology plays an important role in the application of audit technology. At present, Chinese scholars are more exploring the impact on internal audit in the digital economy²⁰⁴. In relation to the application of advanced audit technology in audit organization, it is more capable of improving audit quality.

Chinese audit organizations also make efforts to build their own brands, for example, Tianjian is

²⁰³ Belozyorov, S.A., Wang, W., Liu, Yali. Analysis of Regional Differences and Influencing Factors of China's Digital Economy Development // Journal of Applied Economic Research. 2022. Vol. 21, No. 3. P. 486-513.

²⁰⁴ Liu, Yali. The development of Chinese internal audit in the digital economy // Business management in the digital economy: Collection of theses of the 3rd INTERNATIONAL CONFERENCE, St. Petersburg, March 19-20, 2020. St. Petersburg, 2020. P. 595-599.

actively involved in various accounting and non-audit projects. Large Chinese audit organizations are also trying to expand their overseas operations, but there is still an obvious gap between the brand building of Chinese audit organizations and the international "Big Four", and this is an important reason for the gap between their competitiveness.

According to the "Report on Comprehensive Evaluation and Analysis of Accounting Firms 2020" published by the China Institute of Certified Public Accountants (CICPA), as of September 30, 2021, a total of 72 Chinese accounting firms are members of international accounting networks or associations, of which 38 of the Top 100 accounting firms in China are members of international accounting networks or associations²⁰⁵. According to the "Report on Comprehensive Evaluation and Analysis of Accounting Firms 2020" published by the China Institute of Certified Public Accountants (CICPA), as of September 30, 2021, a total of 72 Chinese accounting firms are members of international accounting networks or associations, of which 38 of the Top 100 accounting firms in China are members of international accounting networks or associations. There are 30 Chinese audit organizations have joined international accounting networks or associations outside of the "Big Four" in which they interact with major international accounting firms while maintaining their brands. Since association with a international firm "Big Four" would cause domestic audit organizations to lose their own brands and the right to operate independently, establishing their own networks and joining non-Big Four international firms are international development strategies currently widely used by Chinese audit organizations. Similar challenges exist for large Russian audit organizations.

Currently, there are 3 audit organizations in China that have established their own international accounting networks: Pan-China (2009), Reanda (2009) and ShineWing (2013). Daxin (2017) has established its own accounting association. According to the latest ranking of global international accounting networks published by the International Accounting Bulletin (IAB), ShineWing International, Daxin Global and Reanda International are ranked 21st, 23rd and 25th respectively²⁰⁶. As shown in Table 3.9, Pan-China has three member firms in Hong Kong, Taiwan and Singapore. Daxin has 33 member firms in East Asia, Southeast Asia, South Asia, the Middle East, Europe, Africa, North America, and Latin America. ShineWing has 62 offices in 16 countries or regions outside mainland China. Reanda has

²⁰⁵ Report on the Comprehensive Assessment and Evaluation of Audit Organizations 2020. [Electronic resources] URL: <https://www.cicpa.org.cn/xxfb/news/202112/W020211221411056979711.pdf> ((accessed: 23.11.2023))

²⁰⁶ International Accounting Bulletin: World Networks fee and staff rankings. [Electronic resources] URL: https://accounting.nridigital.com/iab_ws22/world_networks_fee_and_staff_rankings (accessed: 23.11.2023)

31 member firms in Asia, Australia, Africa and Europe.

Table 3.9 Status of Chinese audit organizations establishing their own international network

Audit organization	Establishment of the International Group
Pan-China	Confucius International CPA Limited (Hong Kong), Pan-China TW, Pan-China Singapore
Daxin	33 member firms in Taiwan, Korea, Japan, Sydney, Singapore, Indonesia, Paris, Nairobi, Toronto, New York, Ecuador, etc.
ShineWing	62 offices in Hong Kong, Singapore, Tokyo, Cairo, Kuala Lumpur, London, Jakarta, etc.
Reanda	31 member firms in Hong Kong, Japan, Egypt, Australia, Germany, etc.

Source: compiled by the author

From a policy perspective, the Chinese government and industry organizations actively support audit organizations joining international networks. In May 2009, The Ministry of Finance issued several opinions on accelerating the development of the audit industry in China, according to which joining an international accounting firm is one way to promote the development of the audit market in China. The "Audit Industry Development Plan (2021-2025)" released by the CICPA clearly states that Chinese audit organizations are encouraged to join an international network and utilize international resources to promote their own development. Similar trends in the formation of Russian and international audit networks have also been declared by the Ministry of Finance of the RF.

With the development of economic globalization and the promotion of the "One Belt and One Road" policy, business cooperation between Chinese and Russian enterprises is growing rapidly. According to China's General State Customs Administration, the trade volume between China and Russia will reach \$190.27 billion in 2022, with imports from Russia to China totaling \$114.15 billion (-6.6%) and exports from China to Russia totaling \$76.12 billion (+ 1.7%). Figure 3.1 shows that in 2012-2022, the total volume of trade between China and Russia is generally increasing, with imports and exports generally trending upward.

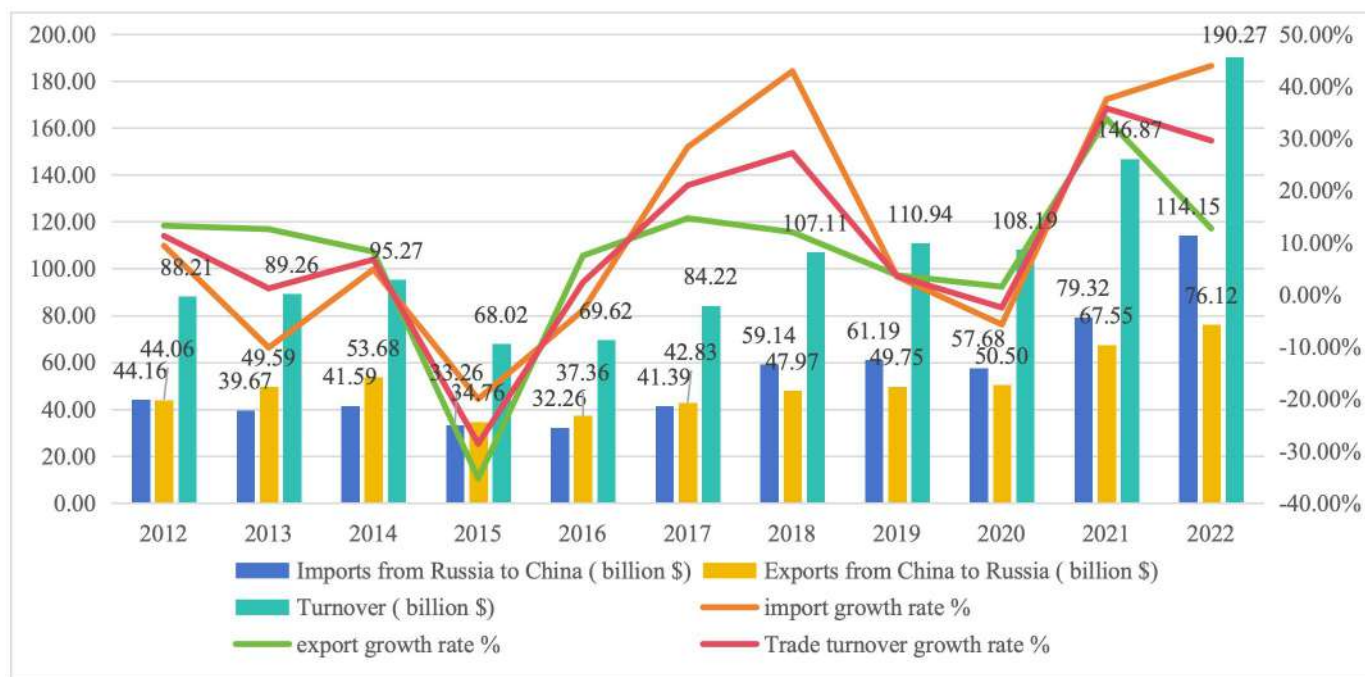


Figure 3.1 Trade turnover between China and Russia in 2012-2022

Source: compiled by the author based on data from GAC²⁰⁷

According to the Federal Customs Service of Russia, China ranks 1st in the list of Russian trade partners (by the end of 2022), According to the Ministry of Commerce of the People's Republic of China, Russia ranks 9th in the list of China's leading trade partners by the end of 2022²⁰⁸. The structure of exports from China to Russia is quite diversified, with most of the goods belonging to the high level of processing. As shown in Figure 3.2, the structure of exports from China to Russia is dominated by machinery and chemical industry, accounting for 52.48% and 15.45% of total exports, respectively. As for the nomenclature of trade goods exported from China to Russia, China mainly exports consumer electronics, excavators, automobiles, microprocessors, clothing, footwear and consumer goods to Russia. In the structure of China's imports from Russia in 2022, the main commodities China imports from Russia are energy products including oil, natural gas and coal. According to statistics, energy will account for 68% of exports from Russia to China in 2022²⁰⁹, and Russia has become the main supplier of oil to China.

²⁰⁷ General Administration of Customs of the People's Republic of China. Official Website. URL: <http://gdfs.customs.gov.cn/customs/syx/index.html> (accessed: 24.11.2023)

²⁰⁸ Russian-Chinese trade and investment cooperation. [Electronic resource] URL: https://www.economy.gov.ru/material/file/640f8c8ce83fadd7cd20243abf7f2f3e/TEC_China_May_2021.pdf (accessed: 24.11.2023)

²⁰⁹ Trade between Russia and China in 2021. [Electronic resource] URL: <https://russian-trade.com/reports-and-reviews/2022-02/torgovlya-mezhdu-rossiey-i-kitaem-v-2021-g/> (accessed: 24.11.2023)

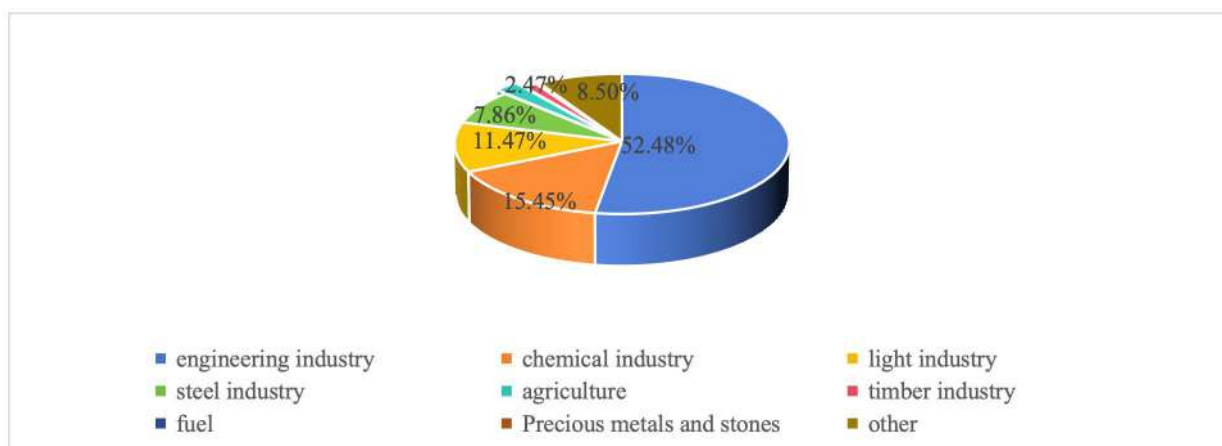


Figure 3.2 Structure of exports from China to Russia in 2022

Source: compiled by the author based on data from GAC

As for Chinese investment in Russia, in 2020, Chinese investment flows to Russia amount to \$570 million, accounting for 0.4% of total flows, and 4.5% of investment flows to Europe. As shown in Table 3.10, in terms of industry distribution, Chinese investment in Russia is mainly concentrated in mining (\$216 million), scientific research and technical services (\$164 million), construction (\$65 million), agriculture, forestry, livestock and fisheries (\$50 million), and rental and business services (\$48 million).

Table 3.10 The main industries of China's direct investment in Russia in 2020

industry	Investment flows (million \$)	Proportion (%)	Investment reserve (million \$.)	Proportion (%)
Mining industry	216.38	37.9	4 995.23	41.4
Agriculture, forestry, animal husbandry, fishery	49.94	8.7	2 771.86	23
Manufacturing industry	20.88	3.7	1 569.43	13
Rental and business services	47.62	8.4	642.66	5.3
Scientific research and technical services	163.55	28.7	522.52	4.3
Financial industry	5.48	1	497.32	4.1
Wholesale and retail trade	11.65	2	331.64	2.7
Real Estate	-	-	311.45	2.6
Construction	64.54	11.3	270.1	2.2
Information transmission, software and information technology services	-9.19	-1.6	68.53	0.6
Transportation, warehousing and postal services	-0.79	-0.1	53.42	0.4
Production and distribution of electricity, gas and water	0.12	0	22.59	0.2
Other industries	0.14	0	14.14	0.2
Total	570.32	100	12 070.89	100

Source: compiled by the author based on data from the 2020 Statistical Bulletin of China's

Outward Foreign Direct Investment²¹⁰

As shown in Table 3.10, China's investment reserve in Russia at the end of 2020 is \$12.07 billion, accounting for 9.9% of China's investment reserve in the European region. China has set up about 1,000 foreign enterprises in Russia, and in the distribution of investment by major industries, including Mining, \$5 billion, accounting for 41.4%. Agriculture, Forestry, Livestock and Fishing accounted for \$2,772 million, accounting for 23%. Manufacturing \$1,569 million, representing 13%. Rental and business services \$643 million, representing 5.3%. Scientific research and technology services \$523 million, which is 4.3%. The financial industry accounted for \$497 million, which is 4.1%. Wholesale and retail trade \$332 million, which is 2.7%. Real estate accounted for \$311 million, which is 2.6%.

To reduce the negative impact of American and European economic sanctions, China and Russia are actively expanding cross-border transportation and international financial cooperation. The implementation of the yuan (RMB) as a trading currency on the Moscow Exchange has led to a rapid growth in the volume of RMB transactions. The RMB's proportion of Moscow Exchange's trading volume increased from 6% in April 2022 to 39.6% in October. As of early November 2022, 7 bonds listed on the Moscow Exchange with a volume of more than 31 billion yuan²¹¹. Moscow Exchange plans to develop yuan infrastructure, including the publication of a new RMB bond index based on 6 bonds issued by Russian companies. Starting November 14, 2022, Moscow Exchange calculates and publishes an index of Russian RMB-denominated bonds, and in late November launched trading in futures linked to China's Hang Seng Index. From December 5, 2022, settlements on over-the-counter transactions with bonds of bank brokers, management companies and their clients can be made in RMB, and all bonds and Eurobonds can be settled in RMB as part of bilateral transactions with the participation of a central counterparty.

As the trade volume between China and Russia increases, Chinese enterprises investing in Russia and Russian enterprises investing in China continue to emerge. However, due to the real differences between the Chinese accounting system and International Financial Reporting Standards (IFRS), comparability of accounting reports still cannot be fully realized, and accounting differences are

²¹⁰ 2020 Statistical Bulletin of China's Outward Foreign Direct Investment. [Electronic resource] URL: <https://www.gov.cn/xinwen/2021-09/29/5639984/files/a3015be4dc1f45458513ab39691d37dd.pdf> (accessed: 24.11.2023)

²¹¹ Moscow Exchange begins calculating the yuan-denominated bond index on November 14. [Electronic resource] URL: <https://sputniknews.cn/20221111/1045442610.html> (accessed: 24.11.2023)

inevitable. The participation of many multinational corporations in China-Russia economic cooperation inevitably leads to a shortage in the supply of high-end accounting services, which increases the demand for audit services in the China-Russia capital market and provides new opportunities for the cooperation and development of the two countries' audit markets in the following aspects.

First, the convergence of Chinese and Russian auditing standards provides technical support for the development of cooperation in the audit market. On January 1, 2017, the Ministry of Finance of RF issued the Order "On the Implementation of International Standards on Auditing in the Russian Federation", which led to the implementation of international standards on auditing in the Russian Federation. At present, Chinese auditing standards mainly maintain convergence with international standards on auditing, but due to the changes in the market environment, the continuous optimization of economic and industrial structure, the transformation and modernization of traditional business model and technological means, international auditing standards are constantly updated and revised. Thus, in the future, it is necessary to support the full convergence of Chinese auditing standards with international auditing standards, deepen negotiations with Russia on market access conditions, recognition of practitioner qualifications and equivalence of standards, so as to provide technical support for the development of cooperation between auditing organizations in China and Russia.

Second, it is necessary to strengthen the regulatory mechanisms and audit cooperation between China and Russia to provide conditions for standardizing the development of the countries' audit markets. As part of the development of cross-border regulatory cooperation in China, China and the European Union introduced equivalence of audit regulatory regimes in 2011. China and the European Union introduced equivalence of audit regulatory regimes, which allows Chinese enterprises operating in the European Union market to prepare financial statements in accordance with Chinese financial reporting standards and choose Chinese audit organizations to conduct audits.

In 2013, the Ministry of Finance of the People's Republic of China launched cross-border cooperation with the Hong Kong Institute of Certified Public Accountants (HKICPA) for the first time, creating a new model of regulatory cooperation between Guangdong and Hong Kong in the audit field. In 2013, the Ministry of Finance, the China Securities Regulatory Commission (CSRC) and the Public Company Accounting Oversight Board (PCAOB) launched cross-border regulatory cooperation²¹². In

²¹² Peng Zhijie. Cracking the dilemma of Chinese stock delisting : on the construction of cross-border audit regulatory cooperation mechanism between China and the United States// Southern Finance. 2022.№10. P. 79-91.

2019, China's assessment of the adequacy of China's obligatory auditing regulation was recognized by the European Union, with China and the European Union continuing to deepen cooperation on audit regulation.

On August 22, 2019, the 8th meeting of the Russia-China Financial Dialogue was held in Moscow, and both sides welcome the consensus on cooperation in audit supervision of cross-border bond issuance and the Memorandum of Understanding in this area signed during the dialogue. Both sides will strengthen cooperation in audit supervision on the basis of mutual trust, so as to provide an institutional environment that enables cross-border corporate bond insurance on both sides and promotes financial market interconnectivity²¹³. Thus, China and Russia can use the existing achievements in cross-border audit and regulatory cooperation between China and Hong Kong, Macao and Taiwan to strengthen cross-border audit and regulatory cooperation between China and Russia to achieve regulatory optimization. Russia is also shaping the experience of using a different practice of ISA application by EAEU countries, under the framework of the Agreement on the Establishment of a "Common Audit Area".

Third, Chinese and Russian audit firms prefer to join international accounting networks or establish audit firm association agreements to enhance the reputation of their audit firms and accelerate the internationalization of audit firms in China and Russia. Reviewing the history of accounting firms, it can be concluded that the growth of multinational corporations has led to the merger of audit organizations and the emergence of global service networks. Currently, there are more than 100 auditing organizations authorized to engage in securities-related activities in China, but the establishment of a new international accounting network is extremely difficult. The "Big Four" international accounting network has also been established through a series of mergers. If Chinese and Russian audit organizations joined forces, they could achieve great economic effects.

At present, there are 3 audit organizations in China, which have established their own international accounting network, with abundant practical experience and high professional capacity, serving listed A, B and H share companies, state-owned enterprises and foreign-invested enterprises. Among them, Shinewing has many high-quality clients in China. The most obvious advantages are in petroleum and petrochemical industry, coal industry, communications and telecommunications, transportation, port and warehousing industry, construction and building materials industry, nuclear industry, medicine, aviation,

²¹³ Ministry of Finance of the Russian Federation. Official website. URL: https://minfin.gov.ru/ru/press-center/?id_4=36733 (accessed: 25.11.2023)

electric power industry, automobile industry and other industries²¹⁴. Joining an international network and adopting best management practices, in particular, learning from the experience and practices of audit organizations in the international accounting network in terms of audit concept, quality control, risk management and staff training, accelerates the internationalization of Chinese and Russian audit organizations, enhances their competitiveness and facilitates the operations of Chinese and Russian enterprises.

In support of the industry policy, in 2012. CICPA issued the document "Several Policies to Support Audit Organizations for Strengthening and Consolidation" and Support and Motivation Methods, which encourages audit organizations to provide services to enterprises outside China by establishing uniform and independent branches outside China or joining the network of international well-known accounting firms.

Resolution of the Government of the Russian Federation dated 19.04.2021 No. 622 "On restrictions on the provision of information and documentation to an audit organization, individual auditor" (hereinafter - Resolution No. 622), one of the negative consequences of the adoption of which is the impossibility for Russian audit organizations to have subsidiaries in foreign countries, including EAEU countries. On September 27, 2023, the Self-Regulatory Organization of the Association of Auditors of Russia "Sodrugestvo" (SRO AAS) requested a reconsideration of the amendments to Resolution No. 622 and proposed the possibility of opening subsidiaries of Russian audit organizations in EAEU countries and other "friendly" jurisdictions and creating a group of international audit organizations (network) controlled by Russian audit organizations²¹⁵, which opens up opportunities for the development of cooperation between Russian and Chinese audit organizations.

Finally, the training of highly professional auditors is the basis for the development of cooperation in the audit markets of China and Russia. The competitiveness of an audit organization depends on the number of auditors providing professional services and the level of their professional competence. Thus, Chinese and Russian audit organizations need to have a group of internationally qualified auditors familiar with international financial reporting and auditing standards, and support and encourage auditors to obtain qualification certificates recognized in China and Russia. Provide auditors with business

²¹⁴ Sun Jianwen. Analysis of Audit Market Target Positioning of Accounting Firms-Based on Industry Expertise Perspective. Accounting Newsletter. 2021.№07.P. 126-129.

²¹⁵ Self-regulated organization of auditors Association "Sodrugestvo" (SRO AAS) Ref.No 12026 dated September 27, 2023. URL: <https://sroaas.ru/about/> (accessed: 26.11.2023)

exchange and training opportunities in China and Russia, and train more auditors with skills in international finance, international investment, international taxation and international trade. And developing comprehensive employee incentive systems will attract more highly qualified international auditors.

Thus, the key issue in developing audit cooperation between Russia and China is to improve the competitiveness of audit organizations, which is primarily reflected in their strategy and operations, management and standardization. In the strategic aspect, Chinese and Russian audit organizations take the form of strategic alliances or joining international networks, while in the managerial aspect, they are mainly engaged in training auditors, improving their professional competence, and developing proper remuneration and promotion policies. The main instrument of internal management of audit organizations is standardization, which is the main tool for ensuring audit quality in the development of Russian-Chinese cooperation in the field of audit. Standardization of audit organizations' activities is expressed in the convergence of international and national auditing standards and the application of advanced auditing technologies to improve audit quality. Government support is also needed to strengthen cross-border regulatory cooperation in audit between Russia and China. On November 18, 2023, China and Russia signed the Memorandum on the Equivalence of Audit and Accounting Systems, which promotes cooperation between enterprises in the two countries and provides synergy for the development of the audit industry in China and Russia.

Conclusion to Chapter 3

This chapter compares the audit markets in China and Russia since 2008, examines the dynamics and scale of development, and analyzes the status of auditing in China and Russia with regard to publicly significant organizations. The research shows that the audit industry in China has generally experienced stable development in recent years. Audit income continues to grow, with a concentration in large and medium-sized audit organizations. Additionally, the scope of services provided has expanded to include consulting. Audit income in Russia is on a downward trend. The market proportion of large, medium and small audit organizations is similar to that in China, where large audit organizations still dominate.

In addition, from the perspective of socially significant organizations, Chinese listed companies are a crucial component of China's social economy and play an irreplaceable and vital role. From the perspective of average audit fees, the average audit fees for auditing the financial statements of listed companies in China generally increased from 2010 to 2021. There is a positive correlation between audit fees in China and the asset size of listed companies, indicating that larger companies tend to have higher audit fees.

In the Russian audit market, audit income from publicly important organizations also tends to decline with a decrease in total audit income compared to China. This decline is partly due to the impact of sanctions and probably also due to a reduction in the number of audit clients.

In terms of average audit fees, the audit markets in China and Russia are similar. Audit organizations serving the publicly important organizations sector are predominantly large, significantly larger than small and medium-sized audit organizations. This indicates that large audit organizations have significantly higher audit fees than small and medium-sized audit organizations and higher audit quality due to their advanced technology.

CONCLUSION

In the history of audit market development in China, different from the development of the Western audit market, there has always been a strong political overtone. The role of government regulation prevailed over the free market development. Thus, this study takes China's "reform and opening up" policy initiated in 1978 as a starting point and explores the characteristics of the audit market in China as the reform of the socialist market economy deepens. Developing economies have common features and characteristics in the formation of audit markets, which is presented through the case studies of China and Russia. Within the framework of this research, based on the method of logical addition of chronological dominants of normative and technological development of audit (the method was developed by Associate Professor I.N. Guzov on the basis of the analysis of the audit market in Russia), six stages of audit evolution in China are identified: the origin of audit; the formation of pro-government auditing; government regulation and emergence of obligatory audit; strengthening of audit independence and standardization; convergence and transition to international standards; self-regulation. The common elements of the audit history of these countries are the periods of "wild audit" and government regulation, transition to ISA and tendencies to self-regulation in audit, carried out with due regard to national peculiarities. The peculiarities of audit development in China are the formation of its own legal and regulatory framework of audit, soft inclusion in the common audit space of other accounting and auditing systems of Macao and Hong Kong, as well as the scale and dynamics of development of firm audit structures.

This study compares Chinese auditing standards with international standards on auditing by highlighting the development stages of Chinese auditing standards, and analyzes the overall effect of implementing auditing standards by using descriptive statistics and comparative analysis to select Shanghai and Shenzhen listed companies in China and the auditing organizations that audit them. As well as a detailed analysis of the effectiveness of the implementation of Chinese auditing standards in terms of audit risk based on data on regulatory penalties imposed on Chinese audit organizations. Based on this, this research uses the methods of audit market statistics proposed by scholar E. M. Gutsait, the audit market statistics for 2008-2021 are selected, the dynamics of the audit market development in China and Russia, the scale of development and the condition of audit in China and Russia in relation to publicly important organizations are studied, based on which the following conclusions are drawn.

From the point of view of the evolutionary features of the audit market in China, at each period there was a qualitative strengthening of the audit market in China based on the development of the legislative and regulatory framework and the improvement of auditing standards, which played an active role in the evolution.

In terms of audit organizations, as a result of the four consolidations, Chinese audit organizations are now mainly composed of general partnership audit organizations and limited liability audit organizations, and in terms of audit income, the international "Big Four" still account for a larger percentage of income in China than domestic audit organizations, but the income gap is decreasing year by year, reflecting the strong competitive nature of Chinese audit organizations.

In terms of the characteristics of the audit markets in Hong Kong, Macao and Taiwan, auditing standards in these three regions are now modeled on international standards on auditing and have achieved convergence with international standards on auditing. At the same time, as Chinese auditing organizations in Macao, Hong Kong and Taiwan provide audit services to and from the region. Mainland Chinese audit organizations in Hong Kong, Macao and Taiwan perform audits in a smaller proportion relative to their capacity. This is partly due to regulatory reasons where mainland and other regional regulators have not reached a consensus on cross-border regulation, which has some impact on mainland Chinese audit organizations engaged in audit activities in Hong Kong, Macao and Taiwan. In other areas, this is due to the consideration of differences between mainland and non-mainland guidelines. In terms of industry regulation, Hong Kong and Macao emphasize industry self-regulation. However, in terms of audit service objects, local audit organizations focus on the capital market and small and medium-sized enterprises, while the "Big Four" international audit and consulting groups occupy the majority of the market.

A comparison of Chinese auditing standards with international standards on auditing shows that Chinese auditing standards have similar features in terms of content structure, guidelines and audit models. At the same time, Chinese auditing standards have their own characteristics. Based on the characteristics of China's transition process to a market economy, the CICPA retained 1153 "Communications between predecessor and successor CPAs" and 1602 "Capital Verification".

As a result of the implementation of the auditing standards in 2010 compared to previously issued auditing standards, the most immediate effect is a reduction in audit risk and an increase in audit quality. In addition, an analysis of the impact of the implementation of 2010 auditing standards on audit

organizations' exposure to regulatory penalties shows that the implementation of auditing standards did reduce the number of regulatory penalties imposed on audit organizations and reduced the risk of administrative penalties and industry discipline for audit organizations.

The implementation of the audit report standard issued in 2016 has expanded and improved the amount of information and audit quality in the audit report, but there are still problems with the overall low number of key audit matters, reasons for identifying them as key audit matters, and overly standardized audit descriptions.

The analysis of the development of the audit market in China and Russia and the scale of development, as well as the empirical results of the audit situation in China and Russia with respect to publicly important organizations shows that, in general, the audit industry in China has maintained a positive trend of stable development in recent years, with audit income continuing to grow and showing concentration in large and medium-sized audit organizations. The scope of services, in addition to the traditional audit business, has also expanded to include specialty audit services, accounting services and consulting services in non-audit services. The income of audit services in Russia shows a downward trend, the market proportion of large, medium and small audit organizations in the market is about the same as in China, which is still dominated by large audit organizations. And the percentage of other audit services in Russia is significantly higher than in China.

This study finds that the development of the audit market in China depends on the current regulation, the convergence of auditing standards with international standards on auditing, and the structure of the audit market. Thus, this research analyzes the trends in the development of the audit market in China and Russia in the following directions:

the convergence of Chinese and Russian auditing standards provides technical support for the development of cooperation in the audit market;

strengthening of regulatory and cooperation mechanisms in the field of audit between China and Russia in order to provide conditions for standardization of development of audit markets of the countries;

establishing a network of Russian-Chinese audit organizations to enhance the reputation of their audit organizations and accelerate the internationalization of audit organizations in China and Russia;

training of highly professional auditors is the basis for the development of cooperation in the audit markets of China and Russia.

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APPENDIX

Appendix 1

**The income trend of the international Big Four audit and consulting groups in China from
2003 to 2021**

year	PwC Zhongtian (RMB million)	Deloitte Touche Tohmatsu (RMB million)	Ernst & Young Hua Ming (RMB million)	KPMG Hua Zhen (RMB million)	The largest audit organization in China (RMB million)	top 100 audit organizations (RMB million)	Percentage of income from international "Big Four" in the top 100
2003	766.31	291.52	246.32	334.39	100.89	4,431.14	36.98%
2004	902.33	376.36	329.26	431.76	113.60	5,227.14	39.02%
2005	1,246.77	657.97	628.46	715.78	153.30	7,108.19	45.71%
2006	1,802.96	908.76	971.66	914.78	183.24	9,296.30	49.46%
2007	2,037.62	1,385.64	1,598.33	1,237.47	219.83	11,809.43	53.00%
2008	2,625.71	2,124.28	2,315.80	1,944.96	504.67	16,467.70	54.72%
2009	2,755.18	2,498.82	2,700.00	2,435.17	652.17	19,672.12	52.81%
2010	2,578.43	2,370.25	1,960.64	2,221.10	872.05	20,610.51	44.30%
2011	2,960.65	2,600.07	2,094.13	1,862.03	1,039.29	23,103.83	41.19%
2012	2,956.74	2,928.44	2,277.49	1,928.42	1,504.18	27,887.63	36.18%
2013	3,226.29	3,044.51	2,236.46	2,135.76	2,437.09	31,448.55	33.84%
2014	3,351.41	2,881.23	2,364.34	2,347.17	2,775.93	34,756.38	31.49%
2015	3,713.48	3,130.92	2,833.23	2,350.72	3,062.03	39,479.24	30.47%
2016	4,117.33	3,324.77	2,960.72	2,533.35	4,030.16	46,486.91	27.83%
2017	5,165.95	4,029.77	3,323.37	3,126.85	3,690.16	46,251.92	33.83%
2018	5,172.28	4,466.54	3,895.84	3,361.90	3,667.95	50,563.10	33.42%
2019	5,646.39	4,101.82	4,374.64	3,362.20	2,471.19	52,379.05	33.38%
2020	6,115.04	3,978.59	4,760.09	3,416.51	3,050.52	58,603.34	31.18%
2021	6,825.43	4,159.20	5,490.41	4,093.64	3,500.90	66,185.81	31.08%

Assessment of compliance with ISAs and Chinese auditing standards

Number	China Standards on Auditing and Quality Control	International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements
Type 1	Framework for Assurance Engagements	
1	Basic standard on assurance engagements	
Type 2	Auditing Standards	Audits of historical financial information
2.1	1101-1153 General Principles and Responsibilities	200-299 General Principles and Responsibilities
2	CSA1101, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing	ISA200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing
3	CSA1111, Agreeing the Terms of Audit Engagements	ISA 210, Agreeing the Terms of Audit Engagements
4	CSA1121, Quality Management for An Audit of Financial Statements	ISA 220, Quality Management for An Audit of Financial Statements
5	CSA1131, Audit Documentation	ISA 230, Audit Documentation
6	CSA1141, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
7	CSA1142, Consideration of Laws and Regulations in an Audit of Financial Statements	ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements
8	CSA1151, Communication with Those Charged with Governance	ISA 260, Communication with Those Charged with Governance
9	CSA1152, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
10	CSA1153, Коммуникация между аудиторами, назначенными до и после назначения	
2.2	1201-1251 Оценка рисков и аудиторские процедуры в ответ на оцененные риски	300-499 Risk Assessment and Response to Assessed Risks
11	CSA1201, Planning an Audit of Financial Statements	ISA 300, Planning an Audit of Financial Statements
12	CSA1211, Identifying and Assessing the Risks of Material Misstatement	ISA 315, Identifying and Assessing the Risks of Material Misstatement
13	CSA1221, Materiality in Planning and Performing an Audit	ISA 320, Materiality in Planning and Performing an Audit
14	CSA1231, The Auditor's Responses to Assessed Risks	ISA 330, The Auditor's Responses to Assessed Risks
15	CSA1241, Audit Considerations Relating to an Entity Using a Service Organization	ISA 402, Audit Considerations Relating to an Entity Using a Service Organization
16	CSA1251, Evaluation of Misstatements Identified during the Audit	ISA 450, Evaluation of Misstatements Identified during the Audit
2.3	1301-1341 Audit Evidence	500-599 Audit Evidence
17	CSA1301, Audit Evidence	ISA 500, Audit Evidence

Continued table

Number	China Standards on Auditing and Quality Control	International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements
18	CSA1311, Audit Evidence—Specific Considerations for Selected Items	ISA 501, Audit Evidence—Specific Considerations for Selected Items
19	CSA1312, External Confirmations	ISA 505, External Confirmations
20	CSA1313, Analytical Procedures	ISA 520, Analytical Procedures
21	CSA1314, Audit Sampling	ISA 530, Audit Sampling
22	CSA1321, Auditing Accounting Estimates and Related Disclosures	ISA 540, Auditing Accounting Estimates and Related Disclosures
23	CSA1323, Related Parties	ISA 550, Related Parties
24	CSA1324, Going Concern	ISA 570, Going Concern
25	CSA1331, Initial Audit Engagements—Opening Balances	ISA 510, Initial Audit Engagements—Opening Balances
26	CSA1332, Subsequent Events	ISA 560, Subsequent Events
27	CSA1341, Written Representations	ISA 580, Written Representations
2.4	1401-1421 Using the Work of Others	600–699 Using the Work of Others
28	CSA1401, Special Considerations—Audits of Group Financial Statements	ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)
29	CSA1411, Using the Work of Internal Auditors	ISA 610, Using the Work of Internal Auditors
30	CSA1421, Using the Work of an Auditor’s Expert	ISA 620, Using the Work of an Auditor’s Expert
2.5	1501-1521 Audit Conclusions and Reporting	700–799 Audit Conclusions and Reporting
31	CSA1501, Forming an Opinion and Reporting on Financial Statements	ISA 700, Forming an Opinion and Reporting on Financial Statements
32	CSA1502, Modifications to the Opinion in the Independent Auditor’s Report	ISA 705, Modifications to the Opinion in the Independent Auditor’s Report
33	CSA1503, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent	ISA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent
34	CSA1504, Communicating Key Audit Matters in the Independent Auditor’s Report	ISA 701, Communicating Key Audit Matters in the Independent Auditor’s Report
35	CSA1511, Comparative Information—Corresponding Figures and Comparative Financial Statements	ISA 710, Comparative Information—Corresponding Figures and Comparative Financial Statements
36	CSA1521, The Auditor’s Responsibilities Relating to Other Information	ISA 720, The Auditor’s Responsibilities Relating to Other Information
2.6	1601-1633 Specialized Areas	800–899 Specialized Areas
37	CSA1601, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks	ISA 800, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
38	CSA1602, Capital verification	

Continued table

Number	China Standards on Auditing and Quality Control	International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements
39	CSA1603, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	ISA 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
40	CSA1604, Engagements to Report on Summary Financial Statements	ISA 810, Engagements to Report on Summary Financial Statements
		International Auditing Practice Notes
		IAPN 1000, Special Considerations in Auditing Financial Instruments
41	CSA1612, Inter-bank confirmation procedures	IAPS 1000, Inter-bank confirmation procedures
42	CSA1613, The relationship between banking supervisors and banks' external auditors	IAPS 1004, The relationship between banking supervisors and banks' external auditors
43	CSA1611, Audits of the financial statement of banks	IAPS 1006, Audits of the financial statement of banks
44	CSA1631, The consideration of environmental matters in the audit of financial statements	IAPS 1010, The consideration of environmental matters in the audit of financial statements
45	CSA1632, Auditing derivative financial instruments	IAPS 1012, Auditing derivative financial instruments
46	CSA1633, Electronic commerce — Effect on the audit of financial statements	IAPS 1013, Electronic commerce — Effect on the audit of financial statements
Type 3	Audits and reviews of historical financial information	Audits and reviews of historical financial information
		2000–2699 International Standards on Review Engagements
47	2101 Engagements to Review Historical Financial Statements	2400, Engagements to Review Historical Financial Statements
		2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity
Type 4	Assurance engagements other than audits or reviews of historical financial information	Assurance engagements other than audits or reviews of historical financial information
		3000–3699 International Standards on Assurance Engagements
		3000–3399 Applicable to All Assurance Engagements
48	3101 Assurance Engagements Other than Audits or Reviews of Historical Financial Information	3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information
		3400–3699 Subject Specific Standards 3400 The Examination of Prospective Financial Information
49	3111 The Examination of Prospective Financial Information	3400 The Examination of Prospective Financial Information
		3402 Assurance Reports on Controls at a Service Organization

Continued table

Number	China Standards on Auditing and Quality Control	International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements
		3410 Assurance Engagements on Greenhouse Gas Statements
		3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus
Type 5	Related Services	Related Services
		4000–4699 International Standards on Related Services
50	4101 Agreed-upon Procedures Engagements	4400, Agreed-upon Procedures Engagements
51	4111 Compilation Engagements	4410, Compilation Engagements
Type 6	Chinese Standard on Quality Management	International Standard on Quality Management
52	CSQM 5101, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements	ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
53	CSQM 5102, Engagement Quality Reviews	ISQM 2, Engagement Quality Reviews

Chinese Auditing Standards 1101 analogs to ISA 200 and their comparison by section

Item	CSA1101, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing	item	ISA200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing
Section 1	Introduction		Introduction
1-2	Scope of this ISA	1-2	Scope of this ISA
Section 3	An Audit of Financial Statements		
18-24	An Audit of Financial Statements	3-9	An Audit of Financial Statements
Section 6	appendix		
	Effective Date	10	Effective Date
Section 4	Overall Objectives of the Auditor		Overall Objectives of the Auditor
25-26	Overall Objectives of the Auditor	11-12	Overall Objectives of the Auditor
Section 2	Definitions		Definitions
6	Applicable financial reporting framework	13(a)	Applicable financial reporting framework
11	Audit evidence	13(b)	Audit evidence
13	Audit risk	13(c)	Audit risk
3	Auditor	13(d)	Auditor
15	Detection risk	13(e)	Detection risk
4	Financial statements	13(f)	Financial statements
5	Historical financial information	13(g)	Historical financial information
7	Management	13(h)	Management
10	Misstatement	13(i)	Misstatement
9	Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted	13(j)	Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted
16	Professional judgment	13(k)	Professional judgment
17	Professional skepticism	13(l)	Professional skepticism
12	Reasonable assurance	13(m)	Reasonable assurance
14	Risk of material misstatement	13(n)	Risk of material misstatement
8	Those charged with governance	13(o)	Those charged with governance

Continued table

Item	CSA1101, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing	item	ISA200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing
Section 5	Requirements	Requirements	
27	Ethical Requirements Relating to an Audit of Financial Statements	14	Ethical Requirements Relating to an Audit of Financial Statements
28	Professional Skepticism	15	Professional Skepticism
29	Professional Judgment	16	Professional Judgment
30	Sufficient Appropriate Audit Evidence and Audit Risk	17	Sufficient Appropriate Audit Evidence and Audit Risk
31-37	Conduct of an Audit in Accordance with ISAs	18-24	Conduct of an Audit in Accordance with ISAs
Application and Other Explanatory Material An Audit of Financial Statements		Application and Other Explanatory Material An Audit of Financial Statements	
An Audit of Financial Statements		An Audit of Financial Statements	
1	Scope of the Audit	A1	Scope of the Audit
2-10	Preparation of the Financial Statements	A2-A10	Preparation of the Financial Statements
11	Considerations Specific to Audits in the Public Sector	A11	Considerations Specific to Audits in the Public Sector
12	Form of the Auditor's Opinion	A12-A13	Form of the Auditor's Opinion
13-14	Definitions	A14-A16	Definitions
15-18	Ethical Requirements Relating to an Audit of Financial Statements	A17-A20	Ethical Requirements Relating to an Audit of Financial Statements
19-23	Professional Skepticism	A21-A25	Professional Skepticism
24-28	Professional Judgment	A26-A30	Professional Judgment
29-53	Sufficient Appropriate Audit Evidence and Audit Risk	A31-A57	Sufficient Appropriate Audit Evidence and Audit Risk
54-77	Conduct of an Audit in Accordance with ISAs	A55-A78	Conduct of an Audit in Accordance with ISAs

Chinese Auditing Standards 1501 analogs to ISA 700 and their comparison by section

Item	CSA1501, Forming an Opinion and Reporting on Financial Statements	item	ISA700, Forming an Opinion and Reporting on Financial Statements
Section 1	Introduction	Introduction	
1-4	Scope of this ISA	1-4	Scope of this ISA
		5	Effective Date
Section 3	Objectives	Objectives	
10	Objectives	6	Objectives
Section 2	Definitions	Definitions	
6	General purpose financial statements	7(a)	General purpose financial statements
7	General purpose framework	7(b)	General purpose framework
9	Unmodified opinion	7(c)	Unmodified opinion
5	Financial statements	8-9	Financial statements
8	Auditor's report		
Section 4	Requirements	Requirements	
11-16	Forming an Opinion on the Financial Statements	10-15	Forming an Opinion on the Financial Statements
17-19	Form of Opinion	16-19	Form of Opinion
20-44	Auditor's Report	20-52	Auditor's Report
45-46	Supplementary Information Presented with the Financial Statements	53-54	Supplementary Information Presented with the Financial Statements
Application and Other Explanatory Material An Audit of Financial Statements		Application and Other Explanatory Material An Audit of Financial Statements	
1-3	Qualitative Aspects of the Entity's Accounting Practices	A1-A3	Qualitative Aspects of the Entity's Accounting Practices
4	Accounting Policies Appropriately Disclosed in the Financial Statements	A4	Accounting Policies Appropriately Disclosed in the Financial Statements
5	Information Presented in the Financial Statements Is Relevant, Reliable, Comparable and Understandable	A5	Information Presented in the Financial Statements Is Relevant, Reliable, Comparable and Understandable
6	Disclosures of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements	A6	Disclosures of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements
7-8	Evaluating Whether the Financial Statements Achieve Fair Presentation	A7-A9	Evaluating Whether the Financial Statements Achieve Fair Presentation

Continued table

Item	CSA1501, Forming an Opinion and Reporting on Financial Statements	item	ISA700, Forming an Opinion and Reporting on Financial Statements
9-14	Description of the Applicable Financial Reporting Framework	A10-A1 5	Description of the Applicable Financial Reporting Framework
		A16-A1 7	Form of Opinion
15-63	Auditor's Report	A18-A7 7	Auditor's Report
64-70	Supplementary Information Presented with the Financial Statements	A78-A8 4	Supplementary Information Presented with the Financial Statements
	Illustrations of Independent Auditor's Reports on Financial Statements		Illustrations of Independent Auditor's Reports on Financial Statements

Standard deviations, mean values and errors of mean values of quantitative indicators before and after the implementation of audit standards

	standard	N	Mean	STD.deviation	STD.error of the mean
M&A	Before	353	0.07	0.257	0.014
	After	387	0.02	0.142	0.007
Big	Before	353	0.22	0.415	0.022
	After	387	0.25	0.435	0.022
Inter	Before	353	0.32	0.468	0.025
	After	387	0.44	0.498	0.025
Tenure	Before	353	5.9773	2.40018	0.12775
	After	387	6.5090	2.80900	0.14279
Opinion	Before	353	0.182833	0.1509587	0.0080347
	After	387	0.130679	0.0830499	0.0042217
Lfee	Before	353	9.310567	1.2895208	0.0686343
	After	387	10.979047	1.0854982	0.0551790
Size	Before	353	0.09	0.098	0.005
	After	387	0.06	0.077	0.004

Empirical Student's t-criterion values and levels of statistical significance (2-sided)

		Livigne's criterion of equality of variance		t-test for equality of means						
		F	Value	t	Degrees of freedom	Significa nce (2-sided)	Differ- ence in mean	Std.diffe- rence error	95% Confidence interval of mean difference	
									Lower boundary	Upper boundary
M&A	Equality of variance is assumed	46.525	0.000	3.321	738.000	0.001	0.050	0.015	0.021	0.080
	Equality of variance is not assumed			3.241	538.553	0.001	0.050	0.015	0.020	0.081
Big	Equality of variance is assumed	4.268	0.039	-1.029	738.000	0.304	-0.032	0.031	-0.094	0.029
	Equality of variance is not assumed			-1.031	736.494	0.303	-0.032	0.031	-0.094	0.029
Inter	Equality of variance is assumed	40.088	0.000	-3.412	738.000	0.001	-0.121	0.036	-0.191	-0.052
	Equality of variance is not assumed			-3.422	737.272	0.001	-0.121	0.036	-0.191	-0.052
Tenure	Equality of variance is assumed	8.877	0.003	-2.755	738.000	0.006	-0.532	0.193	-0.911	-0.153
	Equality of variance is not assumed			-2.755	734.910	0.006	-0.532	0.192	-0.908	-0.156
Lfee	Equality of variance is assumed	46.054	0.000	5.890	738.000	0.000	0.052	0.009	0.348	0.070
	Equality of variance is not assumed			5.746	535.935	0.000	0.052	0.009	0.034	0.070
Size	Equality of variance is assumed	4.336	0.038	-19.09 5	738.000	0.000	-1.668	0.087	-1.840	-1.497
	Equality of variance is not assumed			-18.94 6	690.879	0.000	-1.668	0.087	-1.841	-1.496
Opinion	Equality of variance is assumed	5.650	0.018	3.659	738.000	0.000	0.024	0.006	0.011	0.036
	Equality of variance is not assumed			3.620	668.015	0.000	0.024	0.007	0.011	0.037

Main indicators of the audit services market in China and Russia

Indicator		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1. GDP in current prices, trillion \$.	PRC	4.59	5.10	6.09	7.55	8.53	9.57	10.48	11.06	11.23	12.31	13.89	14.28	14.69	17.73
	RF	1.66	1.22	1.52	2.05	2.21	2.29	2.06	1.36	1.28	1.57	1.66	1.69	1.49	1.78
2. GDP in comparable prices, trillion \$.	PRC	4.59	5.03	5.56	6.09	6.57	7.09	7.61	8.14	8.70	9.30	9.92	10.52	10.75	11.65
	RF	1.66	1.20	1.31	1.41	1.40	1.38	1.15	0.71	0.65	0.76	0.73	0.72	0.63	0.64
3. audit services volume in current prices, billion \$.	PRC	4.46	4.64	5.54	6.81	8.08	8.96	9.59	10.53	10.54	10.53	11.99	12.69	13.88	16.39
	RF	2.02	1.56	1.62	1.73	1.65	1.62	1.40	0.92	0.85	0.95	0.93	0.88	0.83	0.84
4. Growth of audit services volume to previous year, %	PRC	-	4.01	19.36	22.94	18.65	10.87	7.03	9.87	0.01	-0.07	13.86	5.86	9.36	18.16
	RF	-	-22.5	3.47	6.93	-4.35	-1.80	-14.0	-34.1	-7.50	11.51	-1.69	-5.51	-5.81	1.33
5. proportion of the audit services volume in GDP, %	PRC	0.097	0.091	0.091	0.090	0.095	0.094	0.092	0.095	0.094	0.086	0.086	0.089	0.094	0.092
	RF	0.121	0.128	0.106	0.085	0.075	0.071	0.068	0.068	0.067	0.060	0.056	0.052	0.056	0.047
6. audit services volume in comparable prices, billion \$.	PRC	4.46	4.57	5.06	5.49	6.23	6.63	6.97	7.76	8.16	7.95	8.56	9.34	10.15	10.77
	RF	2.02	1.53	1.39	1.19	1.05	0.98	0.78	0.48	0.43	0.46	0.41	0.37	0.35	0.30
7. audit income in current prices, billion \$.	PRC	0.00	0.00	4.05	4.97	5.73	6.59	6.90	7.68	7.51	8.45	9.84	10.37	11.24	13.23
	RF	0.97	0.73	0.79	0.80	0.83	0.84	0.71	0.45	0.41	0.47	0.47	0.45	0.44	0.41
8. proportion of audit income out of audit services volume, %	PRC	0.00	0.00	73.07	72.95	70.98	73.51	71.99	72.87	71.33	80.22	82.09	81.75	81.02	80.71
	RF	48.0	46.5	48.7	46.0	50.0	51.6	50.6	49.2	48.7	49.6	50.1	50.9	52.7	49.3
9. audit income in comparable prices, billion \$.	PRC	0.00	0.00	3.70	4.01	4.42	4.88	5.01	5.65	5.82	6.38	7.03	7.64	8.23	8.69
	RF	0.97	0.71	0.68	0.55	0.52	0.50	0.40	0.24	0.21	0.23	0.20	0.19	0.18	0.15
10. Income from non-audit services at current prices, billion \$.	PRC	-	-	1.49	1.84	2.34	2.37	2.69	2.86	3.02	2.08	2.15	2.32	2.63	3.16
	RF	1.05	0.84	0.83	0.93	0.83	0.79	0.69	0.47	0.44	0.48	0.47	0.43	0.39	0.43
11. Income from non-audit services at comparable prices, billion \$.	PRC	-	-	1.36	1.49	1.81	1.76	1.95	2.10	2.34	1.57	1.53	1.71	1.93	2.08
	RF	1.05	0.82	0.71	0.64	0.52	0.47	0.39	0.24	0.22	0.23	0.20	0.18	0.17	0.15
12. Inflation rate using consumer price index, %	PRC	5.9	-0.7	3.2	5.6	2.6	2.6	1.9	1.4	2.0	1.6	2.1	2.9	2.4	1.0
	RF	14.1	11.6	6.8	8.4	5.1	6.8	7.8	15.5	7.0	3.7	2.9	4.5	3.4	6.7

Auditing of listed companies in China

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Income from audit of listed companies in current prices, million \$.	438.80	498.89	618.47	645.41	698.92	770.47	817.12	934.71	1073.0	1074.1	1156.2	1667.4
Income from audit of listed companies in comparable prices, million \$.	400.73	402.51	476.52	477.91	507.80	567.24	632.68	705.96	766.1	791.0	846.0	1095.4
Total assets of listed companies in current prices, trillion \$.	12.76	15.98	18.91	21.49	24.47	27.71	30.47	32.73	36.66	40.69	45.53	54.09
Total assets of listed companies in comparable prices, trillion \$.	11.65	12.90	14.57	15.91	17.78	20.40	23.59	24.72	26.17	29.96	33.32	35.54
Number of audited listed companies	2241	2485	2584	2536	2653	2842	3136	3513	3607	3814	4264	4774
the fees per audit of listed companies in current prices, thousand \$.	195.81	200.76	239.35	254.50	263.45	271.10	260.56	266.07	297.49	281.62	271.16	349.26
the fees per audit of listed companies in comparable prices, thousand \$.	178.82	161.97	184.41	188.45	191.41	199.59	201.75	200.96	212.40	207.39	198.41	229.44
Average total assets in current prices, billion \$.	5.69	6.43	7.32	8.47	9.22	9.75	9.72	9.32	10.16	10.67	10.68	11.33
Average total assets in comparable prices, billion \$.	5.20	5.19	5.64	6.28	6.70	7.18	7.52	7.04	7.26	7.86	7.81	7.44
Level of issuance of unmodified audit opinions,%	94.5	95.2	96.2	96.5	96.3	96.4	96.6	96.3	93.8	92.8	93.9	94.6

Audit of publicly important organizations in Russia

Indicator		2016	2017	2018	2019	2020	2021
Audit income from publicly important organization in current prices, million \$.	Throughout the RF	263.12	273.47	210.03	186.11	177.78	180.98
	Small AO	9.74	11.21	8.61	7.26	6.58	5.97
	Medium AO	11.84	12.31	10.29	8.75	8.18	8.69
	Large AO	241.55	249.95	191.13	170.10	163.02	166.50
Audit income from publicly important organization in comparable prices, million \$.	Throughout the RF	133.53	131.70	91.95	78.90	74.85	65.40
	Small AO	4.94	5.40	3.77	3.08	2.77	2.16
	Medium AO	6.01	5.93	4.51	3.71	3.44	3.14
	Large AO	122.58	120.38	83.68	72.12	68.64	60.16
Number of audited publicly important organization, units.	Throughout the RF	3940	3553	3295	2983	2973	2946
	Small AO	1722	1556	1364	1175	1018	922
	Medium AO	977	867	827	743	815	822
	Large AO	1241	1130	1104	1065	1140	1205
Average audit fees for publicly important organization in current prices, thousand \$.	Throughout the RF	66.8	77.0	63.7	62.4	59.8	61.4
	Small AO	5.7	7.2	6.3	6.2	6.5	6.5
	Medium AO	12.1	14.2	12.4	11.8	10.0	10.6
	Large AO	194.6	221.2	173.1	159.7	143.0	138.2
Average audit fees for publicly important organization in comparable prices, thousand \$.	Throughout the RF	33.9	37.1	27.9	26.5	25.2	22.2
	Small AO	2.9	3.5	2.8	2.6	2.7	2.3
	Medium AO	6.2	6.8	5.4	5.0	4.2	3.8
	Large AO	98.8	106.5	75.8	67.7	60.2	49.9