

# The next leap forward for China

A recent ACCA USA meeting with the Shanghai National Accounting Institute in New York focused on important ways in which accountants can help companies run more efficiently

**China has long been considered an emerging market. But as the world's second-largest economy, it seems reasonable to say that the Middle Kingdom has already emerged. IMF estimates suggest that the nation will account for a third of global growth in the five years to 2017, more than double the contribution of the US's 14%. As Chinese companies continue to expand and foreigners invest in Chinese equities, the standard of the nation's accountants is becoming ever more important.**

Seeking ways to enhance these skills was one of the main goals of ACCA's two-day conference held in New York this September along with the Shanghai National Accounting Institute (SNAI). Many of those attending were senior financial executives from Chinese companies, mostly enterprises controlled by the state.

Chinese accounting standards have been improving by leaps and bounds, according to Lu Wenbin, assistant president of the SNAI. Still more needs to be done, he adds.

'We are now very close to reaching international standards when it comes to financial reporting and accountants are familiarising themselves with the changes in rules over the past decade,' he says. 'The next step is to make sure that accountants have the skill to really contribute more added value to their organisations.'

The conference provided insights into how Chinese



## ▲ INSIGHTS GAINED

Warner Johnston, head of ACCA USA (far left) and Michelle Liu, business relationship manager China (far right) present SNAI participants with a certificate of completion

accountants could take this next step. But delegates were also given a reminder of why the US had such a stake in China's success and accounting excellence.

Michael Muth, an officer for the Foreign Commercial Service, the trade promotion arm of the United States Department of Commerce, pointed out that US exports to China have grown more than fivefold since 2000 and investment had also boomed. That dwarfs the 116% growth in total US exports over that period.

The event programme included talks that looked into how Chinese accountants could help boost their employer firms' productivity. 'The modern CFO plays a variety of complicated functions – far beyond simply communicating the state of a company's finances to outsiders,' argued Lu in an interview with *Accounting and Business* after the conference. 'Chinese accountants overall

have plenty of room to get better, so that we can boost every aspect of an enterprise and lift its productivity.'

The head of ACCA USA, Warner Johnston, underlined what ACCA was doing to promote this process.

**Burgeoning profession** ACCA has been growing fast in China, with seven offices and more than 30 exam centres in the country. This year, more than 43,000 Chinese accountants are studying for the ACCA Qualification. A study by the SNAI showed that 82% of employers surveyed recognised the ACCA Qualification – higher than any rival qualification.

The New York conference included speakers such as Stathis Gould, a senior manager at the International Federation of Accountants, an organisation with 173 member bodies in 129 countries. He spoke about the importance of integrating

the environmental and social impacts of a company's operations into financial results. This is increasingly relevant in China, where there has been growing concern over pollution and environmental degradation.

Gould told delegates: 'Reporting drives behaviour within an organisation... This is a big opportunity for the accountancy profession to influence sustainable value creation.'

There are also social and environmental risks that accountants can now help assess. For example, he explained, recent EU rules have been trying to hold companies responsible for the impact of their products through the lifecycle. That can affect which materials companies intend to use. Such complicated calculations are exactly what top accountants do best.

In an interview with *Accounting and Business*, Gould added that accountants were becoming ever more important in the efficient running of a business. 'The main method is to provide the right information and analytics in a timely fashion so that other managers can see easily where operations could be tighter,' he said. For example, accountants can help improve processes such as inventory management.

That role can also extend into other forms of business analysis. 'Companies don't often fail because of flaws in published accounts,' Gould argued. 'Instead it is more likely to be because they

have misjudged the risks of the investments they make.' For example, acquisitive companies have a habit of overpaying – often because they have been unrealistic about what synergies they can expect. This can be a disaster for companies.

The potential of accountants to flag risks and save companies from perils was also emphasised by PV Viswanath, a finance professor at Pace University. He encouraged China's accountants to spread their wings beyond traditional financial reporting and consider ways to help their firms mitigate a host of risks – from the threat of disruptions in production, reputational risk and delinquent customers.

Viswanath said finance professionals should consider a multi-step process of identifying and assessing risk, followed by selecting risk-management techniques and finally reviewing the effectiveness of these solutions. 'Suppose you have a factory in a location where hurricanes are prevalent,' he said. 'Accountants can help assess the relative merits of moving production to a less risky location, strengthening existing buildings, simply absorbing any losses or buying insurance.'

Modern accountants should also be alerted to the merits of different derivative contracts that can be used to mitigate risks. For example, companies that are vulnerable to sharp swings in exchange rates can consider various techniques.

Using forward contracts locks in the exchange rate a company can expect and also the price for hedging the risk. Buying options, by contrast, merely puts a cap on the potential damage that fluctuations can cause. Selling options, meanwhile,



## ▼ EAST TO WEST

Shanghai is home to the SNAI, whose delegates attended the ACCA conference in New York (below)



can require margin payments and thus liquidity problems. Mastering such techniques has become a core skill for chief financial officers.

While many Chinese accountants are keen to develop such skills, companies wanting a fast track to accounting excellence can hire an established firm, according to John Vester, advisory principal at KPMG.

His firm offers a complete range of sophisticated accounting and advisory services far beyond simple audits. Among those offered, Vester explained, are due diligence on takeover targets, forensic accounting to detect fraud or misconduct and the full suite of strategy consulting capabilities.

KPMG has also been operating in China since 1984; it has a large footprint in the country, with more than 8,000 employees in 13 offices. 'We provide thought leadership and training to assist our western clients with China market entry and expansion, and to our Chinese clients with their global expansion initiatives,' said Vester. Chinese firms can also benefit from help in growing effectively within China, and KPMG is also able to support state-owned enterprises to improve competitiveness, he added.

The ACCA conference was dedicated to encouraging Chinese accountants to take the next leap in their development. 'Although [it] lasted for just two days, it had laid the foundation for future learning,' said SNAI's Lu. 'It will inspire us to focus more on some of these important ways in which accountants can make a bigger contribution to the efficient running of companies.' ■

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