



Professional accountants – the future:

# 50 drivers of change in the public sector



## About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its **198,000** members and **486,000** students in **180** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **101** offices and centres and more than **7,291** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers.

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Part of our ground-breaking *Professional accountants – the future* series, this is one of a series of country reports, following on from our global report *50 drivers of change in the public sector*. It focuses exclusively on identifying the 50 drivers of change in China that are expected to have an impact on the public sector and the likely timing of these. It also assesses how professional accountants will need to continue to play a pivotal role in the decade ahead.

The public sector is as complex as it is diverse and it is not the same in any two countries; what is considered to be part of the public sector often varies from one country to another.

The global public sector is changing, with the landscape being reshaped by a combination of factors: a growing and ageing population, the need for better infrastructure and increasing concerns over sustainability and consumption. At the same time demands are growing for greater transparency and accountability for public funds. These challenges are heightened by advances in technology and by economic and political uncertainty. As the social and economic environment shifts, all these factors will have serious consequences for public sector organisations and their finance professionals.

To help professional accountants and leaders in the public sector prepare for an uncertain future, ACCA undertook a global study to explore which emerging drivers of change could have the biggest impact and to highlight the skills that will be required over the period to 2026.

The recently launched global report is part of our ground-breaking *Professional accountants – the future* series and is the first report to focus exclusively on identifying the 50 factors that will impact the public sector, the likely timing of these and how they will shape the future.

The public sector is as complex as it is diverse and it is not the same in any two countries; what is considered to be part of the public sector often varies from one country to another. For example, in some countries, such as the UK and Scandinavian countries, healthcare is deemed to be a public sector function, while in some others it is a hybrid between the public and private sectors.

The global study draws on a survey of ACCA's global forum for the public sector, ACCA members and members of other professional accountancy bodies working in the public sector. This was complemented with a series of roundtable events held across 12 countries, from the US in the west through to China in the east, and high-level interviews with key public sector figures.

For professional accountants working in the public sector, the challenge is twofold. First, they need to understand the key forces shaping the future and how these could affect public sector organisations and the country they serve. Secondly, they need to provide support and influence financial decisions that will ensure that public funds are deployed cost-effectively and efficiently.

This particular report is focused specifically on the results from the global report for China and also follows a recent roundtable held in the country to discuss these key issues. In this report we explore the drivers of change that are impacting China's public sector in particular. These include the quality and availability of talent, especially as the population ages; sustaining the level of economic growth with its dependence on the global economy; governmental influence over strategic direction, and the impact of State Owned Enterprises (SOEs).



China has experienced significant economic growth over the last decade. As the second largest economy in the world, its contribution to global trade is very significant yet it is also facing significant challenges, such as an ageing population and rapid urbanisation. These are some of the challenges to the environment in which the public sector will need to continue to evolve.

China has an ageing population, which is presenting challenges, not least that of how the country will find the talent pool it needs to keep the economy growing at an acceptable level. China's particular challenges, which are highlighted in this report, include (but are not limited to) its sensitivity to the global economy;

managing demographics; its planned substantial infrastructure investment; responding to global climate change and resource constraints; and its exploitation of technologies and Big Data. All these developments will have an impact on the future of the public sector in China, and the role of finance professionals in the sector.

**Table 1:** Ranking of the top 50 drivers of change for the public sector for China

The drivers of change are categorised into eight key themes: Economy; Politics and law; Society and demographics; Business of government; Science and technology; Environment, energy and resources; The practice of accounting and The accountancy profession.

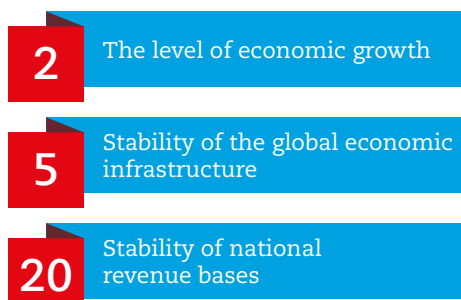
RANK	DRIVER OF CHANGE	THEME
1	Quality and availability of the global talent pool	Business of government
2	The level of economic growth	Economy
3	Business leaders' responsiveness to change and disruption	Business of government
4	Speed and duration of business cycles	Business of government
5	Stability of the global economic infrastructure	Economy
6	Big Data: the development and exploitation of large organisational databases, data mining and predictive analytics	Science and technology
7	Use of public private partnership (PPPs)	Business of government
8	Spread of diversity in society and the workplace	Society and demographics
9	Workforce age structure	Society and demographics
10	Extent of foreign direct investment in developed and developing economies	Business of government
11	Adoption of integrated systems thinking to manage business complexity	Business of government
12	Clarity in financial reporting and defining the audit function	The practice of accounting
13	Focus of global governance institutions	Politics and law
14	Defining the scope of the accountant's role	The practice of accounting
15	Accounting skills capacity in transitional economies	The accountancy profession
16	Non-financial information and integrated reporting	The practice of accounting
17	Scale and distribution of global population growth	Society and demographics
18	New industries and production models	Science and technology
19	Flexibility, suitability and cost of accountancy training	The accountancy profession
20	Stability of national revenue bases	Economy
21	Competition for limited natural resources	Environment, energy and resources
22	Rate of democratic transition	Politics and law
23	Level of international political volatility	Politics and law
24	Global climate change	Environment, energy and resources
25	Societal expectations and definitions of accounting	The accountancy profession
26	Size and complexity of the CFOs remit	The practice of accounting
27	The digitisation of work	Science and technology
28	Cybersecurity challenges for government	Science and technology
29	Scale of take-up in alternative energy by business	Environment, energy and resources
30	Level of entrepreneurial skills in the accountancy profession	The accountancy profession
31	Total scale and distribution of global inequality and unmet needs	Economy

RANK	DRIVER OF CHANGE	THEME
32	Broadening measurement of public sector value and progress	Economy
33	Balance between external financial accounting and internal managerial accounting	The practice of accounting
34	Carbon tax and other environmental market mechanisms	Environment, energy and resources
35	Opportunities arising from adoption of global regulation	The practice of accounting
36	Experimentation with and adoption of new business models	Business of government
37	Consideration of alternative economic perspectives	Economy
38	Enterprise risk management capability	Business of government
39	Public perception and attractiveness of the accountancy profession	The accountancy profession
40	Adoption of globally accepted accounting standards	The practice of accounting
41	Governance and delivery of outsourced public services	Politics and law
42	The workplace expectations of Generation Y, Z and beyond	Society and demographics
43	Cost and ease of access to higher education	Society and demographics
44	Level of investment required to maintain national physical infrastructure	Economy
45	Crowd sourced funding for innovation: the consumer as investor	Business of government
46	Evolution of corporate governance regulation and practice	Business of government
47	Advances in genetic science, impact of nanotechnology advances and robotic science across business sectors	Science and technology
48	Manageability of national and international debt	Economy
49	Scope and diversity of expectations of external stakeholders	Business of government
50	Pressure to manage reputation as part of business strategy	Business of government

A global shock would have a profound impact on the Chinese government, affecting its ability both to manage the effects in the wider environment and to provide public services.

The top three (ranked) drivers of change for each of the eight categories identified were:

#### ECONOMY



With a population of 1.3bn, China is the second-largest economy in the world and is increasingly playing an important and influential role in the global economy.

For many years China experienced a remarkable period of rapid growth, shifting from a centrally planned to a market-based economy (World Bank 2017). GDP growth was 6.7% in 2016 and 6.9% in 2015. It was the slowest full-year growth figure since 1990 but comfortably within the government's target range of 6.5–7% (Wildau 2017). A recent ACCA report (ACCA 2016a) provides further evidence of the growth imperative, citing the geographical spread of China's fastest-growing companies, the shift from manufacturing to service industries, and rising turnover rates.

The economic growth rates cited above were in line with market expectations and were supported by an increase in government spending, fixed asset investment and retail sales when industrial output eased. The OECD expects growth to be 6.5% in 2017 and 6.3% in 2018 (Reuters 2017) as a result of structural changes, and this clearly has an impact on business confidence, consumer spending and government planning and budgeting.

Despite the growth, however, China is still classified as a developing country as its per capita income is substantially less than that of advanced countries and its market reforms are, as yet, incomplete (World Bank 2017a).

As China is the world's largest trading nation, the **stability of the global economic infrastructure** is important for its continuing economic progress (Thomson Reuters 2017), and clearly this has implications for the public sector in the country. A global shock would have a profound impact on the Chinese government, affecting its ability both to manage the effects in the wider environment and to provide public services. In particular, China is the world's largest exporter, selling US\$2.1 trillion of goods and services to the rest of the world in 2016 (Statista 2017). It relies on the strength and stability of the global economy as it is an intermediate assembler of goods sourced

As well as external factors, stability of national revenue bases is considered a prerequisite for the economic well-being of countries, as this affects governments' ability to provide public services.

from elsewhere that are then sold abroad (Cui 2007). At the same time, it has a strong raw materials sector which is at risk from global downturns or shocks.

'Since China's accession to the WTO in 2001, our trade and economy has developed rapidly. However, after the financial crisis we have witnessed some unwanted adverse factors in the global market, such as unstable geopolitics, global trade frictions and retrograde steps in economic integration. We were deeply affected by these adverse impacts, so we think that the stability of the global economic infrastructure might be a medium- and long-term factor that profoundly impacts on us.'

China Roundtable participant

As well as external factors, **stability of national revenue bases** is considered a prerequisite for the economic well-being of countries, as this affects governments' ability to provide public services. Chinese government revenues are derived from direct taxes paid by corporations (Corporate Income Tax) and households (mainly individual income tax); and indirect taxes, social contributions and revenues from state-owned assets and enterprises (Deloitte 2016). The ratio of tax revenue to GDP grew from 10.5% in 1994 to 20.1% in 2015, which the government notes provides 'a strong financial support to China's economic growth and prosperity' (State Administration of Taxation of the PRC 2016).

One emerging economic risk is China's household debt, which as a proportion of GDP has more than doubled to 40.7% in less than 10 years. While more developed nations have higher rates of household debt, Chinese families are much more leveraged because disposable income is lower and so proportionately the costs of social welfare, from pensions to health care, are much higher (Reuters 2016). In addition, China's urbanisation rate is not as high as developed nations' level of 70%–80%.

## POLITICS AND LAW

13

Focus of global governance institutions

22

Rate of democratic transition

23

Level of international political volatility

As regards the **focus on global governance institutions**, one of the most significant bodies for China is the World Trade Organization (WTO) (WTO n.d.). China's accession to the WTO in December 2001, after 15 years of negotiations, was the catalyst for its remarkable story of economic growth.

Nonetheless, the role of institutions such as the WTO in China remains fluid. For instance, the subject of trade is a political issue across the world (Azevêdo and Jensen 2016). The reality of a changing world and, especially, the continuing volatility of international politics could see networks of governance institutions such as the World Bank, International Monetary Fund (IMF), World Trade Organization and the United Nations (UN) facing intensifying pressure to adapt their structures to be fit for purpose in a new economic era.

In China itself there are questions over governance. Rapid economic growth has brought challenges to China, including high inequality, rapid urbanisation, imbalance in geographic development, and environmental concerns. China also faces demographic pressures relating to an ageing population and the internal migration of labour. The 12th Five Year Plan (2011–2015) and the 13th (2016–2020) seek to address different aspects of economic and social transition, particularly through measures addressing environmental and social problems (CPC n.d.). China is also currently debating the country's industrial development model and government intervention in market forces (Zhang 2016). Successfully implementing market-orientated economic reforms can be seen as a way of maintaining a stable economy (Prasad 2016).

‘The government has launched the “second child policy” to cope with the problem of an ageing population.’

China Roundtable participant

As big a concern for China as a stable economy is the **level of international political volatility**, which significantly affects China’s economy. In October 2013, Chinese president Xi Jinping launched an infrastructure plan to support China’s role in international affairs through cooperation with and investment in countries along the Silk Road Economic Belt and the Maritime Silk Road (Hancock 2017). This ‘Belt and Road Initiative’, which would boost China’s global influence, includes US\$900bn of infrastructure investment including ports and railways across Asia. The move comes at a time when uncertainty in Europe and the US has reduced consumer confidence causing, in turn, a downturn in the requirement for Chinese-assembled goods. This volatility is reflected in China’s trade surplus, which narrowed to 3.35 trillion yuan (about US\$486bn) in 2016, down 9.1% from a year earlier (Xinhuanet 2017).

The population is ageing faster than anywhere else in the world. In 2015, 10% of China’s population was over 65 (World Bank 2017b). Estimates indicate that this will reach 17.2% by 2030 and 27.6% by 2050; currently 48% of the population is aged between 25 and 54 (UN 2015).

The ageing population will put pressure on those of working age. This is already happening. In 2013, China introduced a law that requires children to provide for the emotional and physical needs of their parents, although many employers limit the flexibility of working arrangements for care givers (Catalyst 2016). China’s dependency ratio (the measure of number of dependants, ie those aged 0–14 years and over 65, compared with those aged 15–64) could rise to 44% by 2050 (Rapoza 2017). In 2015 it was 36.6% (Index Mundi n.d.).

At the same time, global demographic changes will have a significant impact on the **workforce age structure**. A younger population entering the workplace could generate pressures and tensions. Economic productivity and social cohesion depend on achieving intergenerational equity and fair outcomes across the age spectrum and between the genders. Issues include: women’s high participation in the workforce; few women in leadership roles with a gender pay gap; discrimination in employment and promotion, often in relation to maternity leave; the majority of mothers work in China – although economic reforms are reducing many child care options; and yet more women are college educated than before. As well as workplace pressure, society is also changing: women are marrying later – the mean average age for women to marry was 25 in 2015, in 2011 it was 23 – and 50% of highly educated women are unmarried; traditionally, men believed they should be more educated than their wives (Catalyst 2016). A survey of 128,576 people published on 6 March by zhaopin.com (*Global Times* 2017), one of the biggest job recruitment sites in China, found that over 80% of the female respondents believed that gender discrimination still exists in recruitment. Many women complained that under the second-child policy, gender discrimination has increased in workplaces.

## SOCIETY AND DEMOGRAPHICS

8

Spread of diversity in society and the workplace

9

Workforce age structure

17

Scale and distribution of global population growth

China is the most populous country in the world, with an estimated population in 2017 of 1.38bn, 18.5% of the global population (Statista n.d.). On 1 January 2016 China formally ended its one-child policy, thereby allowing all couples to have two children, previously only permitted in certain circumstances. This will affect the **scale and distribution of global population growth**. While the population is expected to reach a peak of just over 1.4bn by 2035, it is expected to fall back to 1.35bn by 2050 (Worldometers n.d.). India will overtake China as the most populous country by 2025 (Wang 2010).

A number of significant demographic changes are taking place in China which will precipitate the spread of diversity in society and the workplace.

The deep structural changes that the Chinese economy is undergoing imply a continuous need to upgrade the skills of the workforce to meet market demands.

Another factor is migration within the country from rural areas to large cities – although there are now limitations in place for some first and second tier cities – and from west to east (Farrar 2016). Net migration into China is negligible (Countrymeters n.d.).

The Chinese government also has a complex and challenging task in managing and addressing the needs of a diverse workforce, and the wider population, with competing interests between generations. Meanwhile, public sector organisations will need to find ways of attracting and retaining talent from this diverse workforce. The retention issue of the younger generation in China was recently noted in an ACCA report *Generation Next* (ACCA 2016b), which found that 23% of young finance professionals expect to move from their present role within one year, and 57% expect to move within two years (across all sectors). These were, however, slightly lower than the global averages across all countries.

'I am Generation Y and my students are Generation Z. Generation Z are smart, their perception of certain things is a bit different from ours. For example, at our accounting institute, we feel often that if something is a risk, but they may think it is not; instead, they believe that it is an opportunity. They are also eager to learn new things, especially in times of change. This is a positive influence for a society as well as an organisation. But they have limited experience and need to be guided when faced with abundant opportunities for change.'

China Roundtable participant

## BUSINESS OF GOVERNMENT

1

Quality and availability of the global talent pool

3

Business leader responsiveness to change and disruption

4

Speed and duration of business cycles

As the ranking shows, the way in which government organisations affect business and the economy is an important factor in China. The country has 116,000 state-owned enterprises (SOEs), accounting for about one-fifth of economic output, but in profitability they lag behind private companies. Nonetheless, SOE's share of overall fixed-asset investment reached 35.4% in May 2016, the highest since 2011 (Wildau 2016). The top 12 companies on *Fortune* Global 500 list are SOEs (Cendrowski 2015). The government is reforming SOEs, including by introducing policies designed to create a more flexible workforce across the range of SOEs by encouraging more mobility in the sector, especially at senior levels.

The role of SOEs in China is a significant factor in the **quality and availability of the global talent pool**. Over the period 2017–2021, this is a global issue across all sectors, including the public sector, in order to drive through innovation. In practice, the public sector often struggles to compete with the private sector over talent, with remuneration as one key reason. A failure to attract the right calibre of staff will impede the public sector's attempt to modernise.

The OECD has noted that in China: 'The knowledge taught and skills nurtured at school do not sufficiently match labour market needs. Workplace training-based vocational education arrangements are woefully inadequate' (OECD 2015). The deep structural changes that the Chinese economy is undergoing imply a continuous need to upgrade the skills of the workforce to meet market demands. China's National Plan for medium and long-term education reform and development 2010–2020



‘Overseas investment and development require [talented individuals] who have global vision. At present we are bringing in more and more such talents to fill in the talent gap in our overseas projects.’

China Roundtable participant

emphasised the importance of lifelong learning. Employers are required to allocate 1.5% of the wage bill for such skills training – firms with high skills requirements and good performance should allocate 2.5%. These requirements are not always observed. Firms’ incentives for training workers could be enhanced by clearer career planning; wider and better education in full-time institutions. Also, job hopping could be deterred by a requirement for employees to repay training costs if they resign.

Managing the global talent pool is part of the **business leaders’ responsiveness to change and disruption**. Innovation and change offer an opportunity for modernising public services, ensuring that the right services are delivered through opportunities such as digitisation. China’s ability and desire to innovate has become a significant subject of discussion (Tse 2016). Leaders need to understand rapidly changing business practices, changing organisational structures and operating models in order to navigate effectively through a changing and complex landscape: attributes that are particularly relevant in the China market.

A significant change in the China landscape, and a key identified driver of change for the public sector is the **speed and duration of business cycles**. As technologies are increasingly adopted by different enterprises in the private and the public sector, organisations are under pressure to adapt their structures, processes and systems on an almost continuous basis. As a result, there is a growing emphasis on the need for speed, flexibility, adaptability and responsiveness. These in turn demand rapid decision making and shortening cycles for execution of change. Public sector organisations will need to factor this into policy development and implementation. One significant change for China is the public private partnerships model (English.Gov.CN 2016), introduced by the Ministry of Finance. As of Q4 2016, investment had totalled US\$320.7bn as part of the government’s efforts to promote investment, yet protocols must evolve to ensure greater flexibility and adaptability to enable delivery.

‘Speed and duration of business cycles causes deep concerns. When we apply for a new overseas project, we need to get approval from our group company, Ministry of Commerce, NDRC and some other supervising bodies. Sometimes when we have finally gone through the whole process, the window has already closed. This problem is quite obvious now, but we are making changes. For example, our group made a list of delegated powers, so that the regional secondary companies can autonomously make decisions and swiftly respond to the market changes.’

China Roundtable participant

## SCIENCE AND TECHNOLOGY

6

Big Data: large organisational databases, data mining and predictive analytics

18

New industries and production models

27

The digitisation of work

Advances in science and technology lie at the heart of many of the developments that will shape the public sector landscape over the next decade as they offer the potential for disruptive innovations in literally every aspect of human life, society and work. **Big Data: the development and exploitation of large organisational databases, data mining and predictive analytics** is beginning to be explored by China. Government departments can compare and mine individual records from different organisations: for example, to achieve cross-sector and cross-regional sharing in the health sector. And Chinese Premier Li Keqiang has announced the intention of making government-held data available, subject to protections for national security and commercial and individual privacy. The Premier said the government held 80% of the country’s data

As the world's industrial powerhouse and with frequent smog in many cities, China has an important role to play in tackling global climate change and pollution.

(Hewitt 2016). It is also reported that the government is testing systems that will be used to create digital records of citizens' social and financial behaviour. In turn, these would be used to create a so-called social credit score, which will determine whether individuals have access to services, from travel and education to loans and insurance cover. Businesses and some individuals such as lawyers, accountants, teachers and journalists would receive closer scrutiny of their professional behaviour (Wall Street Journal 2016). In 2015, the Chinese Institute of Certified Public Accountants (CICPA) commented that Big Data provided opportunities for accountants but that those in the profession needed to improve their own information systems at the same time.

Another key driver of change identified for the public sector by this study is the potential of **new industries and production models**. Given the importance of SOEs to the economy, their ability to embrace changes and innovations will be crucial. Advances in science and technology are yielding radical new industrial processes that could be the basis of major industries of the future. In many cases, these industries are also introducing new business models and distribution approaches.

Similarly, every sector of industry and commerce will be changed by the digitisation of work in China, and here the public sector is no different. It is estimated that 25% of China's labour-productivity growth by 2025 will come from digitalisation of the work place (Woetzel et al. 2014) and some digitisation in the corporate sector is taking place: for example, coal and coal chemical companies are working to create a digital market place (Li and Robinson n.d.). But there are many further opportunities in the public sector for digital transformation to occur.

## ENVIRONMENT, ENERGY AND RESOURCES

21 Competition for limited natural resources

24 Global climate change

29 Scale of take-up in alternative energy by business

China still faces challenges from a huge population base and **limited natural resources**, notably water. The country has 7% of the world's water resource, yet 20% of the world's population (Shemie and Vigerstol 2016). At least one-third of China's lakes and rivers are unfit for human use, and 73% of the watersheds that supply water to China's 30 fastest-growing cities face medium-to-high pollution levels. The country is adopting various measures, such as improved water treatment, to counter the crisis.

In other areas, the country has an abundance of resource. China has about 12% of the world's mineral resources, with only the US and Russia having more. There are significant reserves of coal, iron, tin, copper, lead, zinc, molybdenum, tungsten, mercury, graphite, antimony, magnesite, fluor spar, and other minerals (CRIEnglish.com n.d.). In addition, China has been taking steps to increase its access to raw materials, such as oil and gas, through collaborations under the Belt & Road Initiatives.

As the world's industrial powerhouse and with frequent smog in many cities, China has an important role to play in tackling **global climate change** and pollution. It has ratified the Paris climate change agreement and should meet the targets it has set itself for reducing greenhouse gases, which peaked in 2010. Although still heavily coal-dependent, it has reduced coal use for three years in a row and has scrapped plans to build 100 coal-fired power plants.

China's 13th Five Year Plan incorporated headline targets to reduce energy intensity by 15% and carbon intensity by 18% compared with 2015 levels. It capped energy consumption at 5bn tons of coal equivalent, and the share of primary energy consumption from non-renewable sources will increase to 15% during the Plan.

Professional accountants in China are increasingly key to policy development, providing financial leadership in a challenging environment where government spending is under continuous pressure from decreasing government income.

The **scale of take-up in alternative energy by business** seems to be gathering pace (New York Times 2017). China has also invested heavily in solar and wind renewable energy, which has helped to drive down cost, investing US \$102.9bn in renewable energy in 2015 (Kinver 2016). Much of the investment has been through state-directed finance mediated through the issuance of green bonds.

#### THE PRACTICE OF ACCOUNTING

12 Clarity in financial reporting and defining the audit function

14 Defining the scope of the accountants' role

16 Non-financial information and integrated reporting

Responsibility for clarity in financial reporting and defining the audit function in the public sector in China rests with the Ministry of Finance. The Ministry has set itself a target of increasing investor confidence by improving the quality of reporting through the shift towards International Financial Reporting Standards (IFRS) convergence and IPSAS (International Public Sector Accounting Standards) adoption. Since 2007, the Accounting System for Business Enterprises and Auditing standards has been established in China and is mandatory for listed Chinese businesses; this shift heralded a move towards harmonisation with IFRS. On 18 January 2015 the Chinese Accounting Standards for Business Enterprises and the IFRS Foundation announced the formation of a joint working group to advance further IFRS adoption in the country. Convergence with International Auditing Standards was achieved in 2010, and was applicable for all audits of financial statements for periods beginning on or after 1 January 2011 (CICPA 2016).

Dealing with these innovations in accounting practice, adoption of international standards in government and also considering the potential of disruptive technology all contribute to **defining the scope of the accountants' role**, and this will be especially true in the public sector environment in China in the future. Professional accountants in China are increasingly key to policy

development, providing financial leadership in a challenging environment where government spending is under continuous pressure from decreasing government income. Greater expectations are also being placed on the role of professional accountants in the sector, particularly with the expected advances to be seen through digital technology adoption and the role of analytics.

'With the advancement of information technology, the ERP [enterprise resource planning] systems have been integrated into our accounting system, which simplifies the accounting work. After the simplification of the accounting work, the focus needs to be shifted to the management aspects. For us, this means the change of the finance staff's duties and functions.'

China Roundtable participant

High-quality financial reporting – including **non-financial information and integrated reporting** – is also an important prerequisite for building and maintaining trust in the public sector. If government is to ensure good public financial management, it needs to know the assets it holds and the level of current and, importantly, future liabilities. Even while China has been implementing best practice in current accounting there has been a growing realisation across the world that traditional financial reporting provides insufficient information for decision-making. Of growing interest in China is integrated reporting, <IR>, which goes further than just assessing the financial resources captured on the balance sheet. <IR> includes other resources that are less easy to measure, such as human, natural and intellectual capitals, which have a bearing on the value of an organisation.

The ultimate goal for <IR> is to communicate an organisation's performance in the widest sense in a clear and relatively succinct way. This places demands on professional accountants for understanding the 'bigger picture' of government objectives and strategy, and demonstrating how government uses resources to achieve its aims and measure the impact of its activities.

‘There is a need for an on-going conversation to describe the various aspects of the accountant’s role.’

China Roundtable participant

China has responded to the <IR> movement, introducing a reporting requirement for SOEs via its State-owned Assets Supervision and Administration Commission (SASAC) in 2008 (Lovells 2009). China’s largest SOEs have requirements to report against corporate social responsibility (CSR) and economic development, social progress and environmental protection. The Shenzhen, Shanghai and Hong Kong stock exchanges have also introduced reporting CSR guidelines for listed companies.

### THE ACCOUNTANCY PROFESSION

15

Accounting skills capacity in transitional economies

19

Flexibility, suitability and cost of accountancy training

25

Societal expectations and definitions of accounting

**Accounting skills capacity in a transitional economy** such as China is key, and identified as a key driver of change in this report. Distrust in governments is seen as an increasing global risk (WEF 2016) and it is imperative that governments do all they can to build trust and engage with the populations they serve (WEF 2016). The provision of reliable information on government spending and financial performance is an important element in building this trust. In particular, fiscal transparency is a critical element of effective fiscal policymaking and the management of fiscal risks (IMF 2013). In China there is significant awareness of these pressures; in 2015 the Chinese Institute of Certified Public Accountants (CICPA) highlighted that the profession needed to respond to the need for higher quality information as a consequence of an increased flow of foreign investment.

There is, however, a danger that existing accounting capacity will be undermined or reduced. In ACCA’s survey *Generation Next* (ACCA 2016b), the respondents in the public sector in China, who were all under the age of 36, indicated that their key motivators for a career in the profession were jointly (55%) the opportunity for developing a broad range of skills and the longer-term career prospects. Despite this,

50% of public sector financial professionals in China (compared with a figure of 33% in all sectors in China) indicated that the lack of a transparent career path was a barrier to their career progression. A lack of value placed on their current role (38%) and organisational barriers and culture (35%) were also cited as significant factors, as was the lack of available roles (32%). Only 19% of the respondents indicated that their next career move would be to remain in the public sector; 40% were looking to move to a large private sector business.

**Flexibility, suitability and cost of accountancy training** are also key in ensuring adequate capacity for the public sector in China for the future. Training financial professionals needs to be flexible to suit employers’ needs and employees’ work commitments, location and preferred learning styles. Professional training is a significant investment for the trainee and employer. It needs to be cost effective. This includes having suitable HR policies to ensure that individuals with the suitable commitment and ability are selected and, once qualified, clear retention policies will be essential.

Having the relevant skills and knowledge is the foundation but professional accountants in the public sector will need additional skills and qualities and, as their role evolves and as their industries and sectors reform and respond to challenges, other skills will become more important. For the public sector these will include, in particular, analysis, decision support and change management skills. Professional accountants in China should not only be record-keepers of past performance, but will need to be influencers of future performance to ensure appropriate stewardship and sound financial management.

As the Chinese economy continues to transform, finance professionals in the public sector in China can expect **societal expectations and definitions of accounting** to continue to change, and this is also seen as a key driver determining the future of the profession in the country and in the sector. The country’s particular political, legal, sociocultural and economic environments have helped to shape the profession’s development in the country so far, and will continue to do so as China continues to play an increasingly important role on the world’s economic stage.

China now plays a central role in the global economy, and the public sector in China is essential to its overall future success.

China is the second largest economy in the world with a population of over 1.3bn. Its economy continues to grow at a remarkably rapid pace with expectations for 2017 to be over 6%. It is the world's largest exporter and so is very dependent on the success or otherwise of the global economy. Behind the headlines, however, there remain continuing challenges that will affect the provision of public services; China's market reforms will also continue to evolve. Alongside rapid economic development over the last 20 years, there is a closer focus on sound governance and interventions to address concerns in areas such as social inequality, rapid urbanisation, geographic wealth distribution and environmental issues. And there are also enormous infrastructure projects shaping the future destiny of the economy, such as the 'Belt and Road' initiative. All these issues, of course, ultimately affect the country's public sector in different ways.

In spite of its relative economic success, China also faces other challenges that will need to be carefully managed in the future, and that will also have an impact on the public sector. Its population is ageing faster than anywhere else in the world and in early 2016 it formally ended its 'one child' policy. The ageing population could put significant pressure on those of working age and workforce structures, as well as presenting challenges more broadly for the state sector. There are also challenges in dealing with gender diversity and managing the inter-generational workforce. Perhaps unsurprisingly, the quality and availability of the talent pool was identified as the number one driver of change across the public sector in China yet challenges also remain for education provision, partly in response to the deep structural change that the Chinese economy has been undergoing.

Yet, amid all these challenges, there remain significant opportunities for professional accountants in the public sector in China. Technology developments are going to have a significant impact on the overall economy and the state sector, and will influence heavily the role of professional accountants therein. Linked to this is the availability of good data in the public sector that can be exploited effectively to drive better service delivery and information, as well as challenges for the

governance and control over use of the data. Significant growth of China's labour-productivity by 2025 can be expected to come from digitalisation of the workplace, particularly as new business models and service delivery models evolve. Professional accountants in the public sector have opportunities for capitalising on emerging technologies and better data to help drive value for their organisations.

There are also opportunities for better reporting. Since 2007, the Accounting System for Business Enterprises and Auditing Standards has been established, indicating a move towards harmonisation with IFRS. More recently, in 2015, the Chinese Accounting Standards for Business Enterprises and the IFRS Foundation announced the formation of a joint working group to advance IFRS adoption further in the country, and there are similar aspirations for the application of IPSAS. There are also shifts towards greater recognition of integrated reporting and corporate social responsibility (CSR) reporting requirements for SOEs. In all these developments, professional accountants in China are increasingly key to policy development, providing strong financial leadership in a challenging environment and being integral to continuing to ensure appropriate stewardship, which is attractive for inward investment purposes. To contribute effectively, however, they will need to develop the appropriate skills and capabilities, and recognise how these need to change as the sector develops. ACCA (2016b) research has also recently suggested specific retention challenges in the public sector in China, so effective talent management in the sector will be critically important in the future.

## **A PLATFORM FOR ENGAGEMENT**

The aim for this global project is to provide a platform for engagement between China's public sector organisations, professional accountants and the wider community of stakeholders. No future-oriented work of this type can ever hope to be definitive, but this report provides an important input into the development of future public sector strategy. It provides accountancy professionals, and the organisations in which they work, with a framework for preparing for, adapting to and influencing changes.

**ACCA would like to thank those who participated in producing *Drivers of Change: China*.**

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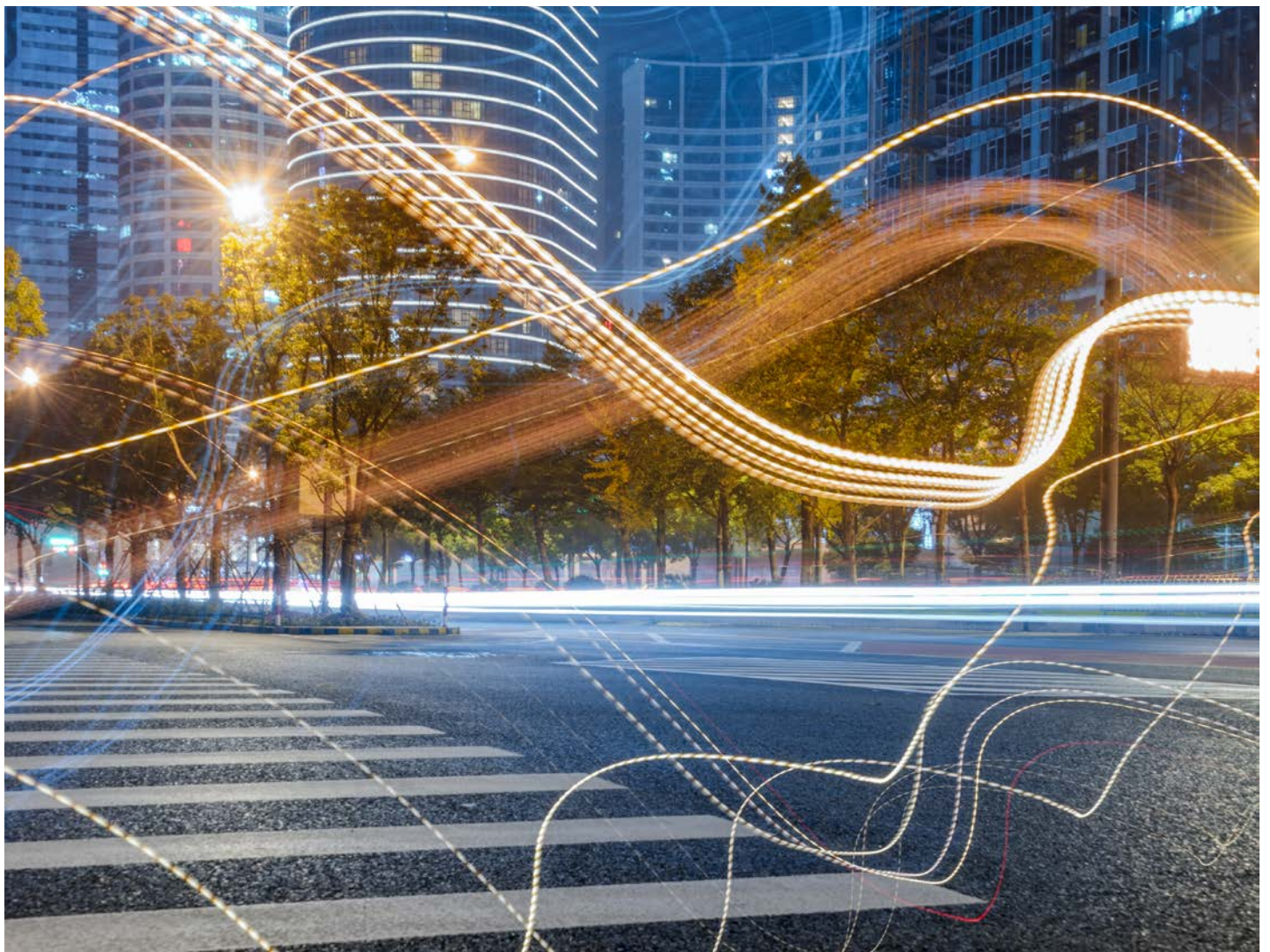
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Mu Tao, Supervisor, Shanghai Stock Exchange



## ECONOMY

### 1. Stability of the global economic infrastructure

The global economy, trade and financial flows are dependent on a complex underpinning infrastructure that comprises a range of key agreements, standards, systems, checks, balances and governance frameworks.

### 2. The level of economic growth

Growth expectations influence business confidence, consumer spending, government planning and budgeting, and management of the micro and macro economy.

### 3. Consideration of alternative economic perspectives

The financial crisis has offered a chance for nations to explore new economic perspectives and models traditionally neglected by mainstream economic thought. A serious examination of these perspectives could help reformulate the global economic system along more environmentally sustainable and equitable lines.

### 4. Total scale and distribution of global inequality and unmet needs

Higher income inequality, (as noted by OECD) within countries correlates with higher unemployment, higher crime rates, lower average health, weaker property rights, limited access to public services, lower social mobility, more social unrest, and less trust within and across the society, leading to more fragile democracies. This presents huge challenges for public sector and how it develops policies to meet these challenges.

### 5. Broadening measurement of public sector value and progress

How we assess value, progress and performance for government is expanding rapidly to take account of non-financial measures of development encompassing everything from innovation to happiness.

### 6. Stability of national revenue bases

The stability of national revenue bases is considered a prerequisite for the economic well-being of countries as it affects governments' ability to provide public services. Generally, government revenues are derived from direct taxes paid by households (mainly personal income tax) and corporations; and indirect taxes, social contributions and revenues from state owned assets and enterprises.

### 7. Manageability of national and international debt

The manageability of national and international debt is important for macroeconomic stability, business confidence and future economic development prospects. Levels of public debt also have important ramifications for citizen well-being, unemployment levels and the provision of social welfare services. Globally, the economic outlook is increasingly influenced by the views of policymakers, central bankers and financial institutions on the sustainability of sovereign debt.

### 8. Level of investment required to maintain national physical infrastructure

Physical infrastructure forms the economic backbone of all economies. The quality and resilience of a national infrastructure has a direct influence on the growth, competitiveness and attractiveness to inward investment of a nation's economy. The standard of economic infrastructure, encompassing water, waste, transport, energy and communications, affects the quality of life for citizens as well as the ability to meet objectives and commitments regarding sustainability and reducing carbon emissions.

## POLITICS AND LAW

### 9. Focus of global governance institutions

A network of governance institutions such as the World Bank, IMF, World Trade Organization (WTO) and the UN could face intensifying pressure to adapt their structures to the reality of the changing world. There is, however, still a belief among developing nations – such as the G77 grouping – in particular that they need a stronger voice in the wider set of global governance institutions.

### 10. Rate of democratic transition

The rate of democratic transition is changing the global landscape. Political changes may open up the economy, attract foreign investment, create business opportunities and drive the growth of domestic segments but swift changes in power can be violent and disruptive – creating political and economic instability.

### 11. Level of international political volatility

The level of political volatility caused by popular uprisings or the actions of hostile nations and terrorists groups can pose a threat to both the physical and economic integrity of a state. Such fluctuations can affect inward investment and spending in a country thus seriously affecting the state's economic performance, and reduce confidence of global financial markets.

### 12. Governance and delivery of outsourced public services

The way in which public services are managed, funded, supplied and consumed is changing fundamentally, in line with the financial struggles that nations face. In order to meet higher demands with smaller public funds, it is likely that 21st century public services will look radically different in the future and from what was seen in the 20th century.

Public sector provision is increasingly moving to the private sector raising questions around governance and risk.

## SOCIETY

### 13. Scale and distribution of global population growth

A number of key trends are shaping the world's demographic landscape. The global population is expected to continue to grow at least until 2050, forecast to reach 9.3 billion. At the same time, overall fertility levels are declining. These global trends mask marked differences at the national and regional levels. There are numerous cultural, social and economic factors that both affect and are affected by global demography.

Rapidly growing populations also present economic and capacity-building challenges for governments seeking to provide public services.

### 14. Spread of diversity in society and the workplace

Greater mobility across the globe has a great impact on the level of diversity. Cultural diversity and Increasing levels of female participation in the workforce is seen as both an important social goal and a vital way of maximising the use of available talent to maintain or bolster economic development.

### 15. Workforce age structure

A downward trend in global fertility coupled with an ageing society means that each future generation could be smaller than the previous one. Although the global population is still growing the average age is also rising.

With the abolishment of the default retirement age and workers staying in senior positions longer, organisations have to factor in increased salary and healthcare costs. As existing retirees re-enter the workforce owing to a combination of low pensions and removed barriers, organisations will have to consider how to attract, retain and integrate older talent.

### 16. The workplace expectations of Generation Y, Z and beyond

One of the biggest challenges faced by organisations today is how to understand and respond to the expectations of generations coming into the workplace.

### 17. Cost and ease of access to higher education

The economics of education is changing as public budgets shrink and institutions have to compete for funds, raise fees and cut unprofitable courses. Rising cost of higher education has important ancillary impacts for the level of personal debt for students and their equality of opportunity.

Online channels for delivering education are also changing the nature and delivery of professional development. The uptake of online learning may increase in emerging economies.

## BUSINESS

### 18. Use of Public Private Partnerships (PPPs)

Governments have been and are increasingly looking to partner with private sector to help fund large scale public infrastructure programmes. This has led to significant growth in the adoption of PPP/PFI initiatives. However the perception that any risk of failure lies with public sector and reward is with the private sector.

### 19. Business leader responsiveness to change and disruption

Momentous economic and social forces are currently reshaping the world. At the same time, disruptive advancements – often enabled by technology – are affecting everything from industry structures, through societal governance to the nature of human interaction. The ability of organisations to adapt to new challenges and opportunities created by change and transformation is becoming a key determinant of success or failure in a turbulent operating environment.

### 20. Quality and availability of the global talent pool

Access to talent at all levels is consistently identified as a critical future success factor for all organisations. The challenge of securing a suitable flow of talent is increasingly becoming a top priority for leaders who are finding growth and development ambitions hampered by talent shortages. The quality of education itself seems to be a critical talent issue.

### 21. Extent of foreign direct investment in developed and developing economies

Foreign direct investment (FDI) flows are an important source of investment and economic growth for many countries. In an uncertain and highly competitive global economy, ensuring that a destination is seen as a safe location for FDI is becoming an increasing priority for many countries and their governments.

### 22. Speed and duration of business cycles

As technologies such as the internet compress time and distance, organisations are under pressure to adapt their structures, processes and systems on an almost continuous basis. As a result, there is a growing emphasis on the need for speed, flexibility, adaptability and responsiveness. These in turn demand rapid decision making and shortening cycles for execution of change. Public sector organisations will need to factor this in policy development and implementation.

### 23. Experimentation with and adoption of new business models

In an uncertain economic climate, the pace of introduction of new business models could accelerate. These new models have the potential to disrupt and reinvent industries. As pressure on public finances increase the need to develop new models of financing and alternative revenue and pricing models.

### 24. Crowd sourced funding for innovation: the consumer as investor

The internet has facilitated the emergence of new finance models that allow organisations to fund product development and service delivery in advance via crowdsourcing using online platforms. The public sector needs to be able to respond to such rapid changes.

### 25. Adoption of integrated systems thinking to manage business complexity

The perceived shortening of business cycles is creating major challenges in terms of how we design, manage and change highly complex, globally interconnected and rapidly evolving businesses. While the timescales for action are shortening, the perceived complexity of the task of making change happen is growing.



#### **26. Enterprise risk management capability**

There is growing concern and increasing uncertainty over the nature and scale of risks to which organisations are – or could be – exposed. At the same time, new risks and sources or concepts of risk, such as resource wars, are emerging. The ability to effectively manage this is increasingly important.

#### **27. Evolution of corporate governance regulation and practice**

Traditional structures of corporate governance stem from legislation, regulation and institutional best practices. They are intended to oversee the conduct of business and the management of relationships among and between internal and external stakeholders. These governance rules should improve accountability, reduce corruption and avoid conflicts of interest. A general push for greater transparency for public spends has driven increased expectations for accountability and demonstration of robust risk-management policies.

#### **28. Scope and diversity of expectations of external stakeholders**

The range of stakeholders for public sector organisations and the breadth of their concerns and expectations are increasing in the wake of a period of enormous economic turbulence and systematic failures. As a result, regulatory, transparency, ethical and performance demands of this growing range of external stakeholders are expanding for the organisation, the finance function and the accountancy profession.

#### **29. Pressure to manage reputation as part of business strategy**

The public sector has always had challenge of corporate reputation management which has been compounded by the instantaneous nature of the internet and social media in particular. The challenge is to manage long term government priorities whilst managing short term 'shocks'.

### **SCIENCE AND TECHNOLOGY**

#### **30. The digitisation of work**

Increasing digitisation is transforming the nature of work and working practices in almost every sector. It is reasonable to assume that task automation will extend to ever-more knowledge-intensive, analytical and judgement-based work activities over the next decade and beyond.

#### **31. Cyber security challenges for government**

The increased reliance on computers in our daily lives and digitisation of financial services has opened up individuals and organisations to threats from cyberspace. Threats and attacks are typically conducted by groups and individuals who hack systems to attain both ideological and financial goals.

#### **32. Big Data: the development and exploitation of large organisational databases, data mining and predictive analytics**

There is a growing interest in how organisations can exploit 'Big Data' – the large and growing databases of customer and transactional information being generated through daily activities. The challenge is to create new toolsets that enable the management and manipulation of these large datasets and to generate powerful predictive insights about future customer behaviour. As governments are usually the largest collector of data, increasing use of data mining and predictive analytics should help to spot possible future opportunities, shocks, issues and challenges.

#### **33. New industries and production models**

Advances in science and technology are yielding radical new industrial processes that could be the basis of major industries of the future. In many cases, these industries are also introducing new business models and distribution approaches.

#### **34. Advances in genetic science, Impact of nanotechnology advances and robotic science across business sectors**

Advances in science have revolutionised humankind's understanding and control over the natural world. Opportunities are being created through nanotechnology and rapid progress in robotic science has led to the development of sophisticated machines that perform a wide range of industrial and domestic tasks. In medicine, a major field of study is the development of miniature robots that can be ingested and then repair damaged cells and organs in the body. This places great pressure on governments to ensure there is regulatory rigour to address ethical concerns raised and simultaneously explore opportunities to manage better healthcare provision.

### **ENVIRONMENT, ENERGY AND RESOURCES**

#### **35. Global climate change and**

There is increasingly widespread agreement that the planet faces a real and growing risk from dangerous climate change and their impacts are unpredictable. New environmental risks – such as hereto unforeseen extreme weather events place significant pressure on public funds to manage the aftermath and develop robust preventative measures such as effective flood defences.

#### **36. Competition for limited natural resources**

Increasing demand for finite resources places pressures on governments to promote ethical resource consumption and maintain economic growth.

#### **37. Carbon tax and other environmental market mechanisms**

There is a growing move by governments to use taxation and market mechanisms to encourage more environmentally sound behaviour and provide the funds to finance environmental protection and clean-up costs.

#### **38. Scale of take-up in alternative energy by business**

Governments are evaluating and encouraging the greater use of alternative energy sources as one route to reducing dependency on carbon-based fuels. Increase of alternative forms of green energy, such as solar, wind and bio-gas, has given organisations a wider range of options for fulfilling their energy needs.

## THE PRACTICE OF ACCOUNTING

### 39. Defining the scope of the accountant's role

Definitions of the accountant's role vary around the world. Common features include maintaining a record of an organisation's assets, transactions and financial activities, carrying out audits and ensuring compliance with financial and tax regulations.

The evolution towards becoming a more strategic partner within a business or as an external supplier may allow accounting to become a more integrated part of organisations.

### 40. Size and complexity of the CFO's remit

Organisations face a series of threats including macro-economic instability, consumer uncertainty, market volatility and increasing administrative complexity. At the same time, rising energy prices and a reconfiguration of the global landscape towards the emerging economies also present prominent and persistent challenges. As such, the role of the CFO is changing rapidly in line with constantly evolving expectations, demands and operating contexts.

### 41. Non-financial information and integrated reporting

The challenge of providing a total picture of organisational health is driving the move to communicate both financial and non-financial performance data in an integrated reporting format. Non-financial information is increasingly recognised to be as important as financial information as a driver of business value and risk. In response to demands for a holistic picture of organisational health, the model of integrated reporting is increasingly being adopted.

### 42. Clarity in financial reporting and defining the audit function

The goal of financial reporting is to present shareholders and regulators with a clear picture of an organisation's financial health.

The role of the audit function is to ensure that the accounts have been prepared in accordance with the regulatory framework, verify that the underlying procedures are robust and that the organisation's financial position has been clearly represented

### 43. Balance between external financial accounting and internal managerial accounting

A constant challenge for accountants is striking the right balance between external financial reporting requirements and internal managerial accounting. Both are expected to become more demanding and complex over time. Furthermore, as demands grow for a more integrated and holistic approach to external accounting, so the distinction between the two may reduce.

### 44. Opportunities arising from adoption of global regulation

As business globalises beyond traditional boundaries and more economies open up to adopt global practices and norms, the need for global regulation increases. Both opportunities and challenges arise from the implementation of global regulatory systems.

There are a number of significant factors for governments, firms and accountancy practitioners trying to implement global regulations. These include the rate of change, the distance between practitioners and those defining and implementing legislation, the operational context, and the complexity of regulations required to deal with the range of issues.

### 45. Adoption of globally accepted accounting standards

The introduction and global adoption of international accounting standards is seen by many as a desirable but unachievable goal. Others argue it is an essential prerequisite of true globalisation. In accountancy, steps towards global norms have been achieved with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and International Public Sector Accounting Standards (IPSASs) that are being aligned to IFRSs to ensure greater comparability between public and private sector financial reporting.

## THE ACCOUNTANCY PROFESSION

### 46. Societal expectations and definitions of accounting

One of the big long-term questions for the profession is the extent to which the definition of what accounting is, and what it entails, may change over the next decade or more. The evolving scope and nature of accounting and the role of the accountant are being shaped by changes in multiple influencing factors. These include how the global economy is regulated, political motivations, disruptive technology developments and evolving business expectations.

### 47. Flexibility, suitability and cost of accountancy training

In a changing world, the spotlight inevitably falls on the capability of the education system to respond to the continuously evolving training needs of businesses and the professions. Economic changes, new business models and evolving regulatory demands will continue to create new and additional strategic, accounting, compliance and reporting requirements. The profession must demonstrate its ability to operate in a state of 'continuous evolution'.

### 48. Accounting skills capacity in transitional economies

Many developing economies are now producing significant numbers of well-trained professional accountants. Others, however, may have to undergo a fundamental transformation of their accountancy education system. Such a transformation process would include bolstering higher education course design and teaching methods.

### 49. Level of entrepreneurial skills in the accountancy profession

CFOs are increasingly expected to adopt a broader strategic and entrepreneurial role across the organisation. A greater emphasis on basic entrepreneurial skills such as business leadership, creativity, team-building, communication, negotiation and sales literacy could be integrated into accountancy training and continuous professional development.

### 50. Public perception and attractiveness of the accountancy profession

The public standing of and trust in accountants are critical to the effective functioning and attractiveness of the accountancy profession. Any issues could hamper the ability to recruit and retain top talent to the profession. Another key consideration for would-be entrants is the level of remuneration a big issue for the public sector where salary tends to be lower.

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