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The Development of Accounting and Auditing in China: Historical and Ethical Aspects

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ABSTRACT

The coursework includes 93 pages,10 tables, 34 references.

ACCOUNTING HISTORY, AUDITING HISTORY, ACCOUNTING ETHICS, AUDITING ETHICS, INSTITUTIONAL CHANGE

Object of study-This dissertation systematically examines the development context of China's accounting and auditing, focusing on the mutually constitutive relationship between historical evolution and ethical dimensions. By tracing the progression from ancient accounting and modern fiscal reform to the accounting system under a planned economy, and from the marketization and globalization processes since reform and opening up to the contemporary informatization and intelligent auditing environment, it reveals the interaction mechanisms among institutional frameworks, professional practices, and ethics across different historical periods.The analysis also considers the interaction and tensions between global governance frameworks (such as international accounting standards, auditing standards, and cross-border capital market supervision) and local systems.

Subject of study- The institutions, professional practices, and ethical relationships within China’s accounting and auditing systems and their evolution. Historical periodization actors include state governance, corporate governance, professional bodies, and regulators, and their roles and interactions at different historical stages. Against the backdrop of historical continuity and institutional change, the study investigates the connections and frictions between global governance and local frameworks.

Goal of the work- To elucidate the functions and changes of accounting in formation quality in national governance and corporate supervision. To assess h ow, under different institutional arrangements, auditor independence, professiona l ethics, and interest conflicts affect the reliability of accounting information.To reveal the roles and limitations of ethical principles in detecting and correctin g financial fraud, information deviations, and auditing approaches (including im plications for insurance).

To examine the interactions and conflicts between the global governance framework and local systems. To propose, within the context of historical continuity and institutional transformation, pathways to enhance trust and effectiveness in the accounting and auditing professions through moral education, stronger professional norms, improved supervisory independence, and more transparent information disclosure mechanisms. To provide a detailed exposition on the evolution of the relationship between auditors and the emergence of new technologies, particularly with the advent of AI, offering ethical direction and practical guidance for policymakers, regulators, corporate governance, and practitioners. The study aims to contribute to both scholarly understanding of China’s accounting and auditing system evolution and to practical policy relevance for high-quality development and international coordination of China’s capital market.

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CONTENTS

INTRODUCTION

Accounting and auditing are universally recognized as the bedrock of transparent financial markets and effective corporate governance. Their function extends beyond mere record-keeping to encompass the vital role of fostering trust among investors, regulators, and the public. In the context of the global economy, China's unprecedented economic ascent presents a compelling and critical case for examining the evolution of these disciplines. The trajectory of accounting and auditing in China is not merely a technical narrative of standards adoption; it is a profound story of a system navigating the complex interplay between deep-rooted historical traditions, a transformative socialist market economy, and the pressing ethical demands of global integration. This thesis, therefore, seeks to explore the development of accounting and auditing in China through the dual lenses of history and ethics, arguing that a comprehensive understanding of its current state is impossible without appreciating these foundational aspects.

The historical pathway of Chinese accounting is distinct, marked by a dramatic rupture from its ancient, indigenous bookkeeping methods to a Soviet-inspired model in the mid-20th century, and subsequently, to a rapid convergence with International Financial Reporting Standards (IFRS) in the era of reform and opening-up. This journey reflects the nation's broader socio-economic transformations, where accounting systems were often tailored to serve the needs of state planning rather than market disclosure. The legacy of this planned economy era continues to cast a long shadow, influencing institutional structures, professional mentalities, and regulatory approaches. Understanding this historical context is crucial for deciphering the unique challenges and resistance encountered during the modernization and internationalization of China's financial reporting practices.

Meanwhile, the ethical dimension of accounting and auditing in China is also a crucial area of exploration. The ethical framework of this profession is interwoven with Confucian values emphasizing harmony and relational obligations, the Legalist tradition of state control, and introduced Western principles of independence and professional skepticism. This complex ethical environment has been severely tested by rapid marketization, leading to high-profile corporate scandals and auditing errors that have shaken investor confidence. Investigating these ethical challenges—from relationship networks eroding auditor independence to revenue management pressures—reveals the tension between traditional social norms and the general ethical requirements of the accounting profession. Against this historical and ethical backdrop, this paper traces the development of accounting and auditing in China, clarifying how past institutions and evolving ethical norms have shaped its

contemporary practice. Furthermore, delving into accounting ethics, the introduction of new technologies such as AI brings new considerations to the survival and development of accountants. By integrating these two perspectives, the research aims to provide a nuanced analysis that goes beyond simple chronological narratives or purely technical standard assessments. The ultimate goal is to gain a deeper understanding of the forces shaping China's financial reporting ecosystem and to consider the ongoing challenges it faces in balancing its unique national context with the demands of global capital markets.

1 Overview of Theoretical Basis

1.1 Relevant Theories of Accounting and Auditing in China from Historical and Ethical Perspective

Accounting, as a foundational practice of economic activity, has evolved dynamically alongside societal, economic, and cultural transformations. Its theoretical framework not only reflects historical responses to practical needs but also embodies ethical norms that guide professional conduct. This section explores core accounting theories through historical and ethical lenses, revealing how historical contexts shape theoretical development and how ethical principles embed into accounting practice.

On Historical Perspective on Accounting Theories

Stewardship Theory: The Historical Origin of Accounting Accountability

Stewardship Theory stands as one of the earliest accounting theories, emerging from the need to monitor resource management in pre-industrial societies. In feudal systems and early merchant economies, owners (principals) delegated resource control to stewards (agents), demanding transparent reports on resource utilization and preservation. Accountants developed double-entry bookkeeping—pioneered by Luca Pacioli in the 15th century—to systematically record transactions, enabling principals Historically, this theory emphasized accountability and transparency, laying the groundwork for modern accounting's core function of information disclosure. As industrialization expanded organizational complexity, Stewardship Theory evolved to include broader stakeholder oversight, but its essence—holding agents responsible for resource management—remains integral to financial reporting.

Positive Accounting Theory (PAT), proposed by Watts and Zimmerman in the 1970s, marked a paradigm shift by focusing on explaining and predicting accounting practices rather than prescribing norms. Rooted in agency theory and efficient markets hypothesis, PAT argues that managers (agents) choose accounting methods to maximize their interests, while shareholders and creditors (principals) respond through contractual arrangements. Historically, PAT emerged amid the rise of modern corporations and fragmented ownership, addressing conflicts between managers and stakeholders in capitalist economies. It highlights how accounting practices adapt to economic incentives — for example, managers may select income-increasing accounting policies to secure bonuses or reduce debt covenant violations. By linking accounting choices to economic behavior, PAT reflects the historical shift toward evidence-based, empirical analysis in accounting research, aligning with the broader positivist movement in social sciences.

Institutional Theory contextualizes accounting within broader social, political, and cultural institutions, emphasizing how external structures shape accounting practices. Historically, accounting systems have adapted to institutional pressures—for instance, the development of uniform accounting standards (e.g., IFRS) reflects the need for

global economic integration. In the 20th century, governments and regulatory bodies established accounting regulations to address market failures, such as the 1929 stock market crash that prompted the U.S. Securities and Exchange Commission (SEC) to mandate standardized financial reporting. Institutional Theory argues that accounting practices are not merely technical but socially constructed; organizations adopt legitimate accounting methods to gain social acceptance. This historical perspective reveals how accounting evolves to meet institutional demands, balancing technical efficiency with social legitimacy.

Stakeholder Theory challenges the shareholder-centric view by asserting that firms must account for the interests of all stakeholders—employees, customers, communities, and the environment. Ethically, this theory emphasizes justice and inclusivity, arguing that accounting should not only serve financial capital providers but also protect vulnerable stakeholders. For example, ethical accounting practices may disclose environmental impacts or labor conditions, enabling stakeholders to assess a firm's social responsibility. Historically, Stakeholder Theory gained prominence in the late 20th century amid growing concerns about corporate social irresponsibility, pushing accounting to expand beyond financial reporting to include non-financial, ethical disclosures. It reinforces the ethical duty of accountants to provide comprehensive information that supports informed decision-making for all affected parties.

Virtue Ethics focuses on the moral character of accountants, emphasizing virtues such as integrity, objectivity, and professional competence. Unlike rule-based ethical frameworks, it argues that ethical behavior stems from cultivated virtues rather than compliance with regulations. Historically, accounting professionalism has long emphasized virtue—early accountants were trusted advisors expected to act with honesty and loyalty. In modern contexts, virtue ethics addresses limitations of legalistic approaches, such as accounting scandals (e.g., Enron, WorldCom) where accountants violated rules due to compromised integrity. By prioritizing virtues, this theory promotes ethical conduct beyond mere compliance, encouraging accountants to uphold the public trust. It aligns with the historical role of accountants as fiduciaries, emphasizing that ethical behavior is essential to maintaining the profession's legitimacy.

Utilitarianism, an ethical framework focused on maximizing overall happiness or utility, guides accounting practices to prioritize societal welfare. Ethically, accounting information should serve the public good by reducing information asymmetry and enabling efficient resource allocation. For example, transparent financial reporting helps investors make informed decisions, fostering market efficiency and economic growth. Historically, utilitarian principles have shaped accounting regulations—standard-setters design rules to minimize harm (e.g., fraud, misinformation) and maximize benefits (e.g., investor confidence, market stability). However, utilitarianism also raises ethical dilemmas, such as balancing the interests of different stakeholders. Accountants must weigh trade-offs to ensure their practices generate the greatest net social good, reflecting the theory's core ethical imperative.

Accounting theories are deeply intertwined with historical development and ethical values. Historically, theories have evolved to address practical challenges, from

stewardship in pre-industrial societies to institutional adaptation in globalized economies. Ethically, they reflect society’s expectations of accountability, justice, and social responsibility. For accountants and researchers, understanding these perspectives is critical: historical analysis reveals how theories adapt to changing contexts, while ethical analysis ensures accounting serves the public good. As accounting continues to evolve in the digital age, integrating historical insights and ethical principles will remain essential to developing robust, responsible accounting practices that balance technical efficiency with moral integrity. Looking ahead, research in Chinese management accounting theory will further focus on the synergy between global and local governance, emphasizing high-quality data governance, governance transparency, and sustainability.

With the rapid development of information technology, achieving a balance between protecting data privacy and enhancing analytical capabilities, and ensuring the effectiveness of governance mechanisms in multi-stakeholder environments, will become core issues. Simultaneously, national-level macro-policy guidance, industry regulatory requirements, and market-oriented reforms will continue to drive the deep integration of management accounting into state-owned enterprise governance, financial services, manufacturing upgrading, and the digital economy. Through continuous theoretical innovation, methodological refinement, and case-driven approaches, future research in Chinese management accounting theory will better serve the improvement of national governance capabilities and the enhancement of enterprises' long-term competitiveness. Parallel to this,Li (2008) observes that over three decades of reform, China’s accounting theory research has shifted toward greater rationality and scientific rigor, reflecting a mature progression from exploratory absorption to purposeful development.[1]

Ethical implications permeate the practical orientation of these theoretical advancements. Wang Man(2019) emphasizes that management accounting’s core mission—providing predictive and decision-making support for enterprises—embodies an ethical commitment to organizational sustainability. [2]She criticizes the fragmented "point-based management" in cost control, arguing it fails to serve strategic goals, and advocates for a "chain-based" mindset that connects dispersed data to holistic decision-making—a perspective rooted in ethical responsibility for comprehensive resource stewardship. Her call for "international research methods, localized content" further highlights an ethical imperative: avoiding mechanical replication of Western models and instead developing theories tailored to China’s enterprise realities.Li’s evaluation echoes this ethical underpinning: the shift toward scientific research paths reinforces the reliability of accounting information, which is fundamental to maintaining market trust and efficient resource allocation. [1]Together, these views frame Chinese accounting theory’s ethical core as balancing technical advancement with contextually responsible practice.

Auditing, as a crucial mechanism for economic supervision, has a long history and plays a key role in maintaining market economic order and ensuring the authenticity and reliability of financial information. This article aims to systematically explore relevant theories of auditing in China from both historical and ethical perspectives, striving to provide a comprehensive understanding of the development of auditing and

its basic principles in the Chinese context without altering the original intent.

First, from a historical perspective, Chinese auditing theory and practice have undergone a gradual process of improvement. Early fiscal supervision and government accounting systems laid the institutional foundation for the later concept of independent auditing. In modern times, with the transformation of the economic system, enterprise system reform, and the establishment of a market economy, auditing has gradually become more professional, institutionalized, and socialized. After the reform and opening up, the introduction of international accounting and auditing standards, the improvement of corporate governance structures, and the enhancement of information disclosure requirements have prompted auditing theory to be continuously enriched and updated in terms of evidence, procedures, risk assessment, and internal control. Overall, the historical perspective reveals the trajectory of the adaptive changes and institutional evolution of auditing in China's economic development.

The origin of auditing in China can be traced back to the Western Zhou Dynasty (1046 - 771 BC). The "Zai Fu" position was responsible for auditing financial affairs, which was the embryonic form of auditing, highlighting the importance of financial supervision for national stability [3]. During this period, the "accounting" concept was closely related to auditing, with an emphasis on the accurate recording and verification of economic activities.

In the Qin and Han Dynasties, the imperial examination system required local officials to report economic conditions regularly. The "Shang Ji" system, where local officials reported local financial revenues and expenditures to the central government, was a form of performance - based auditing.

The Sui and Tang Dynasties witnessed the establishment of the "Bi Bu" as an independent auditing institution under the "Ministry of Justice." It was responsible for auditing all financial revenues and expenditures across the country, with a focus on ensuring the legality and rationality of financial activities. It also formulated a series of auditing procedures and standards, promoting the standardization of auditing work.

China’s corporate auditing system is not a native institutional product but has evolved through the transplantation of Anglo-American auditing models and continuous adaptation to domestic institutional contexts. Historically, the germination of China’s corporate auditing can be traced back to the late Qing Dynasty. The Company Law of 1904, modeled after Britain’s corporate legal framework, introduced the "account examiner" system, requiring companies to elect at least two examiners to verify financial accounts and issue audit opinions—marking the initial form of China’s corporate auditing (Zhou, 2004).[4]

After the Opium War in 1840, Western auditing concepts gradually entered China. During the Republic of China period (1912 - 1949), the auditing system began to modernize. The government introduced Western - style auditing laws and regulations, and professional auditing institutions emerged. For instance, the establishment of the Auditing Yuan aimed to establish a modern - style auditing system, responsible for auditing government revenues and expenditures, state - owned enterprises, etc.

After the founding of the People's Republic of China in 1949, the auditing work initially followed the Soviet model during the planned - economy period, mainly

focusing on ensuring the implementation of the national economic plan, cost control, and production plan compliance in state - owned enterprises.

In the 1980s, with the reform and opening - up policy, China rebuilt its modern auditing system. In 1983, the National Audit Office was established, marking the formal start of modern auditing work. Since then, a series of auditing laws and regulations, such as the "Audit Law of the People's Republic of China," have been issued, emphasizing independent auditing, comprehensive supervision, and the role of auditing in safeguarding national economic security and promoting healthy economic development.

Integrity is the cornerstone of auditing ethics in China. The "Code of Ethics for Auditors in China" clearly requires auditors to be honest and objective, and not to be influenced by external interests. For example, when auditing financial statements, auditors must truthfully reflect the financial situation of the audited units, regardless of any external pressure. Integrity ensures the authenticity and reliability of audit results, which is crucial for investors, creditors, and the public to make correct decisions based on audit reports.

Independence is another core ethical principle in auditing. Auditors should maintain independence from the audited units in both form and substance. In form, they should avoid any situations that may lead to the suspicion of a lack of independence, such as having financial interests or kinship with the audited units. In substance, auditors should have the courage to make independent judgments and not be affected by the pressure of the audited units. For instance, when auditing a large - scale state - owned enterprise, auditors should not be influenced by the enterprise's powerful position and must conduct audits based on professional standards and facts.

Auditors bear significant social responsibilities. Their work is not only to provide accurate audit reports but also to contribute to the healthy development of the economy and society. They are responsible for detecting financial fraud, mismanagement, and other issues, and for promoting the improvement of corporate governance and internal control systems. For example, if an auditor discovers illegal financial operations during an audit, they have the responsibility to report it in a timely manner, so as to prevent potential losses to the state and society and maintain the normal order of the market economy.

The historical development of auditing theories in China reflects the country's social and economic changes over time. From the simple financial supervision in ancient times to the modern - day comprehensive auditing system, auditing in China has continuously evolved to meet the needs of different historical periods.

Ethical theories in auditing play a vital role in ensuring the quality and credibility of audit work. Integrity, independence, and responsibility are the core ethical principles that guide auditors' behavior.

As China continues to develop and integrate into the global economy, auditing theories will continue to develop. It is necessary to combine historical experience with modern ethical requirements, continuously improve the auditing system, and strengthen the ethical construction of the auditing profession to better serve China's economic development and national governance.

Independence, as the core of auditing ethics, encompasses both formal avoidance

of conflicts of interest and substantive independent judgment. Formal independence emphasizes that auditors must not hold shares, bonds, or other financial interests in the audited entity that could affect objectivity, nor should they have kinship, vested interests, or other connections with the audited entity that could induce bias. Strict formality helps prevent the pitfalls of "superficial independence" and maintains public trust in audit independence. Substantive independence requires auditors to maintain professional skepticism, independent judgment, and transparency even when facing pressure from the audited entity, demands for benefits, and the client's commercial influence. This includes refusing undue audit interference, upholding the sufficiency and appropriateness of objective evidence, and recording and disclosing the assumptions and chains of evidence upon which key judgments are based.

The social responsibility of auditors is reflected in three dimensions: protecting the public interest, promoting governance improvement, and maintaining market order. First, it involves discovering and exposing financial fraud, corporate governance deficiencies, and weaknesses in internal controls to prevent systemic risks and safeguard national economic security. Secondly, auditing should promote the continuous improvement of corporate governance structures and internal controls. For example, by providing constructive feedback on the quality of information disclosure, board independence, risk management systems, and internal control evaluations, auditors can encourage companies to establish more reliable accountability mechanisms. Thirdly, as market participants, auditors should adhere to professional ethics and standards to promote market transparency and credibility, thereby providing sound market signals to investors, creditors, and the public.

The historical development of auditing theory in China reflects the deep-seated patterns of socio-economic change. The evolution from ancient financial supervision to the modern comprehensive auditing system embodies a shift from "regulatory compliance" to "governance orientation." The ethical requirements of each stage correspond to the institutional environment, market structure, and regulatory capabilities of the time. For example, during the transition from a planned economy to a market economy, cultivating independence and professional skepticism was particularly important to address the challenges of information asymmetry and emerging capital markets. In the context of globalization, cross-border audit collaboration, cultural differences, and legal conflicts pose new demands on ethical development.

Looking to the future, auditing theory needs to align with global best practices while simultaneously strengthening ethical development in light of local governance realities. Specific pathways include: improving the independent governance framework and conflict avoidance mechanisms; establishing a more robust professional training and continuing education system, strengthening case analysis and scenario drills on ethical dilemmas; promoting audit transparency, traceability of evidence, and openness of methodologies; and strengthening ethical governance of emerging technologies (such as blockchain, data analytics, and artificial intelligence) in auditing to ensure that the application of technology enhances credibility rather than triggers new risks. By integrating historical experience into modern institutional design, auditing theory will be better able to serve the coordinated process of China's economic development,

national governance, and global governance.

Second, from an ethical perspective, auditing theory emphasizes independence, objectivity, professional competence, and social responsibility. Independence is not merely a formal avoidance of conflicts of interest, but rather a substantive capacity for independent judgment and professional skepticism; objectivity requires the sufficiency and reliability of audit evidence, as well as a neutral assessment of potential biases; professional competence emphasizes continuous education, methodological updates, and the improvement of professional skills; and social responsibility is reflected in contributions to public interests, market order, and governance improvement. Ethical principles have continuously evolved throughout history, reflecting national governance goals, market structures, and the context of globalization, forming a uniquely Chinese system of audit ethics.

This article, while tracing the historical context, aims to reveal the core connotations and formation mechanisms of Chinese audit theory, emphasizing the interaction between theory and practice. Through an analysis of historical challenges and ethical requirements, a clearer understanding of the fundamental logic, governance functions, and future development direction of the current Chinese audit system can be achieved. Ultimately, it hopes to provide a systematic, comprehensive, and operational theoretical framework for academic researchers, practitioners, and regulatory agencies, promoting dialogue and integration between Chinese audit theory and international consensus, and driving the improvement of China's economic governance capabilities and the continuous enhancement of market transparency.Compared with international ethical standards (e.g., the International Federation of Accountants’ Code of Ethics for Professional Accountants), China’s auditing ethics differ in orientation, content, and enforcem ent. Internationally, ethical norms prioritize "public interest," requiring auditors to bear responsibility for all stakeholders, while China’s early ethical standards were "compliance-oriented," focusing on meeting government supervision requirements rather than protecting public investors (Wang, n.d.).[3]

1.2 Literature Review

In terms of Historical Aspects of Chinese Accounting and Auditing Development:

Wang and Li (2020) pointed out that Chinese accounting history is in a marginalized predicament, attributed to weak historiographical foundations, lagging historical materials construction, and failure to integrate into the mainstream accounting knowledge system, making it difficult to provide insights for practical institutional construction.[5] To address this, they proposed strengthening research on basic theories and methodologies of accounting historical materials, enhancing collection and collation, and highlighting the characteristics of "special history" research to boost its guiding significance for real-world accounting systems.

Debates on Key Historical Facts:

• Regarding the claim that "Zai Fu" in the Western Zhou Dynasty was a national

audit official, Wu (n.d.) conducted a detailed investigation using classical documents such as Zuo Zhuan and Zhou Li. He found no records of "Zai Fu" engaging in audit activities and argued that Zhou Li is not a factual record of the Western Zhou Dynasty, concluding that the theory is unfounded.[6]

• On whether the Western Han "Shang Ji" constituted national audit, Wu (2001) analyzed the wooden slip "Ji Bu" from Yinwan Tomb No. 6. He confirmed that "Ji Bu" was neither an accounting book nor a report, thus negating the "Shang Ji" as national audit and calling for the correction of this academic misunderstanding.[7]

Accounting History Research Since 1980:

• Chen (2014) summarized research on ancient Chinese accounting history since 1980 into three categories: comprehensive, phased, and thematic.[8] Comprehensive research was marked by Guo Daoyang's A Draft History of Chinese Accounting, the first monograph systematically covering accounting evolution from primitive society to the PRC's founding. Phased research benefited from unearthed slips (e.g., Qin slips at Shuihudi, Han slips at Juyan) that advanced studies of Qin-Han and Three Kingdoms accounting. Thematic research delved into the "Sizhu Jiesuanfa" (四柱 settlement method) and folk accounting.

• Gao, Zeng, and Ran (2020) highlighted the significance of Guo Daoyang's A General History of Chinese Accounting—a 5-volume, 3-million-word work that systematically sorts China's accounting development, contributing to the inheritance of Chinese accounting culture.[9]

Cultural Dimensions and Theoretical Reflections of Accounting History:

• Xu (2014) explored Confucianism's influence on accounting from a historical perspective, emphasizing the necessity of integrating Confucian thought into modern accounting culture construction to carry forward China's inherent accounting cultural traditions.[10]

• Ye (2023) studied technology-driven Chinese accounting changes, adopting a collaborative evolution framework of artifacts, concepts, and institutions to reveal the interactive mechanism between technological progress and accounting development. This research aligns with the broader discourse on technology's role in historical institutional evolution.[11]

• Yang (2019) re-examined three meta-issues in Chinese accounting history research, providing methodological reflections on defining research boundaries, selecting paradigms, and balancing historical authenticity with theoretical interpretation—addressing long-standing methodological ambiguities in the field.[12]

• Fu (2022) analyzed the current status of Chinese accounting history research, noting achievements in historical context collation and material excavation, while pointing out gaps in cross-disciplinary integration and comparative studies with international accounting history.[13]

• Zhang (2021) traced the millennium-long context of Chinese-style bookkeeping, documenting the continuity of traditional accounting practices and their adaptation to social and economic changes across dynasties.[14]

• Liu (2020) focused on the dissemination of Chinese accounting culture, discussing how historical accounting practices have shaped contemporary accounting identity and advocating for enhanced cultural communication in accounting research.[15]

• The Research Group of "Series Issues on A General History of Chinese Accounting" (2018) proposed a preliminary research outline for systematic accounting history studies, outlining frameworks for periodization, thematic exploration, and interdisciplinary collaboration to guide future large-scale research projects.[16]

In terms of Ethical Aspects of Chinese Accounting and Auditing Development:

Ethical Challenges in Digital Transformation

• AI and Intelligent Technology Impacts:

Nong, Zhan, and Ran (2025) identified new challenges for accounting ethics education in the AI era: algorithm bias, data privacy risks, and diluted professional ethics awareness. [17]They criticized outdated curricula and single teaching methods, proposing curriculum updates, case-based teaching, and diversified approaches to cultivate ethical awareness.

Feng et al. (2024) analyzed ChatGPT's risks in accounting, including information "illusion," data security breaches, and ethics violations.[18] Their countermeasures included improving model accuracy, strengthening data management, establishing ethics supervision, and enhancing professionals' quality.

Jin, Li, and Jia (2024) discussed intelligent finance's dual impact: challenges like AI black-box risks, RPA vulnerabilities, and data leakage, alongside opportunities for optimizing corporate ethics and accounting information system integrity.[19]

Yang (2025) noted audit ethics challenges in AI application: human-machine collaboration responsibility ambiguity, algorithm defects undermining objectivity, and data collection violating confidentiality. He proposed a "principle-technology-system-organization" response paradigm, including algorithm justice principles and blockchain-based evidence storage.[20]

Corporate Ethics and Earnings Management:

Zhu (2025) found ethical issues in corporate earnings management: inaccurate information disclosure, weak internal controls, inadequate external audit, and poor professional ethics compliance. [21]She advocated for honest corporate culture, sound internal controls, improved external audit mechanisms, and ethics training.

Liu and Li (2024) categorized accounting ethical dilemmas under digital transformation into subject-related (professional judgment bias, fraud), object-related (data insecurity, tampering), and stakeholder-related (interest conflicts).[22] They proposed strengthening ethical literacy, ensuring data security, and establishing multi-dimensional supervision.

Li (2023) conducted a case study of R Company's financial fraud, linking it to deficient business ethics and accounting professional ethics, and proposed targeted governance measures such as strengthening internal oversight and ethics education.[23]

Audit Ethics Construction:

Wang (2024) constructed audit ethics from a philosophical perspective, noting flaws in the constraint system, weak supervision, and low dishonesty costs. [24]She proposed improving legal liability mechanisms, adhering to materialism for objectivity, and using dialectics to view auditing as a systematic process.

Meng and Wang (2021) defined four dimensions of new-era corporate audit ethics: patriotism (upholding national interests), safety (risk prevention), responsibility (economic, legal, social, and moral duties), and green (focusing on environmental

protection).[25]

Jin (2023) explored college internal audit development paths, emphasizing the integration of ethical norms into internal audit systems to enhance oversight effectiveness and risk prevention in the new era.[26]

Ethics Education and Curriculum Reform:

Gao, Yuan, and Yang (2025) demonstrated how "curriculum ideological and political education + information technology" optimizes business ethics courses, using digital tools to enhance students' ethical cognition and application abilities.[27]

Wang and Yao (2025) studied local universities' accounting curriculum ideological and political practices, taking "Business Ethics and Accounting Professional Ethics" as an example to propose paths like integrating real cases and digital teaching platforms.[28]

Yan and Zhang (2024) proposed an innovative ethics teaching model: "six-education coordination" (moral, intellectual, physical, aesthetic, labor, and ideological education) and "four-model integration" (theory, case, practice, and online models) to improve education effectiveness.[29]

Zhang and Wang (2024) shared reform experiences in accounting curriculum ideological and political education, emphasizing ethical content integration and interactive teaching to cultivate students' professional ethics.[30]

Zou (2024) focused on government and non-profit accounting courses, designing teaching strategies that integrate social responsibility and professional ethics education through scenario simulations and project-based learning.[31]

Yu and Zhang (2025) used practical cases to analyze business ethics construction, providing actionable references for enterprises to address ethical dilemmas in accounting practice.[32]

Talent Training and Ethical Competence:

• Wu (2023) linked digital transformation to accounting talent training, arguing that ethical competence—including data ethics and professional integrity—should be a core training objective, with curriculum adjustments to integrate ethics and digital skills.[33]

• Xie (2024) explored higher vocational accounting talent training under intellectual property transformation, emphasizing ethical education in intelligent accounting to cultivate talents with both technical skills and moral awareness.[34]

Summary of Key Findings:

This literature review has summarized the research on the historical evolution and ethical issues of Chinese accounting and auditing. In terms of historical aspects, research covers the marginalization dilemma, debates on key historical facts, research since 1980, and cultural and theoretical reflections. In ethical aspects, it involves challenges in digital transformation, audit ethics construction, ethics education and curriculum reform, and talent training and ethical competence.

Contributions to the Field:

This review systematically organizes the existing research on the historical evolution and ethical issues of Chinese accounting and auditing, clarifies the research context and achievements, and provides a comprehensive reference for subsequent researchers. It helps to promote the integration of historical research and ethical research in the field of accounting and auditing, and provides ideas for solving practical

problems.

Implications and Applications:

The findings of this review have important implications for accounting and auditing practice, education, and research. In practice, it can provide references for addressing ethical challenges in digital transformation and improving accounting and auditing systems. In education, it can guide the reform of accounting ethics education and talent training. In research, it can inspire new research questions and directions.

Recommendations for Future Research:

Historical Aspects: Strengthen cross-disciplinary research on Chinese accounting and auditing history, conduct comparative studies with international accounting history, and deepen research on the integration of accounting history and modern accounting practice.

• Ethical Aspects: Explore more effective solutions to ethical challenges in the context of deepening digital transformation, strengthen research on the construction of accounting and auditing ethics systems, and conduct in-depth research on the evaluation and cultivation of accounting professionals' ethical competence.

• Integrated Research: Carry out research that integrates historical and ethical perspectives, exploring how historical traditions affect contemporary accounting and auditing ethics, and how ethical concepts promote the development of accounting and auditing history research.

Final Thoughts;

The historical evolution and ethical issues of Chinese accounting and auditing are important research fields with rich connotations and broad prospects. This literature review is expected to contribute to the academic community's in-depth understanding of this field and promote the continuous development of relevant research.

Research Summary

Therefore, historically, Chinese accounting history research has yielded rich results in context collation, period-specific studies, and cultural analysis, but faces marginalization and insufficient in-depth exploration of some historical facts. Ethically, scholars have analyzed digital-era challenges and proposed countermeasures, yet lack research on long-term ethics construction mechanisms and technology-ethics coordination. Cross-disciplinary integration between history and ethics research also remains limited.

Future Prospects

Future research should:

(1) Strengthen accounting history studies, especially excavating under-researched period materials and exploring cultural connotations through interdisciplinary collaboration with history and sociology;

(2) Focus on emerging technologies' ethical impacts, developing targeted norms and dynamic supervision mechanisms adaptable to technological evolution;

(3) Integrate theory and practice to translate research into ethical construction guidelines for enterprises and educational institutions;

(4) Promote international exchanges while highlighting Chinese characteristics rooted in cultural traditions like Confucianism.

2.Specific Research on the Topic

2.1 Accounting in China from a Historical Perspective

With respect to early accounting systems and commercial bookkeeping traditions, the evolution of early accounting systems in China reflects a complex, gradual historical process shaped by social and economic structures as well as political power dynamics. Oracle bone inscriptions reveal the initial function of recordkeeping, centered on sacrifices, tributes, and military provisions, while also signaling the state's early impulse to control resources and stock. This "accounting as record" mindset laid a paradigm for later government fiscal management, emphasizing that recording serves not only bookkeeping but also regulation and governance.

During the Western Zhou, the administrative framework took shape, and institutions such as the Four Departments (Si Si) and Six Ministries (Liuqing) appeared, arranging information on finances, household registers, and grain production into specialized, hierarchical categories. The governance approach of "concurrent use of classics and histories" promoted more efficient transmission and coordination of fiscal information between the court and local authorities, strengthening the correspondence between accounts and realities and forming a governance logic of "managing finances by accounts, ruling by events." This logic improved the efficiency of state fiscal operations and laid a foundational institutional basis for treating accounting as a governance tool for future generations. A historical logic that treats accounting as an instrument of governance has, in later periods, been subject to systematic inquiry. For instance, by employing a framework of comparative auditing, one can better situate China's distinctive development trajectory within a global context.

The Song dynasty's commercial prosperity spurred deep changes in accounting, as bookkeeping transitioned from a state financial instrument to a core instrument of market governance. The emergence of double-entry-like methods demonstrated that enterprises pursued balance and self-correcting mechanisms among assets, liabilities, and owner's equity, while transparency and information symmetry increased, boosting trust among trading partners. A key phase in the long evolution of China's accounting system, this period, marks the point at which commercial demands began reshaping the formal institutional framework. The Longmen Book (Longmen Zhang) linked corporate credit to capital flows, creating a management pattern grounded in evidence. Internal processes of "reconciliation—verification—vouchers" elevated internal controls and supplied reliable credit and settlement bases for banks and other financial institutions, catalyzing the embryonic capital market and the early development of a credit system.

In the Ming and Qing periods, cross-regional commerce expanded and spread methods such as Jingfang Zhang, leading to widespread adoption. Its systematic subject classifications, complete voucher chains, and explicit financial statements embodied a governance philosophy centered on evidence. Accounting practice then elevated bookkeeping to a core enterprise governance tool, strengthening liquidity

management, cost control, and profit distribution transparency, and significantly enhancing the efficiency and risk management of interregional trade.Overall, early Chinese accounting evolved from a government-led, feudal official fiscal management model to a market-driven, commercial accounting governance framework. This transition not only mirrored the interactions between the state and social-economic structures but also formed a valuable, uniquely Chinese heritage within global accounting history, offering important insights into the complementarities and evolutionary logic of diverse accounting traditions. This historical trajectory—from state control to market orientation—laid a profound foundation for later institutional development. Its influence is most evident in several core dimensions of modern accounting and auditing systems:First, in the development of professional standards, which, mirroring the modern era, have always been significantly shaped by political forces, necessitating a balance between national governance and international alignment. Secondly, the function of auditing underwent a fundamental transformation. It likewise experienced a shift from merely satisfying national statutory requirements to becoming a service essential for market trust and corporate governance. Thirdly, the independence of practitioners, as a core principle, derives its importance from the intrinsic demand within complex business networks for reliable, unbiased information. More importantly, this entire historical evolution reveals that accounting has never been solely a technical discipline but rather a socio-economic institution. Its development laid the groundwork for later indispensable ethical frameworks. The commercialization of accounting inherently requires—and ultimately gives rise to—the standardized norms of professional conduct and business ethics, aimed at sustaining trust within increasingly complex markets.

Table 1 Evolution of the Accounting System in Ancient China

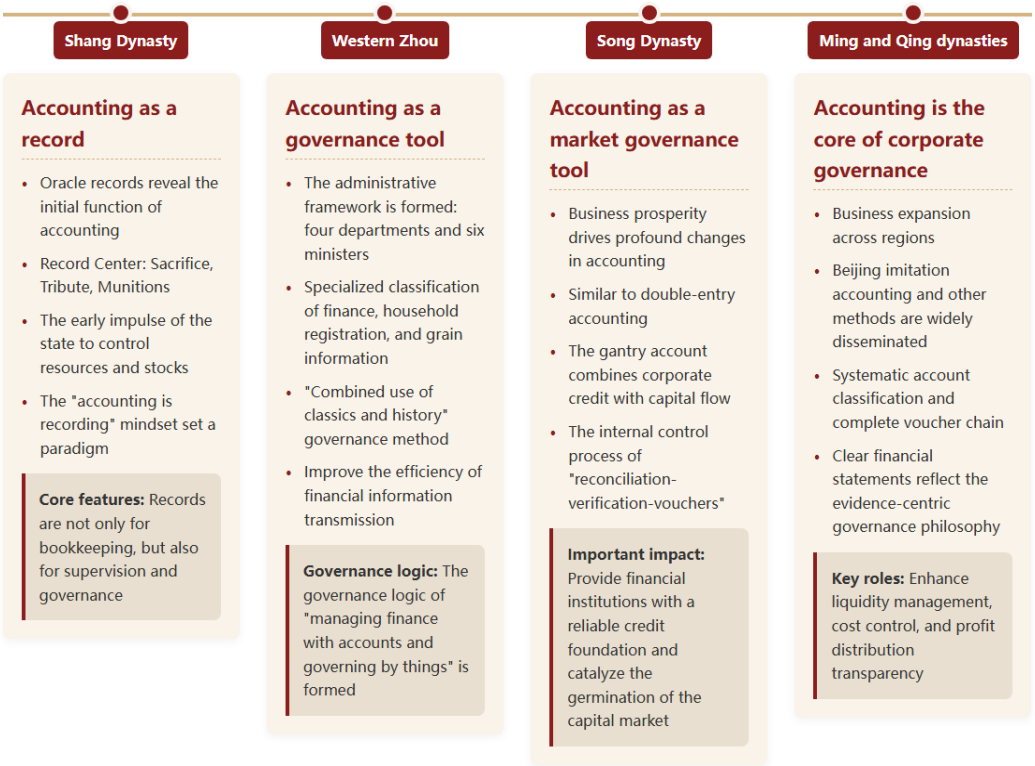


Table 2 A detailed comparison of the evolution of the ancient Chinese

accounting system

A detailed comparison of the evolution of the ancient Chinese accounting system

	Key features:	Historical significance and impact
Shang Dynasty	• Oracle records • Sacrifices, tributes, and military supplies records • National resources control impulses	It laid the mindset of "accounting is record", laid a paradigm for future government financial management, and emphasized that records not only serve bookkeeping, but also are used for supervision and governance.
Western Zhou	• The administrative framework of the four departments and six ministers • Specialized classification of financial information • "Combined use of classics and history" governance method	It has formed the governance logic of "managing finance by accounts and governing by things", improved the efficiency of national financial operation, and laid the institutional foundation for accounting as a governance tool.
Song Dynasty	• Similar to double-entry accounting • Gantry account application • Internal control process: reconciliation - verification - vouchers	Accounting has changed from a national financial tool to a core tool of market governance, which has improved the trust between trading partners, provided a reliable credit foundation for financial institutions, and catalyzed the germination of the capital market and the early development of the credit system.
Ming and Qing dynasties	• Beijing imitation accounting and other cross-regional methods • Systematized subject classification • Full document chain and financial statements	Accounting practices elevate bookkeeping to a core tool for corporate governance, enhancing liquidity management, cost control, and transparency in profit distribution, significantly improving cross-regional trade efficiency and risk management.

The evolution of early Chinese accounting unfolded as a dynamic dialogue between state power, commercial vitality, and social organization. In the earliest records, Oracle bone inscriptions reveal a dual purpose: they documented sacrifices and tributes, yet they also signaled a systematic impulse to monitor and allocate resources. This dual focus laid the groundwork for an "accounting as record" mindset that extended beyond ritual duties to encompass governance functions. By recording quantities, flows, and obligations, rulers could regulate resources, forecast shortages, and plan military provisioning. In this sense, accounting served as an early control mechanism embedded within statecraft.

As the Western Zhou state expanded, administrative architecture crystallized around specialized offices and formal procedures. The emergence of the Four Departments (Si Si) and the Six Ministries (Liuqing) carved the fiscal landscape into clear, hierarchical domains: finances, household registers, grain production, and related economic activities received distinct attention and accountability. The practice of concurrent use of classics and histories strengthened bureaucratic memory and ensured more reliable transmission of fiscal information between the court and local authorities. This facilitated tighter coordination between accounts and real economic conditions, enabling the state to respond more swiftly to fluctuations in grain yield, tribute flows, and military demands. Over time, officials embraced a governance logic of "managing finances by accounts, ruling by events," linking numerical records to concrete policy maneuvers and public outcomes. This linkage improved the efficiency of fiscal operations and established a durable institutional basis for treating accounting as a tool

of governance rather than a mere clerical function.

The Song dynasty marked a watershed as commercial prosperity intensified and cash flows expanded beyond courtly revenue into vibrant market activity. Bookkeeping evolved from a solely state-centered instrument into a core mechanism of market governance. Double-entry‐like methods emerged as merchants sought balance and self-correction among assets, liabilities, and owner’s equity, promoting transparency and reducing information asymmetry. The Longmen Book (Longmen Zhang) forged a direct connection between corporate credit and capital movements, shaping a governance pattern grounded in empirical evidence. Internal processes centered on reconciliation, verification, and vouchers strengthened internal controls, supplying reliable bases for credit and settlement within banks and other financial institutions. These developments catalyzed the embryonic capital market and the early credit system, enabling more sophisticated risk assessment, contract enforcement, and long-distance trade. In this milieu, accounting ceased to be a purely administrative record and matured into a strategic instrument for managing liquidity, forecasting cash needs, and negotiating credit terms with confidence.

During the Ming and Qing eras, cross-regional commerce intensified and new methods such as Jingfang Zhang spread widely. The accompanying methodological rigor—systematic subject classifications, complete voucher chains, and explicit financial statements—embodied a governance philosophy centered on evidentiary support. Accounting practice elevated bookkeeping to a central enterprise governance tool, enabling more precise liquidity management, cost control, and transparent profit distribution. This shift enhanced the efficiency and risk management capacities of interregional trade and leveraged public-private collaborations to sustain economic growth.

Across these periods, the Chinese accounting tradition consistently demonstrated a trajectory from government-led fiscal management toward a market-driven governance framework. This evolution mirrored evolving social and economic structures, while the state gradually transformed from a dominant fiscal authority into a facilitator of commercial efficiency and financial trust. As a uniquely Chinese heritage within global accounting history, this evolution offers enduring insights into how diverse accounting traditions adapt through institutional change, balancing governance imperatives with market discipline. Furthermore, contemporary research highlights how this historical foundation informs modern challenges, such as integrating information technology and ethical education in accounting curricula, and navigating the risks and opportunities presented by advanced technologies like AI in the accounting field.

Relating to Modernization and Western Influence (Late 19th century to mid-20th century)

The late 19th century to mid-20th century witnessed China’s accounting system transitioning from traditional to modern, driven by Western economic penetration and domestic modernization drives. Against the backdrop of the Self-Strengthening Movement and the rise of national capitalism, traditional methods like "Jingfang Zhang"—which focused on simple record-keeping and served feudal economic management—failed to adapt to modern enterprises’ complex needs, such as cost

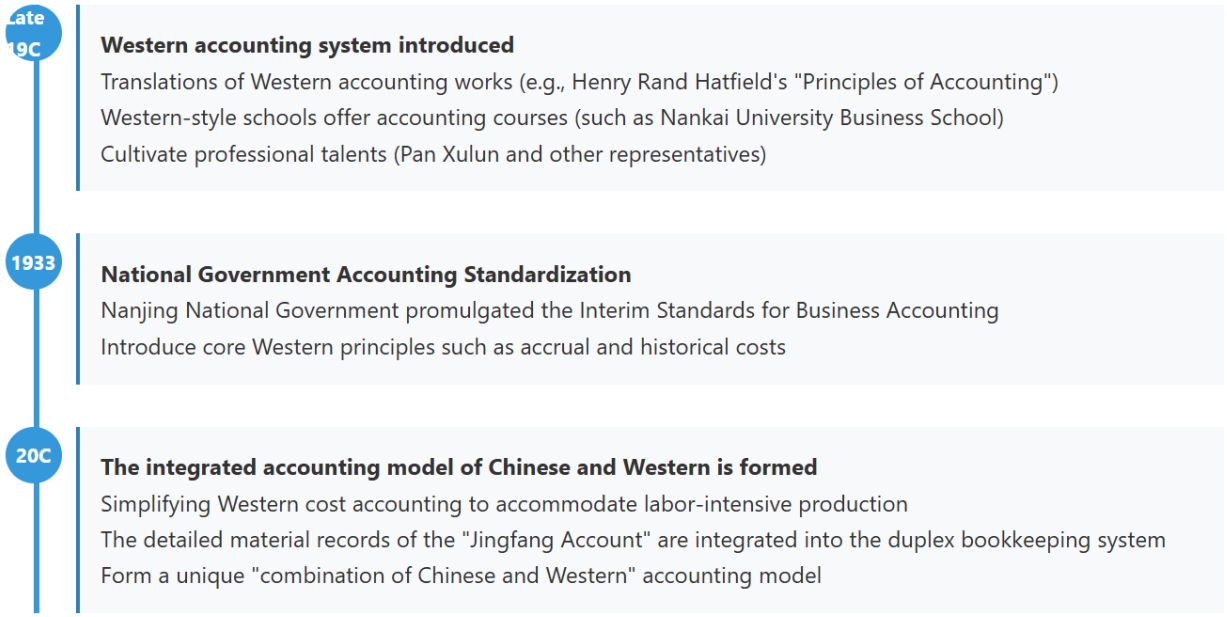
control in machinery manufacturing and multi-business recording in mining. Western-funded enterprises and banks in treaty ports introduced double-entry bookkeeping, with its systematic reflection of financial status and logical account verification, becoming a prototype for China's accounting modernization. This period saw the systematic introduction and localized adaptation of Western accounting. A large number of Western accounting works (e.g., translations of Henry Rand Hatfield's Accounting Principles) were published, and Western-style schools (such as Nankai University Business School) set up accounting courses, cultivating professionals represented by Pan Xulun. The Nanjing National Government further promoted standardization by issuing the "Temporary Standards for Business Accounting" in 1933, which incorporated Western core principles like accrual basis and historical cost. Notably, the localization process was not a blind copy—enterprises simplified Western cost accounting to fit labor-intensive production and integrated "Jingfang Zhang's" detailed material recording into double-entry systems, forming a unique "Sino-Western integrated" accounting model. This transition not only met the management needs of modern Chinese enterprises but also laid the foundation for the subsequent development of China's accounting system. From the late 19th century through the mid-20th century, China's accounting landscape underwent a transformative shift as it confronted rapid modernization and pervasive Western economic influence. The collapse of purely feudal financial paradigms coincided with the emergence of industrial enterprises, banks, and government reforms, pressuring Chinese firms to adopt more sophisticated methods capable of supporting capital-intensive production, complex product lines, and broader financial reporting. Traditional Jingfang Zhang, rooted in simple recording and provincial administration, began to clash with the demands of modern management—costing of machinery, depreciation practices, inventory valuation, and multi-branch operations across mining, textiles, and heavy industry. Western financial institutions and treaty-port operations introduced double-entry bookkeeping as a robust framework for capturing assets, liabilities, and equity, and for enabling cross-border financing and investor confidence. This external influence did not simply replace old methods; it catalyzed a hybrid approach in which Chinese enterprises selectively appropriated Western techniques while preserving core local practices. The period witnessed a deliberate, localized diffusion of Western accounting knowledge. Translations of foundational texts, such as Henry Rand Hatfield's Accounting Principles, became touchstones for Chinese professionals seeking consistent standards. Educational institutions played a pivotal role; business schools, notably at Nankai University, established accounting curricula, producing a generation of practitioners who could bridge theory and practice. Pan Xulun, among others, helped articulate Chinese accounting identities within a global framework, advocating for rigorous standards while acknowledging domestic production realities. The government also took decisive steps toward standardization. The 1933 Temporary Standards for Business Accounting issued by the Nanjing National Government introduced accrual concepts and historical cost accounting, signaling a move toward a more measurement-focused financial reporting regime. Yet localization remained essential: enterprises simplified Western cost accounting to reflect labor-intensive production realities, and the detailed material recording traditions of Jingfang Zhang

were integrated into double-entry systems to support both internal control and external reporting. This Sino-Western integration produced a distinctive trajectory in Chinese accounting history. It laid the groundwork for modern financial reporting, internal controls, and managerial accounting, while also preserving a uniquely Chinese sensitivity to labor productivity, resource constraints, and regional business practices. The era thus forged an accounting system that could mobilize capital, guide industrialization, and eventually evolve into the more standardized, professionalized framework that China would continue to refine in the subsequent decades.

In the long course of history, accounting ethics is not an isolated moral judgment, but a dynamic product embedded in social systems, economic structures, and regulatory frameworks. In the early stages of industrialization, accounting ethics primarily manifested as the constraint and regulation of internal trust relationships within enterprises. With the implementation of shareholding systems and the separation of ownership and management, agency problems became a core ethical issue. At this point, the core of ethics not only included accurate recording and prevention of misappropriation, but also requirements for the completeness and timeliness of information disclosure, as well as the governance of conflicts of interest among managers. Due to the lack of unified accounting standards and external supervision, ethical lapses within enterprises often amplified through institutional loopholes and moral hazards, leading to frequent occurrences of profit overstatement and asset misappropriation. The collapse and debt crisis of British railway companies, partly stemming from management accounting fraud, prompted the gradual formation of subsequent governance structures and professional standards: enhancing independence, strengthening internal controls, promoting external audit supervision, and establishing an accountability framework for external stakeholders such as investors and creditors. This ethical shift marked the gradual realization of the consensus within the professional community regarding the "core principle of accurate information representation."

Entering the 20th century, especially after the Great Depression of the 1920s and 1930s, the scope of accounting ethics expanded from internal corporate matters to social responsibility. The exposure of systemic market risks and information asymmetry highlighted the social function of accounting information: not only protecting shareholder interests but also maintaining financial market stability and protecting the interests of creditors, employees, and the public. As market participants became increasingly reliant on information, independence, objectivity, and professional competence became the cornerstones of the ethical framework. Various countries successively formulated professional ethics guidelines (such as the US AICPA's Code of Professional Conduct), with "objectivity, integrity, and professional competence" as core values, emphasizing accountants' ability to resist external pressure and conflicts of interest, and their independence of professional judgment. Furthermore, professional ethics education and continuing education systems were gradually established, forming mechanisms for punishing and correcting ethical violations. The ethical perspective of this stage emphasized "external supervision and impartiality," transforming accounting from a tool for corporate bookkeeping into a public undertaking for maintaining market integrity.

Table 3 Key development stages



Entering the 21st century, globalization and digitalization have brought new challenges and opportunities to accounting ethics. Cross-border capital flows and cross-cultural exchanges have increased the complexity of ethical judgments. For example, cultural differences between East Asia and the West regarding reciprocal etiquette, gift-giving, and business banquets can lead to ethical conflicts and misunderstandings in cross-border accounting practices. Furthermore, data privacy, algorithmic transparency, fairness, and the ethical responsibility of intelligent accounting systems have become new issues. Analysis and predictive tools centered on big data and artificial intelligence require accounting professionals not only to possess technical skills but also the ethical capacity to scrutinize algorithmic biases, the boundaries of data sources and usage, and the interpretability of results. Transparency, traceability, and stakeholder accountability have become fundamental principles in designing and applying intelligent accounting systems. Simultaneously, the convergence of global governance frameworks and transnational accounting standards is driving ethical norms towards a higher level of building a "global community of professional ethics," emphasizing cross-cultural understanding, differentiated governance, and a shared culture of integrity.

Table 4 Comparison of traditional accounting vs modern accounting

Comparison of traditional accounting vs modern accounting

Contrast dimensions	Traditional accounting (e.g. "Jingfang Account")	Modern Accounting (Double-entry Bookkeeping)
Service objects	Feudal economic management	Modern enterprises and joint-stock companies
Key features:	Simple records, income and expenditure registration	The system reflects the financial situation, cost control, performance evaluation
Technical characteristics:	Single bookkeeping and lack of systematic classification	Double-entry accounting, logical account verification, and reporting system
Adaptability	Agricultural/handicraft economy	Complex businesses such as industrial manufacturing, mining, and finance

Looking ahead, accounting ethics will continue to advance along three main lines: first, the integration of professional independence and social responsibility, namely, strengthening the disclosure obligations regarding non-financial information such as public interests, the environment, and governance structures while pursuing the maximization of corporate value; second, the continued deepening of technology ethics, establishing systematic norms for data sources, privacy protection, algorithmic transparency, and accountability mechanisms to ensure that technological tools serve fair, transparent, and explainable decision-making processes; and third, the synergy of cross-cultural and global governance, reducing ethical conflicts in cross-border operations and enhancing trust in global capital markets through the negotiation, unification, and localization of international standards. In short, accounting ethics in its historical context is a history of social ethics that is constantly self-correcting and expanding, and it is also the institutional bottom line upon which modern business civilization is maintained.

The evolution of accounting ethics in China and globally is inseparable from the broader currents of economic development, organizational change, and regulatory reform. It is not a static code but a living, adaptive discipline that responds to shifted power relations, technological innovation, and evolving conceptions of accountability. In the late 19th to mid-20th centuries, as China confronted modernizing pressures from both internal reform movements and external financial forces, accounting ethics began to mature from a narrow focus on safeguarding assets to a broader mandate that included reliability, transparency, and public trust. This period saw ethics emerge as a practical discipline embedded in governance, corporate culture, and professional standards, laying the groundwork for more sophisticated ethical expectations in the subsequent era.

Within enterprises, the shift from feudal or quasi-feudal practices to industrial capitalism introduced new moral hazards and accountability gaps. The rise of joint-stock structures, the separation of ownership and management, and the brisk growth of capital-intensive industries created incentives for earnings management, misreporting, and misappropriation. In this context, ethics came to signify more than personal integrity; it represented a system of checks and balances—governance mechanisms, internal controls, and external assurances—that could sustain investor confidence and social legitimacy. The early professional response emphasized accurate representation of financial position, faithful disclosure of material facts, and the prevention of conflicts of interest. As scandals and crises exposed the limitations of ad-hoc

governance, the accounting profession increasingly formalized ethical expectations through codes of conduct, the establishment of auditing functions, and the creation of independent oversight bodies.

The Great Depression era amplified the social function of accounting ethics. It became clear that accounting information influenced not only investors but also workers, creditors, suppliers, and the broader economy. The profession began to articulate a public-interest orientation, arguing that high-quality, transparent financial reporting contributed to market stability and economic resilience. This shift reinforced the idea that ethical behavior could mitigate systemic risk, reduce information asymmetry, and support fair competition. Professional bodies in various countries—such as the United States, Britain, and other industrialized nations—emphasized objectivity, integrity, and professional competence as non-negotiable standards. In China, these international ethical aspirations gradually intersected with local realities—labor-intensive industries, regional development strategies, and evolving state-controlled financial institutions—producing a distinctive blend of public accountability and enterprise flexibility.

Entering the late 20th and early 21st centuries, globalization and rapid technological change redefined ethical challenges. The expansion of cross-border capital flows, complex supply chains, and sophisticated financial instruments heightened the potential for ethical lapses across jurisdictions. Data governance emerged as a central ethical issue: how to collect, store, protect, and utilize vast amounts of financial and non-financial data while preserving privacy and maintaining trust. The rise of automated decision-making and intelligent accounting systems introduced questions about algorithmic transparency, bias, and accountability. Auditors and regulators faced pressures to adapt, ensuring that machine-assisted analyses did not substitute for professional judgment or circumvent human oversight. In this milieu, ethics matured into a three-fold imperative: protect the integrity of information, safeguard stakeholder interests, and uphold the legitimacy of financial markets in the digital age.

Contemporary professional ethics increasingly integrates non-financial considerations. Environmental, social, and governance (ESG) reporting has moved from a peripheral add-on to a central expectation for many organizations. Accountants must evaluate not only the accuracy of financial statements but also the credibility and relevance of sustainability disclosures, anti-corruption measures, supply chain ethics, and social impact assessments. This expansion demands a broader skill set: ethical reasoning applied to strategic decisions, proactive risk assessment, and clear communication with stakeholders who demand both accountability and meaningful performance metrics. In practice, this means integrating non-financial indicators into decision-making processes, ensuring that incentives align with long-term value creation rather than short-term gains, and resisting pressures that could compromise ethical standards in pursuit of competitive advantage.

Education and continuing professional development play pivotal roles in shaping contemporary accounting ethics. Curricula now increasingly incorporate ethics training, case studies, and scenario-based learning that foreground dilemmas such as earnings manipulation temptations, conflicts of interest, and pressures from powerful clients or colleagues. Ethical culture is reinforced through mentorship, code of conduct

enforcement, whistleblowing protections, and transparent disciplinary procedures. Professional bodies promote lifelong learning to keep practitioners abreast of evolving standards, technologies, and regulatory expectations. This educational emphasis helps cultivate professionals who can navigate the gray zones of practice with discernment, balancing technical proficiency with principled judgment.

Table 5 The development stage of accounting ethics

The development stage of accounting ethics

period	Core ethical concerns	Key features:	Institutional development
early industrialization	Internal trust relationship constraints	agency problems caused by the separation of ownership and management rights; Prevent encroachment and accurate documentation	the internal governance structure has been initially formed; Lack of unified standards and external supervision
Early 20th century (before and after the Great Depression)	Social responsibility expansion	the problem of information asymmetry is prominent; Protect the interests of shareholders, creditors, employees and other parties	formulation of professional ethics (e.g., AICPA Code of Professional Conduct); External audit strengthened; The continuing education system was established
21st Century (Globalization and Digitalization)	Intercultural ethics and technology ethics	data privacy, algorithm transparency, AI ethical responsibility; Cross-border ethical conflicts	convergence of global governance frameworks; Data Ethics; Intelligent system accountability mechanism

Table 6 Key shifts in ethical evolution

Key shifts in ethical evolution

19C

From personal integrity to systemic checks and balances

Accounting ethics shifted from personal moral judgment to systematic checks and balances

The formation of internal governance, internal control and external guarantee system of enterprises

Respond to the moral hazard posed by shareholding structures and separation of ownership

1930s

Strengthen the orientation of public interest

The Great Depression highlighted the social function of accounting information

The ethical focus extends to market stability and economic resilience

"Objectivity, integrity, and professional ability" have become the core professional standards

21C

Globalization and digital challenges

Data governance has become a core ethical issue

Algorithm transparency and accountability

The ethical importance of non-financial information (ESG) disclosure has increased

Looking forward, accounting ethics will continue to evolve along several

converging trajectories. First, there is a growing emphasis on integrating ethics with governance and risk management. Accountants will play a central role in designing and sustaining internal control systems, risk frameworks, and governance structures that embed ethical considerations into everyday operations. Second, technology ethics will become embedded in standard practice. Professionals must address data provenance, model governance, algorithmic accountability, and the explainability of automated decisions. They will need to assess how data biases and modeling assumptions could distort reporting or mislead stakeholders, and they must advocate for transparent methodologies. Third, the global dimension of ethics will intensify. Harmonization of international standards, cross-cultural sensitivities, and differentiated regulatory environments will require a refined, globally informed yet locally responsive ethical stance. The aim will be to cultivate a universal professional culture—grounded in integrity, diligence, and social responsibility—while respecting regional norms and economic contexts.

In sum, accounting ethics is a dynamic, historically contingent enterprise. It grows through the interaction of professional ideals, regulatory reforms, organizational practices, and societal expectations. From safeguarding internal trusts within early enterprises to defending public interest in a global, digital economy, ethical principles have underpinne d the credibility and resilience of accounting systems. As economies continue to digitalize and integrate, the core commitment remains: to deliver accurate, complete, and timely information; to resist pressures that compromise objectivity; and to uphold the trust that underwrites the functioning of capital markets and the broader social contract.

On Accounting System Construction after the Establishment of New China (1949-1978)

The accounting system construction from 1949 to 1978 was a process of total reconstruction and institutional adaptation centered on serving the planned economy system. After the founding of New China, the state first eliminated the accounting system of the old economic structure, and systematically learned from the Soviet Union's centralized accounting model. It established a unified accounting system for state-owned enterprises and administrative institutions, with the core of "unified accounting subjects, unified accounting methods, and unified reporting systems", which realized the effective control of the state over the financial operations of economic entities and laid a institutional foundation for the centralized allocation of national resources.

In this stage, the accounting system presented distinct characteristics of the times. On the one hand, it emphasized political attributes and planned management functions, taking the completion of national plans as the primary goal of accounting work, and the accounting information mainly served the needs of national macroeconomic regulation and control rather than market transactions. On the other hand, the system showed a high degree of uniformity and administrative orientation. The Ministry of Finance formulated and issued unified accounting regulations, and enterprises and institutions implemented them uniformly without independent accounting policy choices. Although this model had limitations such as ignoring economic benefits and single accounting functions, it adapted to the historical needs of the early stage of New

China to restore the national economy and promote industrialization, and formed the initial framework of New China's accounting system.

The accounting system construction from 1949 to 1978 was not merely a technical upgrade of bookkeeping methods; it represented a comprehensive rebuilding of financial governance aligned with the overarching aims of a planned economy. In the immediate post-revolution era, the new government faced the daunting task of dismantling the fragmented, market-oriented accounting practices inherited from the old regime and replacing them with a cohesive framework capable of supporting centralized economic planning. This transformation unfolded through a deliberate sequence of policy design, institutional consolidation, and practical experimentation across different sectors of the economy.

Table 7 The Development of Accounting in China (1949-1978)

period	Core objectives and nature	Main measures and characteristics	Historical role and evaluation
1949-1978	• **Overall nature:** comprehensive reconstruction and institutional adaptation to serve the planned economic system • **Core goal:** to serve the management of national centralized planning and achieve effective control over the financial operation of economic entities • **Fundamental task:** dismantle the old decentralized, market-oriented accounting system and establish a unified framework to support centralized economic planning	• **Breaking the old and reinventing the new:** Eliminate the accounting system of the old economic structure and systematically learn the Soviet centralized accounting model • **Unified system:** Establish a unified accounting system for state-owned enterprises and administrative institutions, the core of which is "unified accounting subjects, unified accounting methods, and unified reporting system" • **Characteristics of the times:** ◦ Emphasize political attributes and planning management functions ◦ Accounting information mainly serves the needs of national macroeconomic regulation and control ◦ With a high degree of unity and administrative orientation, the Ministry of Finance has uniformly formulated and issued a system ◦ Enterprises and institutions do not have the right to choose independent accounting policies	• **Positive contributions:** ◦ It has laid an institutional foundation for the centralized allocation of resources by the state ◦ It adapted to the historical needs of national economic recovery and industrialization in the early days of New China ◦ The preliminary framework of the accounting system of New China has been formed • **Historical limitations:** ◦ Neglecting economic benefit accounting ◦ Single accounting function (mainly for planning services) ◦ Lack of flexibility and market adaptability • **Overall positioning:** not only the technical upgrade of bookkeeping methods, but also the comprehensive reconstruction of the financial governance system consistent with the overall goal of the country

Key to this process was the rapid adoption and adaptation of the Soviet centralized accounting model. Chinese planners and administrators recognized the efficiency of a unified chart of accounts, standardized cost classifications, and uniform reporting formats as essential tools for monitoring, controlling, and guiding the allocation of scarce resources. The aim was to achieve transparent visibility into the financial flows of state-owned enterprises (SOEs) and administrative bodies, enabling the state to direct investment, wages, outputs, and materials according to planned targets. The consolidation of accounting practices under centralized regulations also reduced the distortions caused by regional variations and local interpretations, which were particularly problematic in a rapidly industrializing economy that demanded consistent data for national planning.

This era saw the Ministry of Finance playing a pivotal role in setting accounting standards, prescribing the framework within which all enterprises and institutions operated. Unified accounting subjects, methods, and reporting systems created a common lingua franca for financial information across the vast landscape of state entities. In practice, this meant that managers, accountants, and auditors at diverse

levels—factory floors, ministry offices, and provincial bureaus—spoke a shared accounting language, facilitating coordination and the enforcement of policy directives. The system enabled the central authorities to measure performance, compare results, and reallocate resources where deviations from the plan were detected.

However, the emphasis on central control came at a cost to managerial autonomy and economic responsiveness. Accounting procedures often prioritized compliance with plan targets over the pursuit of efficiency, profitability, or consumer-responsive production. Budgeting and performance evaluation tended to focus on input controls, such as capital allocation and input-output correspondence, rather than on optimization of operations or profitability signals. This design reflected the political economy of the period, wherein sustaining social stability, mass production, and rapid industrialization took precedence over market-driven incentives, experimentation, and entrepreneurial risk-taking.

Despite these constraints, the period established the essential architecture of China's state-centric accounting system. The centralized framework facilitated rapid mobilization of resources, enabled large-scale industrial projects, and supported the redistribution mechanisms necessary for postwar reconstruction. It also created the foundation for later reforms, as observers and practitioners reflected on the limitations of uniform, plan-bound accounting and began to explore ways to enhance information quality, broaden functionality, and gradually introduce market-oriented elements without undermining the core objective of national economic planning. In sum, 1949–1978 marked a decisive stage of institutional consolidation, where accounting evolved into a key instrument of state power, economic coordination, and social mobilization.

The period from 1949 to 1978 represents a watershed in the institutional evolution of accounting in New China, a era defined by deliberate design, ideological consolidation, and pragmatic adaptation to the realities of a rapidly industrializing planned economy. The initial move to dismantle the fragmented, market-oriented accounting practices of the prior regime was not a mere technical shift; it was a deliberate reimagining of financial governance as a central instrument of national ambition. The new state sought to align accounting with socialist economic principles, ensuring that financial information served as a reliable compass for centralized decision-making, resource allocation, and social mobilization. In this sense, accounting ceased to be an isolated administrative task and became a core component of macroeconomic steering.

A central feature of this transformation was the rapid imitation and adaptation of the Soviet centralized accounting model. Chinese planners and administrators appreciated the efficiency of a unified chart of accounts that could be applied uniformly across diverse enterprises and administrative units. Standardized cost classifications facilitated apples-to-apples comparisons, enabling planners to diagnose deviations from targets with clarity and speed. Uniform reporting formats ensured that data flowed in a predictable, timely manner from the factory floor to the ministry level, where it could be aggregated into national statistics and used to adjust plans. This standardization reduced the distortions that had arisen from regional variations and local interpretations, thereby strengthening the state's capacity to monitor performance and reallocate scarce resources in response to evolving priorities.

The Ministry of Finance emerged as the pivotal architect of the new accounting regime. It assumed responsibility for promulgating unified accounting regulations, approving the chart of accounts, prescribing cost categories, and defining reporting deadlines. This centralized regulatory authority created a recognizable, bureaucratic backbone for financial administration that extended from large industrial complexes to smaller administrative units. The top-down orientation helped ensure policy coherence, as fiscal directives, wage structures, and material provisioning could be reconciled within a single, overarching framework. In practice, this meant that managers, accountants, and auditors operated within a shared linguistic and methodological environment, which in turn facilitated cross-sector coordination and national planning exercises.

Yet the era was marked by a tension between the benefits of centralized control and the realities of a sprawling, resource-constrained economy. On the one hand, the unified system promoted accountability and rapid mobilization; on the other hand, it constrained managerial discretion and slowed adaptive responses to local conditions. Planning processes emphasized input controls—capital allocation, material quotas, wage bills, and output targets—over optimization of operations or responsiveness to consumer needs. The accounting information generated under this regime prioritized plan conformity and compliance with directives, with performance evaluation largely anchored in adherence to planned indices rather than profitability or efficiency metrics traditionally associated with market-based governance. This alignment with political objectives reflected the broader political economy of the era, wherein mass production, social equality, and national sovereignty took precedence over individual enterprise agility and market signaling.

Despite these constraints, the period laid the groundwork for a more nuanced understanding of financial information as a tool for governance, not merely bookkeeping. Early experiments in performance measurement began to emerge, albeit within rigid plan parameters. Audits and supervisory mechanisms were designed to detect deviations from the plan, identify bottlenecks in supply chains, and shield the centralized allocation system from opportunistic behavior. The integration of cost accounting, even in its rudimentary form, allowed planners to estimate the true resource implications of different industrial projects, enabling more informed decisions about where to channel scarce inputs such as steel, coal, and energy. The transparency sought through standardized records also facilitated social accountability, as the state could demonstrate to the public and international observers that it was directing resources with discipline and purpose.

Beyond the factory and ministry levels, the era fostered professionalization in subtle yet tangible ways. Training programs, though tightly controlled, began to cultivate a cadre of accounting personnel capable of sustaining the standardized system. The curriculum emphasized accuracy, timeliness, and obedience to regulatory norms, cultivating a professional identity oriented toward public service and collective achievement rather than private profit. In many cases, accountants assumed roles as technocrats who translated political energy into measurable economic activity, translating broad policy directives into concrete cost allocations and performance signals.

As the 1960s and 1970s progressed, the accounting framework absorbed lessons from practical operation—bottlenecks in planning, the need for more granular data within large-scale projects, and the emerging realization that a more diversified industrial base required more adaptable information flows. While the core model remained centralized, experiments with supplementary reporting, sectoral guidance, and iterative plan revisions began to surface in limited forms. These early experiments foreshadowed the eventual liberalization and modernization waves that would follow in the late 1970s and 1980s, when China started to reintroduce market-oriented mechanisms, decentralize decision-making, and recalibrate the balance between planned targets and entrepreneurial initiative.

In sum, 1949–1978 marked a decisive phase of institutional consolidation where accounting evolved into a strategic instrument of state power, economic coordination, and social mobilization. The unified accounting regime created the essential infrastructure for centralized resource allocation, enabling the rapid mobilization needed for postwar reconstruction and industrial ambition. While the design prioritized plan compliance over market responsiveness and economic efficiency, it established enduring foundations—standardized practices, centralized governance, and a normative understanding of accounting as an instrument of public policy. These foundations would, in the following decades, be revisited and reinterpreted as China gradually integrated market mechanisms with state planning, culminating in a distinct trajectory of Chinese accounting development that balanced control with innovation.

As regards Reform, Opening up and Market-oriented Transformation (1978-2000s)

The launch of the Reform and Opening-Up policy in 1978 initiated a profound and deliberate transformation of China's accounting and auditing system. This period witnessed a decisive shift away from the Soviet-inspired model, as the state actively reconfigured the profession to serve the needs of a burgeoning market economy. The government introduced a series of pioneering regulations, most notably the “Accounting Law of the People's Republic of China” in 1985 and the ‘Certified Public Accountant (CPA) Regulations” in 1986, which collectively established the legal bedrock for a modern profession. These actions formally recognized the independent status of CPAs and marked the beginning of a systematic effort to rebuild a profession that had been virtually dissolved during the era of the planned economy.

Driven by the urgent demands of attracting foreign investment and facilitating the restructuring of state-owned enterprises, the reform process gained significant momentum. The government actively promoted the establishment of the first accounting firms, which began to provide vital attestation services for joint ventures and listed companies. A pivotal moment in this journey arrived in the early 1990s with the establishment of the Shanghai and Shenzhen stock exchanges. This development created an immediate and powerful demand for transparent, reliable financial information, forcing the system to accelerate its modernization. Policy makers responded by drafting and implementing a comprehensive set of “Accounting Standards for Business Enterprises”, which deliberately moved Chinese practice closer to internationally accepted principles.

This market-oriented transformation fundamentally reshaped the very purpose of

accounting. The system was rapidly evolving from a passive tool for fulfilling state plans into an active mechanism for facilitating economic decision-making. It now served a diverse set of users, including investors, creditors, and market regulators, rather than solely reporting to government ministries. This period, therefore, laid the essential institutional and conceptual groundwork for China's full integration into the global economic system, setting the stage for the subsequent convergence with International Financial Reporting Standards in the new millennium.

In regard to Deepening Reform and International Convergence in the New Century (2000s-present)

The 21st century has witnessed a pivotal phase of deepening reform and comprehensive international convergence in China's accounting system, driven by the country's integration into the global economy and the transformation of its market economy. As China formally joined the World Trade Organization (WTO) in 2001, the demand for a unified, transparent, and internationally compatible accounting framework became urgent—this was not only to meet the information needs of international investors, but also to align domestic enterprises with global business norms and reduce cross-border transaction costs. Against this backdrop, the Chinese government launched a new round of accounting system reform with international convergence as its core objective.

A landmark achievement in this process was the issuance of the new Enterprise Accounting Standards (CAS) in 2006 by the Ministry of Finance. This set of standards, which took effect in 2007 for listed companies, marked a fundamental shift from the planned economy-oriented accounting model to a market-oriented one. It fully converged with the International Financial Reporting Standards (IFRS) in key areas such as fair value measurement, asset impairment, revenue recognition, and financial instrument accounting. For instance, the introduction of fair value measurement enabled enterprises to reflect the real market value of assets and liabilities more accurately, while the revised revenue recognition standard aligned with the IFRS 15 principle of "recognizing revenue when control of goods or services is transferred," enhancing the comparability of financial information globally.

Since the 2010s, the focus of accounting reform has shifted to sustaining convergence, refining implementation, and addressing emerging economic issues. In 2010, the Ministry of Finance released the China Accounting Standards Convergence Roadmap, reaffirming its commitment to maintaining the continuous convergence of CAS with IFRS. Meanwhile, targeted adjustments were made to adapt to new business models and economic phenomena: for example, the 2017 revision of CAS 14 on revenue recognition further clarified rules for complex transactions such as bundled sales and long-term contracts, while the introduction of standards for financial instruments (CAS 22-24) responded to the rapid development of China's financial market and the need for risk management. Additionally, the government strengthened the supervision of standard implementation, establishing a more robust inspection mechanism for listed companies and large state-owned enterprises to ensure the consistent application of CAS.

In recent years, against the backdrop of digital transformation and global economic volatility, China's accounting system reform has shown dual characteristics of

deepening international alignment and highlighting Chinese characteristics. On one hand, China has actively participated in the formulation of international accounting standards as a member of the International Accounting Standards Board (IASB), contributing Chinese perspectives on issues such as accounting for SMEs and agricultural biological assets. On the other hand, it has incorporated unique institutional realities into the standards—for example, the special provisions on state-owned asset management and government subsidies in CAS reflect the status of state-owned enterprises as the backbone of the national economy. This "convergence with characteristics" approach not only ensures that Chinese enterprises' financial information is recognized internationally, but also effectively serves the country's strategic goals such as high-quality economic development and state-owned asset preservation and appreciation.

Since the early 2010s, China has intensified efforts to operationalize convergence while preserving distinctive national features, resulting in a more nuanced and resilient accounting framework. Regulators have placed a premium on the quality and reliability of financial reporting, promoting stronger internal controls, robust risk disclosures, and greater transparency in corporate governance. The Ministry of Finance, alongside other regulatory agencies, has implemented comprehensive guidance and oversight mechanisms to monitor the adoption and ongoing compliance with CAS, ensuring that enterprises not only conform technically but also embrace the spirit of high-quality reporting.

A key area of progress lies in the enhancement of corporate governance interfaces with accounting standards. Companies increasingly align their board-level oversight with IFRS-inspired disclosures, improving investor confidence and facilitating cross-border investment. The reinforcement of auditor independence, the expansion of audit committees, and the utilization of risk-based auditing approaches contribute to a more credible financial landscape. In parallel, the financial reporting ecosystem has benefited from the modernization of accounting information systems, enabling real-time data collection, enhanced analytics, and more efficient consolidation processes across large corporate groups and state-owned enterprises.

China has also broadened the scope of convergence to accommodate emerging economic activities. For example, fair value considerations have been carefully calibrated to reflect market realities without compromising the stability of the financial system. Revenue recognition rules have been refined to address complex arrangements common in technology, healthcare, and contemporary service sectors, while the treatment of financial instruments has evolved to capture the nuances of China's rapidly deepening capital markets. These developments are complemented by targeted guidance on issues such as environmental liabilities, climate-related disclosures, and intangible assets, acknowledging the growing importance of sustainability in financial decision-making.

Looking ahead, China aims to sustain the balance between global comparability and domestic economic priorities. The ongoing reform agenda emphasizes adaptability, continuous improvement of standards, and enhanced collaboration with international standard-setters. This forward-looking approach seeks to deepen the international integration of Chinese financial reporting while preserving the distinctive institutional

context that supports national development strategies and the governance of state-owned assets.

The 21st century has solidified China's path toward an accounting regime that is simultaneously globally harmonized and distinctly tailored to national priorities. Building on the foundational reforms of the early 2000s, the subsequent decade intensified efforts to translate international convergence into practical, day-to-day financial reporting that supports decision-making, governance, and economic planning within a rapidly evolving economy. The reform trajectory reflects a deliberate balancing act: embracing the transparency and comparability demanded by global capital markets while safeguarding the strategic importance of state-owned enterprises, public policy objectives, and social stability.

One of the central implications of this reform arc is the redefinition of financial reporting as a tool for policy coherence rather than a mere compliance exercise. As CAS converged with IFRS in key areas, Chinese standard-setters and regulators placed strong emphasis on how high-quality accounting information could inform macroeconomic policy, industrial strategy, and fiscal accountability. This meant expanding the scope of disclosures beyond traditional financial metrics to include governance practices, risk management, and sustainability considerations. In practice, regulators encouraged timely, decision-useful reporting that could illuminate the health and prospects of sectors critical to national development, such as high-technology manufacturing, green energy, and infrastructure-intensive industries. The aim was not only to attract foreign investment but also to provide a coherent evidentiary base for public investment decisions, state backstops, and long-term strategic planning.

The evolution of CAS also reflects ongoing work to reconcile the demands of sophisticated financial markets with the realities of China’s distinctive corporate landscape. Large listed groups and growing private enterprises alike confronted new expectations around revenue recognition, impairment testing, and financial instruments. Yet Chinese firms also faced unique structural characteristics: the continued prominence of state-owned assets, regional diversification, and a broader set of policy tools that could influence reported outcomes. In response, standard-setters introduced calibrated rules and safe harbors that preserved comparability without forcing abrupt shifts in asset valuations or revenue patterns that could destabilize capital markets or undermine policy objectives. This calibrated approach enabled a smoother transition for enterprises, reducing transitional costs while preserving the integrity of financial statements.

The regulatory architecture supporting convergence expanded beyond the Ministry of Finance to encompass a broader ecosystem of oversight bodies, audit regulators, and market authorities. Strengthened supervision of standard implementation featured systematic inspections, compliance reviews, and targeted guidance for high-risk sectors. External auditors faced enhanced expectations around independence, risk assessment, and transparent reporting of audit risks, particularly in the context of complex financial instruments and cross-border transactions. Regulators also intensified enforcement against misstatement and non-compliance, signaling a clear commitment to credible financial reporting as a cornerstone of investor protection and market integrity. In parallel, corporate governance reforms advanced the alignment

between accounting disclosures and board oversight. Boards increasingly integrated risk management and internal control evaluations into their reporting cycles, and audit committees gained prominence as guardians of financial integrity and risk transparency.

Technological modernization has been a powerful enabler of convergence and quality improvements. The digitization of financial processes, cloud-based consolidation, and advanced analytics have streamlined data collection, improved the accuracy of intercompany eliminations, and enhanced the reliability of real-time reporting. Chinese enterprises—especially large groups with multinational footprints—now deploy sophisticated enterprise resource planning (ERP) systems, integrated financial planning tools, and automated controls that support IFRS-like risk disclosures and management commentary. The resulting information architecture supports more timely, consistent, and granular disclosures, from segment reporting to impairment testing and fair value measurement. As data becomes more accessible, analysts gain deeper insights into a company's economic substance, enabling more informed investment decisions and more nuanced policy analyses at the national level.

Looking outward, China's engagement with international standard-setters remains characterized by both influence and receptivity. Chinese experts contribute actively to discussions on accounting for SMEs, agriculture, and industry-specific issues, offering perspectives rooted in the country's experience with large, diversified holdings and state-driven development models. This bilateral dialogue helps ensure that global standards stay responsive to a wide range of institutional contexts while preserving the comparability that makes cross-border investment and analysis meaningful. At the same time, Chinese authorities recognize the value of maintaining a degree of flexibility to accommodate domestic reforms, such as pilot programs for new disclosure regimes or pilot applications of sustainability reporting in key sectors. This pragmatic openness underlines a forward-looking philosophy: converge where it enhances usefulness and resilience, while preserving room for national experimentation where appropriate.

Environmental, social, and governance (ESG) considerations have risen to prominence within the Chinese accounting reform agenda. Regulators and companies alike understand that sustainability-related information affects capital allocation, credit risk, and long-term value creation. Consequently, disclosures around environmental liabilities, emissions, energy efficiency, resource usage, and social responsibility have become increasingly integrated into financial reporting or presented through robust, supplementary reporting frameworks. The objective is to provide a credible, decision-useful picture of how enterprises manage environmental and social risks in relation to financial performance. This trend also aligns.

2.2 Accounting in China in Ethical Aspect

Regarding Theoretical basis and Chineseization of accounting ethics:

The theoretical system of accounting ethics is built on the integration of multiple disciplines, with its core rooted in normative ethics and virtue ethics. Normative ethics provides a framework for judging the rightness or wrongness of accounting behaviors, focusing on formulating universal moral norms such as honesty, objectivity, and confidentiality to guide the professional conduct of accountants. Virtue ethics, on the other hand, shifts the focus from external norms to the internal moral character of accountants, emphasizing the cultivation of virtues like integrity, responsibility, and professionalism to ensure that ethical awareness becomes an inherent driving force for their actions.

In addition to ethical theories, stakeholder theory and agency theory also lay an important foundation for accounting ethics. Stakeholder theory clarifies that accounting activities are closely related to the interests of multiple subjects such as investors, creditors, employees, and the government. Accounting ethics serves as a bridge to balance the interests of all stakeholders and maintain the stability of the market order. Agency theory points out the information asymmetry between owners and managers in the enterprise operation process. Accounting ethics requires accountants to act as independent third parties, truthfully reflect enterprise financial information, and alleviate the agency conflict caused by information asymmetry.

The Chineseization of accounting ethics refers to the process of integrating the universal principles of accounting ethics with China's specific cultural traditions, institutional environment, and market characteristics to form an accounting ethics system with Chinese characteristics. It is not a simple superposition of Western accounting ethics and Chinese culture, but a creative transformation and innovative development based on China's national conditions.

In the context of China's socialist market economy, the Chineseization of accounting ethics is of great significance. It can not only improve the moral level of accounting practitioners, reduce accounting fraud and information distortion[49], but also enhance the credibility of China's accounting industry in the international market[51]. Moreover, it helps to align accounting ethics with China's national governance system, providing moral support for the healthy development of the national economy and the improvement of the modern enterprise system.

The first path is to excavate the ethical resources in traditional Chinese culture. Traditional culture such as Confucianism contains rich moral thoughts, such as "sincerity" and "integrity", which highly coincide with the core requirements of accounting ethics. Integrating these thoughts into the construction of accounting ethics can make accounting moral norms more in line with the cultural psychology of Chinese accounting practitioners.

The second path is to combine with China's institutional environment. China's unique socialist system and regulatory framework have put forward special requirements for accounting ethics. For example, under the background of the country's emphasis on corporate social responsibility, accounting ethics should incorporate the

moral requirement of truthfully disclosing corporate social responsibility information, so that accounting ethics can better adapt to China's institutional environment.

The third path is to absorb the practical experience of China's accounting industry. In the long-term development process, China's accounting industry has accumulated a large number of ethical practice cases. Summarizing and refining the successful experience in these cases, and integrating them into the accounting ethics system, can make the Chineseized accounting ethics more practical and operable.

The endeavor to articulate and implement accounting ethics within China's contemporary context rests on a deliberate, multi-layered approach that weaves together universal normative theories with distinctly Chinese perspectives shaped by culture, institutions, and developmental goals. This expansion of thought moves beyond a mere juxtaposition of Western ethical traditions and local practices; it seeks a coherent, integrative framework—Chineseized accounting ethics—that can guide practitioners, institutions, and policy-makers in a rapidly evolving economic landscape.

Concerning accounting information preparation, The contemporary landscape of accounting information preparation and disclosure in China sits at the intersection of strong domestic governance and expanding global alignment. Its ethical contours are shaped not only by statutory requirements and professional codes but also by the evolving expectations of investors, regulators, employees, and the broader public. This expansion of ethical discourse acknowledges that accounting is not merely a mechanical task of recording transactions; it is a social practice that influences capital allocation, corporate behavior, and the legitimacy of the financial system. As China continues to deepen its market reforms and embrace international standards, the ethical architecture surrounding accounting information becomes increasingly complex, dynamic, and consequential.

First, the centrality of serving national governance remains a defining feature. In a socialist-market economy, accounting information functions as a vital input for macroeconomic oversight, fiscal planning, and strategic policy execution. This responsibility imposes a heightened obligation on accountants to ensure authenticity, completeness, and traceability of data. The corrective impulse behind this obligation is not solely to protect investors but to enable sound policymaking, efficient resource distribution, and social stability. Consequently, professional ethics in China emphasizes alignment with public interests and state objectives, while still requiring rigorous professional judgment in recognizing and communicating information that may bear on policy decisions. This dual mandate reinforces the idea that ethical conduct encompasses both accuracy in reporting and prudence in disclosure when policy considerations are at stake.

Second, CSR and sustainability disclosures have elevated the ethical scope beyond financial statements. Regulators increasingly expect listed companies to reveal environmental, social, and governance (ESG) performance, risk management practices, and governance improvements. This shift reflects a broader understanding that ethical accountability now encompasses non-financial aspects of corporate activity. Accountants, as custodians of credible information, must validate the reliability of CSR data, ensure consistency with financial reporting, and participate in the articulation of a holistic view of corporate fitness. The ethical challenge lies in balancing transparency

with competitive concerns and in translating complex, forward-looking indicators into information that is clear, decision-useful, and comparable across entities and jurisdictions. The ongoing convergence with IFRS and related global reporting trends provides a framework for harmonization while allowing space for Chinese-specific considerations, such as state involvement and policy relevance.

Third, governance structures and independence remain pivotal in shaping ethical behavior. The governance environment in China features a spectrum of ownership arrangements, from state-owned enterprises to private firms with influential controlling shareholders. This plurality heightens the risk of earnings management, related-party transactions, and selective disclosures. To counter these risks, ethics education must reinforce objectivity and professional skepticism, while regulatory mechanisms should reinforce independence norms for auditors and oversight committees. Strengthening the independence of the board of supervisors and the audit committee—instituting clear charters, rotating membership to avoid entrenchment, and requiring disclosure of conflicts of interest—can reduce undue influence on accounting judgments. An enfolded dimension of ethics is accountability: when governance structures fail, there must be transparent remedial processes, timely remediation of detected deficiencies, and credible public reporting of corrective actions.

Fourth, technology-enabled supervision offers a powerful means to elevate ethical performance. Big data analytics, machine learning, and continuous auditing can illuminate anomalies, monitor compliance with disclosure requirements in real time, and detect patterns of irregular reporting that might indicate manipulation or misrepresentation. An intelligent supervision platform tailored to accounting information can integrate data from various sources—ERP systems, subsidiary ledgers, external filings, and ESG disclosures—to provide a holistic view of a company's information ecosystem. Such platforms can flag incongruities between financial results and non-financial indicators, highlight unusual transactions, and support targeted audits. However, the deployment of advanced technologies also introduces ethical considerations, including data privacy, cybersecurity, algorithmic transparency, and the risk of over-reliance on automated judgments. Establishing governance around data governance, model validation, and human-in-the-loop decision-making will be essential to ensure that technology enhances, rather than substitutes, professional ethics.

Fifth, education and culture are foundational to sustainable ethical practice. Embedding integrity and sincerity from Confucian traditions—while reconciling them with modern professional standards—can cultivate accountants who internalize ethical dispositions rather than merely obeying rules. Ethics education should be experiential, incorporating case studies on real-world dilemmas such as pressure from management, incentives for window-dressing, and conflicts arising from CSR commitments. Mentorship programs, ethics hotlines, and transparent disciplinary processes reinforce a culture of accountability. Moreover, continuing professional development should continually update practitioners on evolving international standards, regulatory expectations, and technology-enabled tools.

Finally, a path toward practical implementation requires a multi-tiered governance framework. At the national level, clear, consistent standards and enforcement signals from the Ministry of Finance and regulatory bodies are necessary to reduce ambiguity

and standardize expectations. At the organizational level, firms must institutionalize ethical risk assessment into governance processes, integrate ethical criteria into performance evaluations, and implement robust internal controls, including segregation of duties.

Regarding Audit independence and professional ethics:

Audit independence and professional ethics in China are shaped by the dual attributes of government-led supervision and market-oriented development. Under the regulatory framework led by the Ministry of Finance, China Securities Regulatory Commission (CSRC), and China Association of Certified Public Accountants (CICPA), audit independence is defined as the combination of "independence in mind" and "independence in appearance," which is consistent with international standards but also bears distinct institutional characteristics—for example, stricter restrictions on auditors' part-time jobs in state-owned enterprises to avoid interest ties. Professional ethics, as specified in the Code of Professional Ethics for Chinese Certified Public Accountants, takes independence as the core and integrates requirements aligned with China's national conditions, such as abiding by national financial regulations and undertaking social responsibility, forming an ethical system that balances international convergence and domestic adaptation.

Against the backdrop of China's economic structure, audit independence and professional ethics face scenario-specific challenges. First, the "dominant shareholder control" in corporate governance poses a major threat. In many state-owned enterprises and private enterprises with concentrated equity, controlling shareholders often interfere with the audit process, forcing auditors to compromise on issues such as profit adjustment and material information disclosure. Second, the boundary ambiguity between audit and non-audit services is prominent. Some local audit firms provide overlapping services such as tax consulting and internal control training to audit clients, leading to self-review threats while lacking effective internal separation mechanisms. Third, the unbalanced development of the audit market exacerbates ethical risks. Small and medium-sized audit firms rely heavily on local enterprises for business, making them vulnerable to local administrative intervention or client pressure, weakening their ability to maintain independence.

China's regulatory authorities have continuously strengthened governance through typical cases of compromised audit independence. For instance, in the financial fraud case of Kangmei Pharmaceutical, the auditing firm failed to maintain professional skepticism, issued an unqualified audit report in violation of independence principles, and was ultimately imposed with severe penalties such as a fine of 120 million yuan and suspension of business. In response to such cases, regulators have launched targeted governance: the CICPA revised the Code of Professional Ethics to tighten restrictions on non-audit services for key clients; the CSRC established a "blacklist" system for unethical auditors, realizing cross-departmental joint punishment for violations. These measures reflect China's characteristic regulatory logic of "punishing cases to warn the industry" in safeguarding audit ethics.

To consolidate audit independence and professional ethics, governance paths should be tailored to China's institutional and market environment. First, integrate traditional culture into ethical education. Incorporate Confucian "integrity" and "righteousness"

concepts into the continuing education of certified public accountants, enhancing the cultural identity of ethical norms. Second, optimize the audit commission mechanism for state-owned enterprises. Introduce third-party institutions (such as independent directors recommended by industry associations) to participate in the selection of audit firms, reducing the interference of controlling shareholders. Third, empower supervision with digital technology. Rely on the "Golden Tax Project" and financial big data platforms to build an intelligent monitoring system for audit quality, realizing real-time early warning of abnormal audit behaviors such as delayed disclosure of related party transactions. These paths combine institutional constraints with cultural guidance to form a sustainable governance system with Chinese characteristics.

The interplay between audit independence and professional ethics in China is best understood as a dynamic synthesis of regulatory stringency, market development, and cultural context. As the financial system matures and global capital markets become more integrated, Chinese authorities have deliberately designed a governance architecture that preserves robust independence while accommodating the realities of a mixed ownership economy. This architecture rests on three pillars: a formal independence standard that aligns with international norms, a profession-wide ethic that centers independence as the core value, and continuous regulatory practice that translates principles into enforceable actions.

First, the formal conception of independence in China harmonizes with global expectations while reflecting domestic specifics. Independence in mind requires auditors to exercise professional skepticism, critical judgment, and resistance to management pressures. Independence in appearance demands that auditors' relationships, fees, and communications present a transparent, unbiased image to users of financial statements. In practice, this dual standard is embedded in licensing requirements, firm rotation policies for certain high-risk engagements, and restrictions on non-audit services, particularly for clients with significant regulatory or state involvement. The emphasis on appearance is especially salient in state-owned enterprises (SOEs) and large state-influenced groups, where state interests may otherwise create temptation or actual conflicts. This intersection of inward professional discipline and outward perception helps reduce information asymmetry for investors, creditors, and regulators, while maintaining the credibility of financial reporting in the eyes of both domestic and international stakeholders.

Second, professional ethics in China is anchored by the Code of Professional Ethics for Chinese Certified Public Accountants, with independence at its core. The code integrates national conditions—such as a heightened emphasis on social responsibility, regulatory compliance, and the governance expectations placed on public institutions and state-backed enterprises. It also codifies the aspiration for auditors to contribute to the stability of the financial system, detect misconduct early, and support transparent, accountable governance. In that sense, ethics is not merely a personal trait but an organizational obligation that permeates client acceptance decisions, audit planning, evidence gathering, and disclosure practices. The code thus functions as a normative compass, guiding professional behavior in both routine audits and crisis situations, such as rapid financial restatements or complex capital market transactions where risk of misstatement is higher.

Against this regulatory and normative backdrop, several scenario-specific challenges test the resilience of audit independence and ethics. The dominance of controlling shareholders in many firms creates a fertile ground for influence attempts on the audit process. When management or major shareholders threaten to withhold information, pressure for earnings management, or impose favorable interpretations of complex transactions, auditors must resist such pressures while maintaining professional relationships. The risk is not only about the integrity of a single audit but about the cascading effects on confidence in the capital market and the perceived impartiality of the profession.

A second challenge lies in the boundary between audit and non-audit services. The provision of advisory services, tax planning, and internal controls consulting to audit clients can create self-review threats and blurring of professional boundaries. Without strong governance structures within audit firms—such as robust internal safeguards, clear engagement segmentation, and explicit independence declarations—the risk of impaired objectivity rises. The authorities' response has included tightening restrictions on non-audit services for key clients, enhanced disclosure requirements for related party transactions, and stricter supervision of fee arrangements to ensure that independence is not compromised by economic incentives.

Third, the uneven development of the audit market poses a practical threat to independence. Smaller, local firms often depend heavily on a narrow client base in which local authorities and business networks exert influence. This concentration can erode independence through subtle pressures or direct interference. Addressing this requires a combination of policy incentives to attract talent to the profession, support for firm infrastructure, and enhanced enforcement against coercive practices. The goal is to cultivate a more competitive, professionalized market where firms of different sizes can compete while maintaining consistent ethical standards.

Concrete governance responses to high-profile lapses, such as the Kangmei Pharmaceutical case, illustrate how China translates learning into deterrence and reform. Following such incidents, the CICPA updated the Code of Professional Ethics to tighten restrictions on non-audit services, and the CSRC implemented cross-departmental punishment mechanisms and blacklists to deter misconduct. These measures demonstrate a "teach the industry through penalties" logic that seeks to raise the cost of unethical behavior and signal a clear normative boundary to the market.

To consolidate a sustainable governance regime with Chinese characteristics, several strategic pathways can be pursued. First, infuse traditional culture into ethical education. Integrating Confucian values of integrity (cheng) and righteousness (yi) into continuing professional development can deepen internal motivation and public trust. Ethics training should move beyond compliance checklists to cultivate moral imagination—scenarios in which auditors must navigate conflicts between performance targets, regulatory requirements, and stakeholder interests. This cultural embedding strengthens the moral sensibility of practitioners.

Second, optimize governance mechanisms within state-owned enterprises. Introducing independent directors recommended by independent bodies, expanding

Regarding Interaction between regulatory and ethical norms:

In China's accounting and auditing system, regulatory norms and ethical norms

form an interdependent and complementary organic whole. Regulatory norms, represented by the Accounting Law, Auditing Standards for Certified Public Accountants, and administrative rules issued by the Ministry of Finance and CSRC, provide mandatory institutional boundaries for market entities, defining "what cannot be done" with clear legal responsibilities and penalty measures. Ethical norms, such as the Code of Professional Ethics for Chinese Certified Public Accountants and industry self-discipline standards, focus on internal moral constraints, guiding practitioners to voluntarily uphold principles like integrity and objectivity beyond legal requirements. Regulatory norms lay the rigid foundation for ethical practice, while ethical norms enhance the implementation effect of regulatory norms by improving practitioners' subjective initiative to comply.

The interaction between the two norms in China presents a clear progressive mechanism. First, regulatory norms take the lead in shaping ethical boundaries. When new regulatory policies are introduced (e.g., the mandatory disclosure requirement for corporate social responsibility information), ethical norms will be updated accordingly to incorporate corresponding moral requirements, guiding practitioners to recognize the ethical value behind regulatory demands. Second, ethical practice promotes the optimization of regulatory norms. In cases where regulatory gaps exist (e.g., the early ambiguity of audit responsibility for digital asset valuation), the ethical consensus formed by industry practice often becomes an important reference for regulators to revise rules. For example, the CICPA's inclusion of "ethical judgment in digital audit" in professional ethics training later promoted the issuance of targeted regulatory guidelines for digital audit.

Despite positive interaction, there are still prominent dilemmas in practice. One is the asymmetry between regulatory intensity and ethical guidance. In some areas, regulatory norms focus on punitive constraints (e.g., heavy fines for financial fraud) but lack supporting ethical guidance for complex scenarios (e.g., ethical choices in cross-border audit information disclosure), leading to practitioners' confusion in moral judgment. The other is the implementation barrier caused by inconsistent supervision. Due to the overlapping supervision of multiple departments (e.g., the Ministry of Finance, CSRC, and local financial bureaus), there may be inconsistencies in the interpretation of regulatory requirements, which weakens the stability of ethical expectations of market entities and makes it difficult for ethical norms to form a unified guiding role.

To enhance the synergy between regulatory and ethical norms, targeted optimization should be carried out based on China's institutional environment. First, establish a coordinated revision mechanism. Promote the Ministry of Finance and CICPA to jointly formulate a "regulatory-ethical norm coordination plan," ensuring that ethical norms are updated synchronously when regulatory policies are adjusted. Second, strengthen ethical penetration in regulatory enforcement. When conducting on-site inspections and law enforcement, regulators should not only focus on whether regulatory requirements are met but also guide enterprises and auditors to conduct ethical reflection on their behaviors through case interpretations. Third, build a digital synergy platform. Rely on financial supervision big data systems to integrate regulatory violation records and ethical evaluation results of practitioners, realizing the sharing of

"regulatory-ethical" information and forming a joint constraint force that links institutional punishment with moral reputation.

China’s accounting and auditing system hinges on a dynamic interplay between regulatory norms and ethical norms, both shaping and reinforcing each other in practice. Regulatory norms establish the firm boundaries that market participants must observe, while ethical norms cultivate voluntary compliance and professional integrity. This synergy creates a more robust governance environment, where legal mandates and moral commitments together promote high-quality financial reporting and auditing outcomes.

To further strengthen this synergy, the system should cultivate proactive alignment between rulemaking and professional ethics. Regulators should consistently integrate ethical considerations into the design of new rules, anticipating how practitioners will interpret and apply them in real-world contexts. Conversely, professional ethics bodies must keep pace with regulatory developments, translating legal requirements into practical ethical guidance that helps auditors navigate ambiguous situations, such as cross-border disclosures or emerging technologies.

In addition, practitioners should be empowered to internalize ethical norms through continuous education and practical reflection. Regular ethics training, case-based discussions, and simulations of complex audit scenarios can solidify integrity, independence, and objectivity as default professional dispositions. This approach will reduce reliance on punitive measures alone and foster a culture where ethical judgment accompanies technical competence.

From an enforcement perspective, regulators should pursue integrated oversight that emphasizes both compliance and ethical quality. Joint on-site examinations by the Ministry of Finance, CSRC, and local bureaus can evaluate not only statutory adherence but also the depth of ethical reasoning demonstrated by firms and individuals. Clear feedback loops are essential: regulators should communicate ethical expectations alongside regulatory requirements and publicly share lessons learned from enforcement actions to heat up moral awareness across the industry.

Technology offers a powerful lever for synergy. Build a digital platform that links regulatory violation records with ethical evaluations of practitioners, enabling real-time insights and early warnings. This platform should support interoperability among agencies, audit firms, and educational institutions, ensuring that changes in regulation promptly cascade into ethics training and professional development. By harmonizing regulatory and ethical norms through mechanism design, China can elevate the quality and credibility of its financial reporting in a rapidly evolving global economy.

The introduction of AI has brought about all-round and in-depth transformations in China's accounting and auditing fields, covering core business processes, talent structures, regulatory supervision and other aspects. Here is a detailed elaboration combining the latest industry practices and data:

Business Process: From Manual Sampling to Intelligent Full-Population Processing. Accounting efficiency is greatly improved: AI technologies such as OCR and NLP can automatically identify and input key information from 12+ types of financial documents like invoices and contracts, with an error rate of less than 0.02%. It also realizes automatic verification of data articulation relationships and automated

preparation of accounting books, reducing the month-end closing cycle from the original 7 days to only 8 hours, and solving the problems of low efficiency and high error rate in traditional manual entry.

Auditing is more comprehensive and precise: AI has replaced the traditional sampling audit method with full-population analysis. It can mine and analyze massive historical and real-time data, accurately locate abnormal fluctuations in financial data and potential risks in business processes. For complex group audits, it can quickly capture related party information through natural language processing to complete data verification and offsetting work, which significantly reduces the risks in the preparation of consolidated statements. In addition, it can intelligently optimize the confirmation process, automatically generate confirmation letters and track the progress, which greatly improves the reliability of audit evidence.

Real-time monitoring becomes a new normal: AI builds risk prediction models, integrating satellite imagery (for inventory verification) and other non-financial data to monitor enterprise operations in real time. This changes the traditional post-event audit into proactive risk early warning, making audit a strategic partner for enterprise operation and management.

Talent Structure: The Shrinkage of Primary Posts and the Surge in Demand for Compound Talents. Structural adjustment of posts: The popularity of AI has led to a reduction in the demand for primary accounting and auditing positions that focus on repetitive work. A survey shows that 32% of Chinese enterprises have reduced the recruitment of primary financial personnel in the past year. Meanwhile, 18% of enterprises are expanding the recruitment of compound talents with AI literacy, which is far higher than the Asian-Pacific average of 8%. Upgrade of skill requirements: The roles of professionals have shifted from data entry and voucher checking to risk strategy and system validation. They are required to master technical skills such as prompt engineering and model fine-tuning, and at the same time have a deep understanding of accounting standards to verify and judge AI output results. Enterprises and industry institutions are also actively building training systems to cultivate cross-disciplinary talents who integrate accounting expertise and AI technology.

Regulatory and Industry Norms: Gradual Improvement of the Framework Adapted to AI Applications. Clarification of the principle of responsibility: The regulatory logic of "AI assists, humans are accountable" has been gradually formed. Regulatory authorities emphasize that AI outputs cannot be directly used as the basis for accounting conclusions and audit reports, and must be reviewed and signed by professional personnel to ensure the objectivity and fairness of the results. Strengthening of supporting management: Relevant departments have updated norms such as the Accounting Informatization Work Norms, which put forward requirements for data traceability and AI ethics review in the application of AI. Enterprises have also strengthened data security management, such as desensitizing sensitive information such as customer names and amounts when using cloud models to avoid privacy leakage.

Service Value: From Single Compliance to Comprehensive Business Consulting.AI has freed accounting and auditing professionals from a large number of tedious

repetitive tasks. Accounting personnel can focus on analyzing financial data to provide data support for enterprise investment and financing decisions. Auditors can put more energy into in-depth analysis of complex problems and provide customers with high-value consulting services such as business risk assessment and operational optimization suggestions. This makes the value of the accounting and auditing industry extend from simple compliance confirmation to promoting high-quality enterprise development.

Emergence of New Challenges: Promoting the Industry to Complement Shortcomings Continuously. While AI brings dividends, it also exposes challenges such as data silos, algorithmic bias and unclear accountability for technical risks. At present, Chinese enterprises are strengthening the construction of unified data standards and docking with external data from industry and commerce and taxation to solve data integration problems. The industry also advocates establishing a model accountability system and improving ethical governance frameworks. Meanwhile, universities and professional institutions are optimizing courses and training systems to make up for the talent gap of "technology + accounting".

Regulatory frameworks adapt to AI by redefining accountability, traceability, and audit evidence quality. Central to this adaptation is the principle that AI tools function as decision-support rather than decision-making authorities in professional contexts. Regulators, guided by the Ministry of Finance, CSRC, and CICPA, now emphasize clear delineations of responsibility: the outputs of AI systems must be reviewed, signed, and attributable to licensed professionals who bear ultimate accountability for conclusions in financial reporting and audit opinions. This “human-in-the-loop” approach salients the enduring necessity of professional skepticism and independent judgment, ensuring that automation augments rather than replaces expert analysis. Concurrently, data governance standards have been enhanced to demand rigorous data lineage, provenance, and privacy safeguards, with explicit requirements for model validation, bias mitigation, and auditability of AI-driven inferences. Such normative scaffolding ensures that AI-enabled processes align with both regulatory mandates and the ethical commitment to transparency and fairness.

From an ethics perspective, AI catalyzes a reframing of professional virtue in terms of reliability, humility in the face of complex outputs, and proactive risk governance. The integration of AI demands that accountants cultivate new competencies—critical appraisal of model outputs, understanding of data quality limitations, and the capacity to interpret non-traditional evidence sources (e.g., satellite imagery for inventory verification). In such a regime, ethical norms extend beyond traditional concerns of independence and objectivity to encompass responsible innovation: practitioners must vigilantly prevent overreliance on automation, disclose whenever judgments are significantly influenced by algorithmic results, and maintain the integrity of professional judgment in the presence of sophisticated computational aids. The Code of Professional Ethics for Chinese Certified Public Accountants thus evolves to embed explicit expectations around AI literacy, disclosure of algorithmic limitations, and the management of algorithmic risk in auditor communications.

The AI-enabled transformation also reframes the service model within accounting and auditing. No longer confined to compliance testing, the profession increasingly

emphasizes strategic advisory capabilities, including predictive analytics, scenario planning, and operational risk assessment. This shift enhances the value proposition of accountants as strategic partners in enterprise decision-making, capable of translating complex data landscapes into actionable insights for capital allocation, financing strategy, and governance reform. However, this expanded remit heightens ethical responsibilities: professionals must ensure that AI-driven insights are contextualized within the client's regulatory environment, corporate governance structures, and societal obligations, mitigating risks of data misinterpretation, misrepresentation, or conflict of interest in advisory engagements. The professional ethics framework thus seeks to harmonize technical innovation with the overarching aim of public interest protection.

Industry practice reveals several important implications for talent development and organizational design. The demand for "compound talents"—professionals who blend accounting expertise with AI fluency—has surged, as empirical surveys indicate a rapid upskilling trajectory. Educational institutions and professional bodies are thus tasked with integrating curricula that cover machine learning basics, data ethics, model governance, and non-financial information discernment. In parallel, firms are restructuring to support continuous learning, with dedicated AI ethics review boards, internal control offices for algorithmic systems, and cross-functional teams that combine accounting, IT, and risk management competencies. This organizational evolution reinforces the ethical imperative that technology serves the public good and contributes to the reliability of financial information.

Data integrity and cybersecurity emerge as foundational concerns in AI-enabled environments. The proliferation of data sources—ranging from ERP systems to external non-financial indicators—entails heightened exposure to privacy breaches, data leakage, and tampering risks. Consequently, robust cyber hygiene practices, encryption standards, access controls, and incident response protocols are now integral to both regulatory compliance and ethical stewardship. Regulators encourage transparency about data governance arrangements, including third-party data handling, vendor risk management, and audit trails that substantiate data supplementary to financial statements. Ethically, practitioners must respect data rights, avoid conflicts arising from proprietary data ownership, and ensure that data used in AI processes does not introduce systemic biases or discriminatory outcomes in decision-making.

Methodologically, the scholarly examination of AI's impact on audit independence and ethics warrants a multi-disciplinary approach. Researchers should integrate theories from information economics, organizational sociology, and ethics of technology to analyze how AI influences professional norms, perceived independence, and the legitimacy of financial reporting. Empirical inquiries could explore correlations between AI adoption levels, audit quality indicators, and enforcement outcomes, while qualitative studies might trace how auditors experience shifts in professional identity and moral agency as automation becomes more pervasive. Comparative studies across jurisdictions could illuminate how China.

Regarding relationship between the accountants and new technology

The Reconstruction and Transformation Path of Accountants Under the New Wave of Technology.The deep penetration of new technologies such as big data into the

accounting field has upgraded the relationship between accountants and technology from "tool users" to "harmonious coexistence," and the industry is undergoing a fundamental transformation from a statistical to a value-creating model. This transformation has both improved the logic of accounting work and placed new demands on accountants.The core relationship between accountants and new technologies is "human-machine harmony, each leveraging their strengths." New technologies are efficient "process executors," taking over repetitive tasks with fixed rules in accounting. Intelligent tools based on OCR technology can automatically recognize invoice information with an accuracy rate exceeding 99%, improving invoice processing efficiency by more than 70%; RPA robots can complete 60% of the "value decision-making" tasks that accountants cannot replace, playing a core role in areas such as data analysis and risk assessment. AI can point out abnormal expenses, but only accountants can judge their reasonableness in conjunction with the business context; intelligent systems can calculate tax deductions, but accountants need to understand policy and border audit risks.

Driven by new technologies, accountants need to transform in three aspects. First, the skill structure is upgrading from single-minded statistics to multi-faceted capabilities. This involves mastering data analysis tools like Python and operating intelligent financial systems, while simultaneously gaining in-depth industry insights to build a skill set encompassing "accounting expertise + technological application + business understanding." An ACCA survey shows that digitizing the skills of 85% of accountants is key to maintaining a competitive edge.

Second, the professional role is shifting from "account manager" to "strategic partner," providing support for decision-making through business-finance integration. For example, finance business partners (BPs) delve into the front lines of business, optimizing marketing strategies and improving ROI by analyzing user costs and lifetime value.

Third, the mindset is leaping from simply recording value to creating it. Leveraging big data technology to uncover the business logic behind data, the focus is shifting from "post-event reflection" to "pre-event prediction." For instance, building pre-emptive finance to empower strategy.

Technology replacing the accounting profession merely eliminates traditional work models. Only by embracing technology and focusing on value creation can accountants achieve professional upgrading amidst industry transformation.

Regarding Ethical conflict case analysis:

The selection of ethical conflict cases in China adheres to three core criteria: representativeness of institutional context, typicality of ethical dilemmas, and influence on industry norms. These cases mainly focus on three typical scenarios: conflicts between accountant independence and management pressure, conflicts between audit objectivity and client economic interests, and conflicts between information disclosure integrity and corporate commercial confidentiality. Such scenarios fully reflect the unique ethical challenges faced by accounting practitioners under China's socialist market economy and government-led regulatory framework, providing realistic samples for analyzing the operation of ethical norms in practice.

Case 1: Kangmei Pharmaceutical’s Financial Fraud – Conflict Between Audit

Ethics and Client Pressure

Kangmei Pharmaceutical's financial fraud case (exposed in 2019) is a classic example of ethical conflict between audit independence and client interest binding. The auditing firm, in the face of the client's long-term high audit fees (accounting for over 15% of the firm's annual revenue) and management's threat to replace the audit team, failed to maintain professional skepticism. It neglected the abnormal changes in the company's monetary funds and accounts receivable, and issued an unqualified audit report in violation of the ethical principles of objectivity and integrity. The root cause of the conflict lies in the excessive dependence of the audit firm on a single client and the lack of effective internal ethical review mechanisms to resist external pressure, ultimately leading to the collapse of audit ethics and severe penalties for the firm.

Case 2: Luckin Coffee's Revenue Inflation – Conflict Between Accounting Integrity and Short-Term Interests

Luckin Coffee's revenue inflation case (exposed in 2020) reflects the ethical conflict between accounting practitioners' professional integrity and corporate short-term interest demands. Under the pressure of the company's management to achieve high growth performance and meet capital market expectations, the internal accounting team was forced to fabricate sales data, forge transaction records, and inflate revenue by nearly 2.2 billion yuan. This conflict embodies the weak position of internal accountants in corporate governance in China's emerging enterprises – they faced a dilemma between abiding by the ethical norm of "faithful representation of accounting information" and complying with management's illegal instructions, and finally chose to compromise with interests, resulting in the company's delisting from the U.S. stock market and huge losses for investors.

Case Enlightenments and Ethical Governance Implications

The above cases provide important enlightenment for optimizing ethical governance in China's accounting field. First, strengthen the independence of audit firms and internal accountants: Establish a client concentration supervision mechanism to limit the proportion of a single client's fees, and set up an independent ethical appeal channel for internal accountants to reduce the interference of management pressure. Second, improve the ethical responsibility identification system: Clarify the hierarchical ethical responsibilities of audit partners, project managers, and internal accountants in cases of ethical violations, avoiding collective responsibility leading to weak constraints. Third, enhance scenario-based ethical education: Take typical cases as teaching materials to simulate ethical dilemmas such as "management pressure" and "interest temptation" in training, helping practitioners improve their ethical judgment and decision-making abilities in complex situations.

In terms of Cross-scale ethical governance:

Cross-scale ethical governance in China refers to a systematic governance model that coordinates micro-individual, meso-organizational, and macro-institutional levels to address accounting and auditing ethical issues. Its logical framework is based on the "scale interaction" characteristic of China's institutional environment: the macro level provides institutional guarantees through national laws and regulatory policies; the meso level undertakes the implementation of norms through enterprises, audit firms, and industry associations; the micro level relies on accounting and auditing

practitioners' ethical awareness to practice norms. Unlike single-scale governance, this model emphasizes the synergy between scales—for example, macro regulatory policies need to be translated into meso organizational systems, which in turn guide micro individual behaviors, forming a closed loop of ethical governance.

China has initially established a cross-scale ethical governance framework but faces uneven coordination between scales. At the macro level, the Ministry of Finance, CSRC, and CICPA have issued a series of policies such as the Accounting Law and Code of Professional Ethics, forming a relatively complete institutional system. At the meso level, large audit firms and state-owned enterprises have established internal ethical committees and training mechanisms, but small and medium-sized enterprises (SMEs) and local audit firms often have formalized ethical systems due to resource constraints. At the micro level, practitioners' ethical awareness has improved with mandatory continuing education, but there is still a gap between "knowing ethics" and "practicing ethics" when facing meso organizational pressure (e.g., management's request for profit adjustment). This imbalance leads to the disconnection between macro policies and micro practice, reducing the effectiveness of ethical governance.

The core bottlenecks of cross-scale ethical governance lie in the information asymmetry between scales and inconsistent incentive mechanisms. On one hand, macro regulators lack real-time access to meso organizational ethical operation data and micro individual behavior details, making it difficult to formulate targeted policies; meso organizations also cannot fully transmit practitioners' ethical dilemmas to macro regulators, resulting in policy implementation deviations. On the other hand, incentive mechanisms between scales are inconsistent: macro policies focus on punitive incentives (e.g., fines for violations), while meso organizations may take "performance-oriented" incentives (e.g., linking bonuses to business volume), which conflicts with ethical requirements; micro practitioners face the dilemma of "abiding by ethics leading to career loss" under meso incentives, weakening their motivation to comply with norms.

To break through the bottlenecks, optimization should focus on strengthening scale synergy based on China's institutional advantages. First, build a cross-scale information sharing platform: Rely on financial supervision big data systems to integrate macro regulatory standards, meso organizational ethical evaluation results, and micro practitioner violation records, realizing transparent information flow between scales. Second, align cross-scale incentive mechanisms: Macro regulators can give policy preferences (e.g., simplified supervision) to meso organizations with excellent ethical performance; meso organizations should incorporate ethical indicators into employee performance evaluations, replacing "pure performance incentives" with "ethics-performance dual incentives". Third, establish a cross-scale coordination mechanism: Set up a joint committee composed of regulators, industry associations, enterprises, and audit firms to regularly communicate ethical governance issues, ensuring that macro policies are applicable to meso and micro scenarios, and meso and micro demands are fed back to macro policy-making in a timely manner.

Cross-scale ethical governance in China has laid a foundational framework, but it requires deeper operationalization to realize its full potential. Building on the existing structure, we should promote proactive alignment across scales through concrete

actions, ongoing learning, and adaptive policy design that respects China's unique institutional context.

First,The manager could advocate for an integrated data ecosystem that bridges scales. Regulators, industry bodies, and firms should adopt standardized data schemas for ethical indicators, audit quality metrics, and disciplinary actions. By pooling information from macro regulations, meso-level ethics assessments, and micro-level behavior observations, authorities can identify patterns, forecast risks, and tailor timely interventions. Practitioners will benefit from clear feedback loops showing how their conduct influences policy adjustments and supervisory focus.

Second, the manager could push for incentive realignment that harmonizes across scales. At the macro level, authorities can design lighter-touch supervision for consistently compliant meso actors, rewarding transparent reporting and proactive risk mitigation. At the meso level, organizations should embed ethics as a formal performance dimension, linking ethical outcomes to career progression, training opportunities, and remuneration decisions. This dual-track approach reduces the tension between profit-driven goals and ethical obligations, encouraging behaviors that align with long-term trust and stability in markets.

Third, the manager could establish a formal cross-scale coordination mechanism that ensures continuous dialogue. A standing cross-scale committee—comprising regulators, CICPA representatives, industry associations, and major audit firms—will meet quarterly to discuss emerging ethical challenges, share case studies, and translate macro policies into practical guidance for meso actors and micro practitioners. This mechanism will also relay frontline insights and ethical dilemmas from practitioners back to policymakers, accelerating the refinement of norms and rules.

Finally, the manager could emphasize capacity-building rooted in Chinese realities. Tailored ethics education, case-based training, and scenario planning will prepare practitioners to navigate complex cross-border, cross-industry, and technologically evolving environments. By actively integrating information flows, incentive alignment, governance coordination, and capacity-building, cross-scale ethical governance can move from a conceptual vision to a resilient, responsive system that upholds integrity across China's financial and professional landscape.

2.3 Historical Aspects of Auditing in China

Regarding Early forms of audit and the positioning of responsibilities:

China’s early audit forms evolved in tandem with the centralized political system and economic development, presenting two distinct stages. In the feudal era (pre-1840), audit existed as a tool for imperial fiscal supervision, with core forms including the "Sikou" system in the Zhou Dynasty (responsible for reviewing royal and bureaucratic fiscal receipts) and the "Ducha Yuan" (Censorate) in the Tang-Song Dynasties, which specialized in verifying the authenticity of local and central fiscal reports to prevent embezzlement. During the Late Qing to Republic of China period (1840-1949),

Western modern enterprise systems drove the emergence of "commercial audit": the 1904 Company Law mandated joint-stock companies to hire accountants for financial verification, and the 1928-established "Audit Yuan" integrated government fiscal supervision with state-owned enterprise audits, while private accounting firms began providing audit services for foreign-funded and national enterprises, marking the transition from pure administrative supervision to embryonic professional audit.

In the feudal period, audit responsibilities were highly centralized and politically oriented, with a clear "imperial accountability" core. Audit entities (such as Sikou officials and Censorate censors) were directly responsible to the emperor, with three key responsibilities: first, verifying the accuracy of fiscal statements submitted by local governors and central ministries to eliminate "false accounts" and "misappropriation"; second, supervising the implementation of tax collection and grain storage systems to ensure fiscal revenues flowed into the imperial treasury; third, investigating and reporting fiscal violations of officials, serving as a means for imperial power to control local administrative agencies. Notably, this responsibility scope was limited to public finance, with no involvement in private economic activities, reflecting the "tool attribute" of audit serving imperial governance.

The Late Qing to Republic of China period witnessed a dual transformation in audit responsibility positioning, driven by institutional changes. For official audit institutions (e.g., Audit Yuan), responsibilities expanded from pure fiscal compliance supervision to "compliance + efficiency" dual goals: while continuing to supervise government fiscal revenues and expenditures, they began evaluating the operational efficiency of state-owned enterprises to address the waste of national assets. For private accounting firms, responsibilities centered on "trust intermediation"—they were accountable to enterprise shareholders and creditors, verifying the authenticity of financial statements (such as profit calculation and asset valuation) to reduce information asymmetry between investors and management. This transformation initially established the "market-oriented responsibility" of modern audit, though it remained immature due to weak professional independence.

China’s early audit and responsibility positioning had two core characteristics: strong political attachment (audit served national governance in both feudal and republican periods) and limited professional independence (feudal auditors were constrained by imperial power, while republican private firms relied on government or foreign capital). These characteristics provide critical enlightenment for modern audit development: first, inherit the "supervision and accountability" tradition, enabling modern government audit and state-owned enterprise audit to continue safeguarding national financial order; second, address the historical shortcoming of weak independence by optimizing the appointment mechanism of audit institutions and restricting client fee dependence; third, expand responsibility connotation on the basis of historical "error detection" functions, integrating modern elements such as risk assessment and internal control evaluation to adapt to the demands of high-quality economic development. Moreover, the historical exploration of audit forms and responsibilities offers intellectual resources for contemporary accounting ethics education and curriculum ideological and political development, promoting the

integration of historical wisdom, ethical norms, and professional skills in the cultivation of accounting talents.

Table 8 China's Early Audit Forms and Responsibility Positioning

China's Early Audit Forms and Responsibility Positioning

Historical Period	Audit Forms & Evolution	Responsibility Positioning & Core Functions	Characteristics & Significance
Feudal Era (Pre-1840)			
Zhou Dynasty to Ming-Qing	**Primary Nature:** Imperial fiscal supervision tool **Core Forms:** • *"Sikou" system (Zhou Dynasty)* - Reviewing royal and bureaucratic fiscal receipts • *"Ducha Yuan" (Censorate, Tang-Song Dynasties)* - Verifying authenticity of local/central fiscal reports	**Centralized & Politically Oriented** **Core:** "Imperial Accountability" - Direct responsibility to emperor **Key Responsibilities:** 1. Verifying accuracy of fiscal statements to eliminate "false accounts" and "misappropriation" 2. Supervising implementation of tax collection and grain storage systems 3. Investigating and reporting fiscal violations of officials **Scope:** Limited to public finance; no involvement in private economic activities	• Reflected the "tool attribute" of audit serving imperial governance • Mechanism for imperial power to control local administrative agencies • Established framework for centralized fiscal supervision
Late Qing to Republic of China Period (1840-1949)			

Building on this foundation, we should also emphasize the dynamic evolution of audit functions and the mutual reinforcement between institutions and governance design.

First, as the demands of national governance diversify, audit functions have gradually shifted from a sole "verification" role to a broader "governance tool"定位, emphasizing risk-based auditing, internal control evaluation, and governance improvement recommendations rather than merely tracing past misstatements and malfeasance. This transformation calls for a scientific audit methodology, such as documenting evidence chains, testing key controls, and ongoing risk assessment, to create a closed-loop governance process in budgeting, funding allocation, and asset management for both government departments and state-owned enterprises.

Second, enhancing independence becomes a core objective of institutional design. This includes clear accountability lines, the establishment of independent audit committees, and limiting the reliance of audit bodies on government or controlling shareholders' funding. Such measures gradually reduce incentives to yield to political or business interests, making audit judgments more objective and professional. This direction benefits not only the quality of information disclosure but also increases market confidence in corporate governance.

Third, international experiences should be absorbed and locally adapted in tandem. By drawing on modern auditing standards and professional ethics frameworks—and aligning them with China's conditions—we should strengthen the rule of law, improve information disclosure, and promote social oversight. The goal is to cultivate domestically competitive accounting firms and audit talent, forming a coordinated governance framework that serves central enterprises, local state-owned enterprises,

and private firms alike.

Finally, cultivating an audit culture is essential. Through ongoing professional education, ethics development, and transparent publication of audit results, we can gradually establish a shared industry ethos of “integrity for stability and professionalism for efficiency.” This will position audit as a crucial institutional tool for promoting high-quality development.

Regarding Early forms of audit and the positioning of responsibilities:

China’s early audit forms evolved in tandem with the centralized political system and economic development, presenting two distinct stages. In the feudal era (pre-1840), audit existed as a tool for imperial fiscal supervision, with core forms including the "Sikou" system in the Zhou Dynasty (responsible for reviewing royal and bureaucratic fiscal receipts) and the "Ducha Yuan" (Censorate) in the Tang-Song Dynasties, which specialized in verifying the authenticity of local and central fiscal reports to prevent embezzlement. During the Late Qing to Republic of China period (1840-1949), Western modern enterprise systems drove the emergence of "commercial audit": the 1904 Company Law mandated joint-stock companies to hire accountants for financial verification, and the 1928-established "Audit Yuan" integrated government fiscal supervision with state-owned enterprise audits, while private accounting firms began providing audit services for foreign-funded and national enterprises, marking the transition from pure administrative supervision to embryonic professional audit.

In the feudal period, audit responsibilities were highly centralized and politically oriented, with a clear "imperial accountability" core. Audit entities (such as Sikou officials and Censorate censors) were directly responsible to the emperor, with three key responsibilities: first, verifying the accuracy of fiscal statements submitted by local governors and central ministries to eliminate "false accounts" and "misappropriation"; second, supervising the implementation of tax collection and grain storage systems to ensure fiscal revenues flowed into the imperial treasury; third, investigating and reporting fiscal violations of officials, serving as a means for imperial power to control local administrative agencies. Notably, this responsibility scope was limited to public finance, with no involvement in private economic activities, reflecting the "tool attribute" of audit serving imperial governance.

The Late Qing to Republic of China period witnessed a dual transformation in audit responsibility positioning, driven by institutional changes. For official audit institutions (e.g., Audit Yuan), responsibilities expanded from pure fiscal compliance supervision to "compliance + efficiency" dual goals: while continuing to supervise government fiscal revenues and expenditures, they began evaluating the operational efficiency of state-owned enterprises to address the waste of national assets. For private accounting firms, responsibilities centered on "trust intermediation"—they were accountable to enterprise shareholders and creditors, verifying the authenticity of financial statements (such as profit calculation and asset valuation) to reduce information asymmetry between investors and management. This transformation initially established the "market-oriented responsibility" of modern audit, though it remained immature due to weak professional independence.

Table 9 Timeline of the evolution of audit forms

Timeline of the evolution of audit forms

Feudal period (before 1840)

Imperial financial supervision tool

Core form: Zhou Dynasty "Si Hui" system, Tang and Song dynasties "Censorate"

Main features: Audit exists as a tool for financial supervision of the Empire, specifically verifying the authenticity of local and central financial reports and preventing corruption and misappropriation

- **Zhou Dai Si Xi System:** Responsible for reviewing the financial income and expenditure of the royal family and bureaucrats
- **Tang and Song Dynasty Censorate:** Specializing in verifying the authenticity of local and central financial reports and preventing corruption
- **Scope of application:** Limited to public finances and does not involve private economic activities

Late Qing Dynasty to Republic of China (1840-1949)

Transition from administrative supervision to professional auditing

Core forms: commercial audit, audit court, private accounting firm

Main characteristics: The modern Western enterprise system promoted the emergence of "commercial audit", marking the transition from pure administrative supervision to professional auditing

- **The Companies Act of 1904 stipulates** that joint-stock companies must hire accountants to conduct financial audits
- **In 1928, the "Court of Audit" was established:** integrating government financial supervision and state-owned enterprise auditing
- **Private accounting firm:** Started providing audit services to foreign-funded and ethnic enterprises

Table 10 Comparision of audit responsibility positioning.

Comparison of audit responsibility positioning

period	Core of responsibility	Responsible subject	Main responsibilities:	Object of responsibility	Characteristics:
Feudal period (before 1840)	"Imperial power accountability" is the core	Officials of the Ministry of Justice, Censorship of the Censorate, etc	• Verify the accuracy of financial reports submitted by local officials and central ministries • Supervise the implementation of tax collection and warehousing systems • Investigate and report financial violations of officials	Directly responsible to the emperor	Highly centralized, politically oriented, and instrumental
Late Qing Dynasty to Republic of China (1840-1949)	The dual transformation of "compliance + efficiency" and "trust intermediary"	Audit Institute, private accounting firm	• **Official audit institutions:** supervise government fiscal revenue and expenditure, and evaluate the operational efficiency of state-owned enterprises • **Private accounting firms:** verify the authenticity of financial statements and reduce information asymmetry between investors and management	• **Official Institutions:** Accountable to the State • **Private Institutions:** Responsible to corporate shareholders and creditors	The initial establishment of "market-oriented responsibility" is still weak

China's early audit and responsibility positioning had two core characteristics: strong political attachment (audit served national governance in both feudal and

republican periods) and limited professional independence (feudal auditors were constrained by imperial power, while republican private firms relied on government or foreign capital). These characteristics provide critical enlightenment for modern audit development: first, inherit the "supervision and accountability" tradition, enabling modern government audit and state-owned enterprise audit to continue safeguarding national financial order; second, address the historical shortcoming of weak independence by optimizing the appointment mechanism of audit institutions and restricting client fee dependence; third, expand responsibility connotation on the basis of historical "error detection" functions, integrating modern elements such as risk assessment and internal control evaluation to adapt to the demands of high-quality economic development.

Building on this foundation, we should also emphasize the dynamic evolution of audit functions and the mutual reinforcement between institutions and governance design.

First, as the demands of national governance diversify, audit functions have gradually shifted from a sole “verification” role to a broader “governance tool”定位, emphasizing risk-based auditing, internal control evaluation, and governance improvement recommendations rather than merely tracing past misstatements and malfeasance. This transformation calls for a scientific audit methodology, such as documenting evidence chains, testing key controls, and ongoing risk assessment, to create a closed-loop governance process in budgeting, funding allocation, and asset management for both government departments and state-owned enterprises.

Second, enhancing independence becomes a core objective of institutional design. This includes clear accountability lines, the establishment of independent audit committees, and limiting the reliance of audit bodies on government or controlling shareholders’ funding. Such measures gradually reduce incentives to yield to political or business interests, making audit judgments more objective and professional. This direction benefits not only the quality of information disclosure but also increases market confidence in corporate governance.

Third, international experiences should be absorbed and locally adapted in tandem. By drawing on modern auditing standards and professional ethics frameworks—and aligning them with China’s conditions—we should strengthen the rule of law, improve information disclosure, and promote social oversight. The goal is to cultivate domestically competitive accounting firms and audit talent, forming a coordinated governance framework that serves central enterprises, local state-owned enterprises, and private firms alike.

Finally, cultivating an audit culture is essential. Through ongoing professional education, ethics development, and transparent publication of audit results, we can gradually establish a shared industry ethos of “integrity for stability and professionalism for efficiency.” This will position audit as a crucial institutional tool for promoting high-quality development.

Feudal audit as a mechanism of imperial control and fiscal integrity In the pre-1840 feudal era, audit functioned as a centralized instrument for safeguarding the sovereignty of the ruling dynasty. Sikou and Censorate offices operated within an asymmetrical power structure, wherein auditing authority originated from the emperor

and extended through a hierarchical bureaucracy. The core tasks—verifying the accuracy of fiscal reports, overseeing the collection and storage of treasonous resources (grain, revenues, and tribute), and exposing fiscal misconduct—served multiple ends: preventing leakage of state resources, legitimizing fiscal decisions to the court, and providing a ready-made audit trail for imperial reprimand or reform. The emphasis on public finance, rather than private enterprise, reflected a governance logic in which the state's financial order was the primary object of audit attention. Auditors bore the burden of demonstrating loyalty to the sovereign and fidelity to the sovereign's fiscal plan, with professional autonomy constrained by the imperative of political alignment and the risk of royal sanction.

Late Qing to Republic: the emergence of a dual, transitional responsibility regime With the encroachment of Western commercial institutions and the rise of modern corporate forms, audit responsibilities diversified in two intertwined directions. Official audits—embodied by the Audit Yuan—began to incorporate efficiency considerations alongside compliance, signaling a nascent adoption of performance auditing in the public sector. This shift reflected an increased concern with resource waste, misallocation, and the governability of state assets amid fiscal stress and modernization pressures. At the same time, private accounting practice emerged to serve the needs of capital markets and foreign investment, introducing a professional, market-based layer of assurance. These private auditors, though still tethered to government or foreign capital in many contexts, began to assume the role of information mediators—reducing information asymmetry between investors and management and providing external verification for financial statements. Yet independence remained attenuated: auditors faced residual pressures from dominant shareholders, the state, or foreign partners, and their professional judgments could be tempered by these ties.

Two enduring characteristics emerge from this transitional period

The first is a continued precedence of political accountability. Even as private audit firms gained traction, the state's interest in governance, national assets, and strategic industries kept audit within a political frame. This ensured that audit functions could serve national objectives, but it also raised the risk of instrumentalization where independence might be compromised by state or corporate power.

The second is a fragile, evolving independence. While professionalization began to take root, auditors often depended on government contracts, state-owned enterprises, or foreign capital for revenue and legitimacy. This dependency constrained auditable autonomy and created potential conflicts of interest, signaling the need for robust appointment processes and funding arrangements that separate auditors from undue external influence.

Dynamic co-evolution of governance design and audit practice The historical pattern suggests that audit design and governance structures co-evolve in a feedback loop. As governance needs broaden—encompassing risk assessment, internal control evaluation, and governance enhancement—audit practice must transition from a narrow verification function to a holistic governance instrument. This evolution entails three interlocking developments:

A governance-centric audit framework. Auditing should be anchored in risk-based

methodologies, with clear documentation of evidence chains, testing of key controls, and explicit linkage to governance improvements. For both public bodies and state-owned enterprises, this approach creates a feedback loop where audit findings feed governance reforms, which in turn refine risk profiles and audit scopes.

Strengthening independence through design. Institutional design must ensure durable independence by establishing independent audit committees, transparent appointment processes, and diversified funding sources that decouple auditors from the political power or dominant shareholders. Independence is not merely a procedural attribute but a structural condition that enables objective judgment.

Localization of international standards. Global auditing standards and ethics frameworks offer valuable guidance; however, their successful adoption requires careful localization. Aligning these standards with China's governance imperatives—state involvement, social stability, and rapid development—can produce a governance framework that is both globally credible and domestically legitimate.

Cultivating an audit culture: education, transparency, and public accountability A robust audit culture rests on more than rules; it requires a shared ethos of integrity, accountability, and openness. Continuous professional education should integrate historical lessons about the dangers of coercion and the virtues of independence, while ethics education should emphasize the tension between

In regard to Modernization and Reform of the Audit System:

The modernization of China's audit system refers to the process of optimizing the audit system's structure, functions, and governance methods to adapt to the demands of national governance modernization and high-quality economic development. Its core connotation covers three dimensions: functional expansion (from single "error detection and fraud prevention" to integrated supervision of compliance, efficiency, and effectiveness), method digitalization (applying big data, AI, and blockchain to audit practice), and systematization of governance (forming a coordinated pattern of government audit, internal audit, and social audit). The driving forces behind this modernization mainly come from two aspects: on one hand, the internal demand of China's socialist market economy for standardized market order and transparent financial information; on the other hand, the external pressure of global economic integration, which requires China's audit system to align with international audit standards while maintaining institutional characteristics.

China's audit system reform has gone through three key stages with distinct focuses. The first stage (1983-2002) was the system establishment period: the National Audit Office (NAO) was founded in 1983, and the Audit Law was promulgated in 1994, establishing the legal status of government audit and clarifying its supervision scope over state finances and state-owned assets. The second stage (2003-2017) was the function expansion period: reforms focused on integrating internal audit into enterprise governance, promoting the standardized development of social audit (e.g., revising the Regulations on Certified Public Accountants), and extending audit coverage to fields such as environmental protection and social security. The third stage (2018-present) is the comprehensive modernization period: the most landmark reform is the establishment of the centralized and unified audit management system, which integrates the audit functions of multiple departments (e.g., state-owned assets

supervision and financial supervision) into the NAO, realizing "full coverage" of audit supervision over public funds, state-owned assets, and state-owned resources.

After years of reform, China's audit system has achieved remarkable results in modernization. First, the audit supervision system has been optimized: the centralized and unified management system has eliminated overlapping supervision and regulatory gaps, enhancing the authority and efficiency of audit supervision. Second, digital audit capabilities have been significantly improved: the NAO's "Golden Audit Project" and social audit firms' application of intelligent audit tools (e.g., data analysis platforms for transaction verification) have realized the transformation from "sample-based audit" to "full-data audit", improving the accuracy of identifying risks and violations. Third, the synergy of the "three-in-one" audit pattern (government, internal, social audit) has been strengthened: government audit guides internal audit's construction in state-owned enterprises, and social audit provides professional support for government audit's special projects, forming a complementary supervision network.

Despite progress, the modernization of China's audit system still faces challenges. One is the unbalanced development of digital audit—while large audit institutions and central departments have mature digital tools, local and grass-roots audit institutions are constrained by technical and talent shortages. Another is the insufficient convergence of social audit with international standards—some local audit firms still lack experience in cross-border audit, making it difficult to fully meet the needs of Chinese enterprises' overseas development. For future reform, the focus should be on two directions: first, accelerate the construction of a national unified audit data platform to promote the sharing of audit data between central and local governments and narrow the digital gap; second, strengthen the internationalization of audit standards and talents—by referencing international audit standards (ISA) to optimize domestic norms and cultivating cross-border audit talents, enhance the international recognition of China's audit results.

Building on these stages and outcomes, the ongoing modernization should continue to emphasize proactive governance, continuous capability building, and global integration.

First, we must enhance proactive risk management across all audit layers. This means shifting from a predominantly retrospective verification mindset to a forward-looking approach that identifies emerging risks in budgetary planning, project implementation, and asset management. By embedding risk indicators into planning cycles and establishing real-time monitoring dashboards, auditors can prompt timely corrective actions and promote preemptive governance.

Second, we should strengthen talent development and organizational culture. This involves expanding targeted training programs in data analytics, AI-assisted auditing, and cyber security, while also cultivating a culture of critical independence and professional skepticism. Creating clear career paths, competitive remuneration, and robust ethical standards will attract and retain high-caliber professionals, reducing turnover and elevating audit quality across regions.

Third, we must deepen public transparency and stakeholder engagement. By publishing accessible audit findings, management responses, and remediation progress, the system will foster public trust and accountability. We should also encourage civil

society participation by providing secure channels for feedback on government programs and state-owned enterprises, ensuring that social auditing complements official oversight rather than duplicating efforts.

Fourth, we need to accelerate interoperability with international frameworks while preserving domestic institutional features. Aligning with International Standards on Auditing (ISA) where appropriate, and harmonizing with global best practices in internal control and governance, will enhance cross-border comprehension and collaboration. Simultaneously, we must preserve China's distinctive supervisory model by customizing standards to fit local governance, legal, and market conditions.

Finally, investment in digital infrastructure must continue. Beyond data platforms, we should implement robust data governance, privacy protections, and interoperable ecosystems that enable seamless data sharing among central and local authorities, state-owned enterprises, and social auditors. This integrated infrastructure will empower more accurate risk assessment, timely interventions, and a higher-level audit ecosystem aligned with high-quality development goals.

Concerning forward-looking risk governance, talent and culture evolution, and transparent, globally resonant accountability.Forward-looking risk governance across audit layers A fundamental shift involves embedding proactive risk management throughout all layers of the audit ecosystem. Moving beyond retrospective verification, auditors should systematically anticipate shifts in fiscal spaces, program design, and asset lifecycles. Key elements include:

Risk-based planning: Integrate macro-fiscal risk indicators and project-level risk profiles into annual and multi-year planning. This ensures audit resources prioritize high-risk areas such as large-scale infrastructure schemes, state-owned asset portfolios, and capital-heavy subsidies.

Real-time monitoring: Develop dashboards that track key performance indicators (KPIs) for budget execution, procurement integrity, and asset utilization. Real-time data streams enable auditors to detect anomalies early and trigger rapid governance interventions.

Evidence-chain rigor: Strengthen methodologies for documenting the linkage between observed controls, testing results, and governance recommendations. A transparent chain of evidence supports accountability and facilitates cross-agency learning.

Governance-oriented reporting: Shift from solely reporting misstatements to articulating risk exposures, control deficiencies, and actionable governance improvements. This reframing reinforces the audit function as an ongoing governance partner rather than a episodic watchdog.

Capability development and organizational culture Sustainable modernization hinges on talent, digital capability, and a culture that prizes independence and professional skepticism. Strategic priorities include:

Digital proficiency: Expand training in data analytics, AI-assisted auditing, cybersecurity risk management, and data visualization. Equip auditors to leverage large datasets, perform algorithmic risk assessment, and interpret non-traditional evidence (e.g., satellite imagery, blockchain records).

AI governance: Establish governance frameworks for AI-assisted audits that specify

model validation, auditability, bias mitigation, and human-in-the-loop responsibilities. Ensure that AI outputs support, not substitute, professional judgment.

Clear career pathways: Create tiered career tracks with incentives tied to technical mastery, cross-sector secondments (central, local, state-owned, and social auditing bodies), and recognition for interdisciplinary competencies.

Ethics and independence culture: Reinforce ethical norms through case-based training, independent ethics committees, and transparent accountability mechanisms for conflicts of interest. A culture of critical skepticism reduces complacency and strengthens objectivity.

Talent diversification: Promote the recruitment and retention of diverse talent, including specialists in data science, IT security, legal compliance, and public policy, to reflect the broadened scope of modern auditing.

Public transparency and stakeholder engagement Enhancing legitimacy requires open, accessible, and constructive engagement with the public and stakeholders. Concrete steps include:

Publish audit findings with context: Present results in clear, non-technical language, including management responses and remediation timelines. Provide quantified impact assessments where feasible.

Feedback channels: Create secure, accessible channels for civil society and beneficiaries to comment on audit findings and program outcomes. Integrate feedback into subsequent audit cycles to close the accountability loop.

Social audit empowerment: Expand the role of social auditors to complement government oversight, ensuring alignment with national development goals while preserving independence and methodological rigor.

Public-interest framing: Communicate how audit conclusions link to public goods, such as social equity, environmental sustainability, and macroeconomic stability. This framing strengthens the social contract around governance.

International interoperability and domestic adaptation A balanced approach to global alignment involves both convergence with ISA principles where appropriate and deliberate localization. Actions include:

ISA-aligned standards: Adopt ISA-based methodologies for risk assessment, evidence gathering, and reporting where suitable, while mapping deviations to China's legal and institutional context.

Internal control harmonization: Integrate international best practices for internal control frameworks with China's state-owned enterprise governance models. Emphasize control environment, risk assessment, control activities, information and communication, and monitoring.

Cross-border capability: Develop capacity to conduct cross-border audits for domestic firms with overseas listings or international operations. Invest in translator teams, international liaison mechanisms, and mutual recognition arrangements with foreign auditors.

Domestic differentiation: Preserve the distinctive supervisory architecture that features centralized NAO authority and state-led governance objectives. Ensure international standards enhance but do not supplant domestically appropriate practices.

Digital infrastructure and data governance A robust digital backbone is essential for

a unified, efficient, and trustworthy audit system. Priorities include:

National unified data platform: Accelerate the creation of a centralized, secure data platform that consolidates information across central and local governments, SOEs, and social auditors. Enforce standardized data formats, metadata, and access controls.

Interoperable ecosystems: Build interoperable interfaces among agencies, audit firms, and educational bodies to facilitate seamless data exchange

Relating to Financial Reform and the Evolution of Capital Market Auditing (1990s-2000s):

The 1990s-2000s marked a critical period of China's financial reform, characterized by the establishment and initial development of the capital market, which became the core driver of capital market auditing evolution. Two landmark reforms laid the foundation: first, the founding of the Shanghai Stock Exchange (1990) and Shenzhen Stock Exchange (1991), which formalized the securities market and created an urgent demand for professional audit services to ensure the authenticity of listed companies' financial information. Second, the implementation of the "separation of government and enterprise" reform in state-owned enterprises (SOEs), which pushed SOEs to raise funds through the capital market and required independent auditing to reduce information asymmetry between investors and enterprise management. These reforms transformed capital market auditing from a "formality" to a necessary institutional arrangement for market operation.

Against the backdrop of financial reform, China's capital market audit regulatory system underwent a transition from "fragmented management" to "unified norms" during this period. In the early 1990s, supervision was decentralized—departments such as the Ministry of Finance and the newly established China Securities Regulatory Commission (CSRC) had overlapping responsibilities, leading to inconsistent audit requirements. With the promulgation of the Securities Law (1998) and the revision of the Audit Law (2006), a clear regulatory framework was formed: the CSRC took charge of supervising audit services for listed companies, while the Ministry of Finance and China Association of Certified Public Accountants (CICPA) formulated audit standards (e.g., the first batch of Independent Auditing Standards for Certified Public Accountants in 1995) and standardized auditor qualification management. This system standardized the audit process for listed companies and laid the legal foundation for audit practice.

Financial reform drove a fundamental shift in the function of capital market auditing. In the early 1990s, audit focused on compliance verification—auditors mainly confirmed whether listed companies' financial statements complied with basic accounting rules (e.g., the Accounting Standards for Business Enterprises issued in 1992) and disclosed information as required by stock exchanges. By the late 1990s to 2000s, with the emergence of financial fraud cases (e.g., the "Yinguangxia scandal" in 2001), investors and regulators began demanding audit to assume risk prevention responsibilities. Auditors were required to identify material misstatement risks in financial statements (such as false revenue recognition and inflated assets) through professional skepticism and risk assessment procedures, and extend audit scope to related party transactions and off-balance sheet items. This transformation made auditing a core barrier to safeguarding capital market stability.

The 1990s-2000s also witnessed the rapid development of audit subjects (social audit firms) driven by financial reform. On one hand, domestic audit firms grew from small-scale "regional workshops" to large-scale professional institutions—through mergers and reorganizations (e.g., the establishment of "Big Four" domestic counterparts such as Ruihua and ShineWing), they enhanced their capabilities to undertake listed company audit projects. On the other hand, international audit firms entered the Chinese market through joint ventures or cooperation (e.g., PricewaterhouseCoopers cooperating with local firms), bringing advanced audit technologies (such as risk-oriented audit methods) and international experience. This integration not only improved the professional level of domestic capital market auditing but also laid the groundwork for Chinese enterprises' future cross-border listing audits, aligning China's capital market auditing with international practices.

Building on this foundation, the 1990s-2000s also featured a crucial shift in the ecosystem surrounding capital market auditing. First, the rapid expansion of listed companies and the growing complexity of financial instruments pushed auditors to adopt more robust risk-based approaches. Auditors increasingly focused on revenue recognition, asset impairments, off-balance-sheet arrangements, and related-party transactions, embedding professional skepticism into every phase of the engagement. This transition reduced information asymmetry and strengthened investor confidence, which in turn supported the market's maturation.

Second, we saw a deepening collaboration between regulators, standard-setters, and audit firms. The CSRC's vigilant oversight, coupled with standardized auditing standards from CICPA, created a coherent regulatory environment that rewarded high-quality audits. This collaboration also incentivized firms to invest in talent, training, and methodological innovations, knowing that consistent quality would translate into smoother listings, fewer restatements, and more reliable capital formation.

Third, the market welcomed the globalization of audit practice while preserving national characteristics. Domestic firms absorbed international auditing concepts through joint ventures and partnerships with the Big Four and other global firms. They localized these practices by adapting risk assessment procedures to China's corporate structures, corporate governance norms, and market realities. This fusion accelerated the globalization readiness of Chinese enterprises, particularly for cross-border listings and foreign capital inflows, while also building a robust domestic capability that could withstand international competition.

Fourth, the surge in investor activism and corporate disclosure expectations compelled auditors to emphasize transparency. Auditors began disclosing critical audit matters, management's estimates, and areas of professional judgment in audit opinions, aligning with evolving disclosure expectations of the market. This practice fostered a more open information environment and catalyzed improvements in corporate governance at listed firms.

Finally, the regulatory emphasis on market integrity led to enhanced enforcement measures against audit failures. Sanctions for fraudulent audits, strengthened penalties for misstatement, and stricter auditor independence rules created a deterrent effect that reinforced audit quality as a public good. Together, these dynamics propelled a more sophisticated, credible, and globally resonant capital market auditing regime in China.

Pertaining to Audit governance and regulatory framework (trends in recent years):

In recent years, China's audit governance and regulatory framework have taken strengthening centralized and unified leadership as the core orientation, deeply integrating audit into the national governance system. The establishment of the Central Audit Commission in 2018 marked a top-level design adjustment, realizing the unified leadership of audit work across central and local governments. This orientation clarifies that audit is not only a financial supervision tool but also a key means to safeguard national economic security, implement national strategies (such as "Double Carbon" and rural revitalization), and promote anti-corruption. It requires audit governance to align with the party and state's central tasks, making audit supervision an important part of the modern national governance system.

The regulatory framework has shown a clear trend of full-coverage supervision and systematic integration of functions. On one hand, the scope of audit supervision has expanded from traditional fields such as fiscal funds and state-owned assets to emerging areas including digital economy, new infrastructure, and ecological environmental protection, realizing "no dead ends" in the supervision of public funds, state-owned resources, and state-owned assets. On the other hand, functional integration across departments has been deepened—functions related to state-owned enterprise audit, financial supervision, and government investment supervision, which were previously scattered across multiple departments, have been integrated into the National Audit Office (NAO), eliminating regulatory overlaps and gaps and forming a centralized, unified, and efficient regulatory system.

Digital technology has become a core driver of audit governance innovation, with intelligent audit and data-driven supervision becoming mainstream trends. The NAO has promoted the deep application of the "Golden Audit Project" 3.0, building a national unified audit data platform that connects financial, tax, and enterprise business data. Audit institutions widely use big data analysis, artificial intelligence, and blockchain technologies to realize the transformation from "sample-based audit" to "full-data audit"—for example, using algorithm models to automatically identify abnormal transaction behaviors in listed companies' financial data and trace the source of funds in real time. Meanwhile, social audit firms have launched intelligent audit tools (such as AI-based risk assessment systems) to improve the efficiency and accuracy of audit work, promoting the modernization of audit governance methods.

Recent years have witnessed a significant increase in the intensity of audit supervision, characterized by strict law enforcement and accountability and strengthened industry self-discipline. Regulators such as the China Securities Regulatory Commission (CSRC) and the Ministry of Finance have imposed severe penalties on audit institutions and practitioners for violations—typical cases include large fines for accounting firms involved in financial fraud of listed companies and permanent market entry bans for responsible auditors. At the same time, the China Association of Certified Public Accountants (CICPA) has optimized the industry self-discipline mechanism, establishing a "blacklist" system for unethical practitioners and carrying out regular ethical inspections of accounting firms. This combination of "strict supervision + self-discipline" has effectively constrained the non-standard behaviors in the audit industry and improved the credibility of the audit profession.

As regards Ethics and practice environment in the audit profession:

The ethical norms of China's audit profession form a multi-level system centered on independence, integrity, and objectivity, with clear institutional constraints and cultural connotations. At the institutional level, the Code of Professional Ethics for Chinese Certified Public Accountants (revised in 2020) explicitly defines prohibitive provisions—such as restricting audit firms from providing non-audit services (e.g., financial consulting) to key audit clients to avoid self-review threats, and requiring auditors to disclose all material interests related to the audited entity. At the cultural level, norms integrate traditional Chinese moral concepts like "integrity" and "sincerity" into professional ethics, guiding practitioners to regard ethical compliance as a internalized professional belief rather than mere rule-following, forming an ethical system that combines international standards with Chinese cultural characteristics.

China's audit practice environment has shown a dual trend of improvement in institutional constraints and persistence of structural challenges in recent years. On the positive side, the centralized and unified audit supervision system (led by the Central Audit Commission) has strengthened the synergy between government supervision, industry self-discipline, and market constraints—for example, the joint punishment mechanism linking regulatory violations with credit records has increased the cost of unethical practices. However, structural challenges remain: in the audit market, small and medium-sized audit firms still face "low-price competition," forcing some to reduce audit procedures and relax ethical standards to cut costs; in corporate governance, the "dominant shareholder control" phenomenon in some enterprises makes auditors vulnerable to management pressure when verifying sensitive information (e.g., related party transactions), weakening their ability to maintain ethical independence.

Ethical norms and the practice environment in China's audit profession present a mutually influencing and dynamic adjustment relationship. On one hand, a sound practice environment provides a foundation for ethical implementation—for instance, the intelligent audit platform built by the "Golden Audit Project" enables real-time monitoring of audit procedures, reducing the space for auditors to manipulate data in violation of ethics. On the other hand, ethical norms guide the optimization of the practice environment: as ethical requirements for information disclosure continue to tighten, audit firms have successively established internal ethical review committees, and listed companies have improved the independence of audit committees to cooperate with auditors' ethical practice, promoting the healthy development of the practice environment. However, when the practice environment is constrained (e.g., excessive market competition), ethical norms may face implementation dilemmas, such as auditors compromising on "materiality principles" to meet client demands.

To resolve contradictions between ethical norms and the practice environment, targeted optimization paths should be constructed based on China's institutional context. First, regulate audit market competition: Regulators can set a minimum fee standard for audit services (linked to audit workload) to curb low-price competition, ensuring audit firms have sufficient resources to implement ethical procedures. Second, strengthen ethical embeddedness in corporate governance: Mandate state-owned enterprises and listed companies to include "cooperation with auditors' ethical

practice" in the performance evaluation of management, reducing management's interference in audit work. Third, promote scenario-based ethical education: Integrate typical cases of ethical dilemmas in the Chinese market (e.g., conflicts between audit independence and local administrative pressure) into auditor continuing education, improving practitioners' ability to make ethical judgments in complex practice environments.

Regarding to Historical case studies and lessons learned:

The selection of historical cases in China's accounting and auditing field follows the principle of linking institutional evolution with practical contradictions, focusing on cases that reflect key stages of system reform and typical ethical conflicts. These cases mainly cover three core scenarios: financial fraud of listed companies under immature market supervision (1990s-2000s), audit failure caused by weak independence (2010s), and ethical violations in the context of digital transformation (recent years). Each case is not only a reflection of individual violations but also a microcosm of the defects in the accounting and auditing system at that stage, providing realistic samples for analyzing the interaction between institutional constraints, market environment, and professional ethics.

Typical Case 1: Yinguangxia Scandal (2001) – Audit Failure Under Early Market Supervision

The Yinguangxia scandal, one of China's earliest major listed company financial fraud cases, exposed the defects of the accounting and auditing system in the early stage of capital market development. The company fabricated annual profits of over 745 million yuan by falsifying overseas sales contracts and inflating revenue, while its auditing firm (Zhongtianqin Accounting Firm) failed to verify the authenticity of overseas transactions, ignored abnormal financial indicators, and issued an unqualified audit report. The root cause of the failure lay in two aspects: on the one hand, the early audit regulatory framework (before the 2001 revision of Independent Auditing Standards) lacked clear requirements for audit procedures of overseas business; on the other hand, the auditing firm had excessive business ties with Yinguangxia, leading to the loss of professional independence. This case directly promoted the revision of China's audit standards and the establishment of the first batch of specialized regulatory rules for listed company audits.

Typical Case 2: Kangmei Pharmaceutical Scandal (2019) – Ethical Collapse in Mature Regulatory Context

The Kangmei Pharmaceutical scandal, involving a financial fraud amount of over 80 billion yuan, reflected the persistent ethical risks in the accounting and auditing field even under a relatively mature regulatory system. The auditing firm (Zhongxinghua Accounting Firm) neglected the abnormal changes in the company's monetary funds (e.g., large-scale "idle funds with high loans") and failed to perform basic audit procedures such as on-site verification of bank accounts. Unlike the Yinguangxia case, the scandal occurred after China had established a centralized audit supervision system, with clear norms for audit procedures and independence. Its core cause was the failure of internal ethical control in audit firms – the project team prioritized long-term client relationships and fee interests over professional ethics, and the firm's internal quality control mechanism was reduced to a formality. This case triggered a comprehensive

rectification of the audit industry, including stricter penalties for audit firms and the mandatory establishment of ethical review committees.

Core Lessons Learned and Institutional Implications

The above cases provide three key lessons for China's accounting and auditing development. First, regulatory systems must keep pace with market changes: The Yinguangxia case shows that lagging standards cannot cope with emerging business models (e.g., cross-border transactions), requiring regulators to dynamically update audit rules based on market innovation. Second, independence is the bottom line of audit ethics that cannot be compromised: Both cases confirm that excessive interest ties between audit firms and clients (whether early business dependence or later long-term cooperation) will erode independence, necessitating mechanisms such as client fee ratio restrictions and audit partner rotation. Third, internal control of audit firms is more critical than external supervision: The Kangmei case proves that even with sound external rules, formalized internal quality control will lead to ethical failures, so audit firms must establish a "pre-review, in-process supervision, and post-evaluation" full-process ethical control system. These lessons have become important guiding principles for optimizing China's accounting and auditing regulatory framework and ethical governance.

2.4 Ethics of Auditing in China

About Ethics framework and professional standards for audit:

That guides auditors' professional conduct, with independence, integrity, and objectivity as its immutable core. Internationally, it is primarily defined by the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which divides ethical requirements into two levels: fundamental principles (including confidentiality, professional competence, and due care) and conceptual framework for addressing threats (such as self-interest, self-review, and intimidation threats). In practice, this framework acts as a "moral compass" for auditors, requiring them to not only comply with explicit rules but also exercise professional judgment to resolve ethical dilemmas in complex scenarios, ensuring audit behavior aligns with both legal boundaries and moral norms.

Audit professional standards and the ethics framework form an interdependent and mutually reinforcing organic whole. Professional standards (e.g., International Standards on Auditing (ISA) and China's Auditing Standards for Certified Public Accountants) translate abstract ethical principles into operable audit procedures—for example, the requirement for "audit 证据 sufficiency" in professional standards is a concrete manifestation of the ethical principle of "objectivity," ensuring auditors do not issue conclusions based on insufficient or unreliable information. Conversely, the ethics framework provides a value foundation for professional standards: when professional standards encounter regulatory gaps (e.g., audit of emerging digital assets),

the ethical principles of "integrity" and "professional competence" guide auditors to extend audit procedures voluntarily, preventing the mechanization of standard implementation and ensuring audit quality.

The construction of the global audit ethics framework presents a trend of international convergence with regional characteristics. On one hand, countries and regions widely adopt the core principles of the IESBA framework to meet the needs of cross-border audit cooperation—for instance, both China and the European Union have incorporated "independence in mind and appearance" into their local ethical norms. On the other hand, local adaptations are made based on institutional and cultural contexts: China’s Code of Professional Ethics for Chinese Certified Public Accountants integrates "abiding by national financial regulations" and "undertaking social responsibility" into the framework, reflecting the demand for audit to serve national governance; some European countries have stricter restrictions on non-audit services than the IESBA standards, in response to local public concerns about audit independence.

To enhance the practical effect of the audit ethics framework and professional standards, a multi-dimensional implementation system is required. First, integrate ethics into standard training: Embed ethical judgment scenarios (e.g., handling management pressure to modify audit opinions) into auditor qualification examinations and continuing education, avoiding the separation of "learning standards" and "practicing ethics". Second, establish an ethical review mechanism in audit execution: Require audit teams to conduct pre-audit ethical risk assessments (e.g., evaluating interest ties with clients) and submit ethical compliance reports along with audit working papers, ensuring ethical requirements are implemented throughout the audit process. Third, strengthen accountability for ethical violations of standards: Clarify that violations of professional standards driven by ethical failures (e.g., cutting audit procedures to reduce costs) will face more severe penalties than technical errors, forming a deterrent that links standard compliance to ethical responsibility.

Ethics assessment of audit quality in China:

Ethics assessment of audit quality in China sits at the intersection of professional norms, regulatory expectations, and market incentives. An academically rigorous expansion would articulate a theoretical rationale for incorporating ethical dimensions into audit quality, specify a multidimensional measurement framework, and outline governance mechanisms that translate ethical insights into sustainable improvements in practice. The following extension develops these strands, clarifying conceptual underpinnings, operationalizable indicators, methodological approaches, and policy implications within the Chinese institutional setting.

Theoretical rationale for ethics in audit quality Audit quality is traditionally construed through compliance with standards, sufficiency of evidence, and accuracy of conclusions. However, empirical and normative analyses increasingly underscore that technical propriety alone cannot guarantee high-quality audits, because auditors’ judgments are embedded in social and professional contexts shaped by incentives, power relations, and ethical reasoning. In China’s context, where state objectives, market development, and social trust converge, the ethical dimension acts as a

corrective to mechanical treatment of procedures. An ethics-centered framework emphasizes three core propositions: (a) independence integrity is foundational to credible judgment; (b) integrity in reporting requires transparent disclosure of material concerns even when management resists scrutiny; (c) professional skepticism is a voluntary epistemic stance that governs how evidence is sought, questioned, and interpreted under conditions of uncertainty or pressure. Together, these propositions justify a systematic ethics assessment as a complementary axis to technical evaluation, aiming to curb moral hazard and reinforce the legitimacy of audit outcomes.

A multidimensional measurement framework An academically robust ethics assessment should operationalize three interrelated dimensions corresponding to the three content areas identified: independence compliance, integrity performance, and professional ethics implementation. Each dimension comprises a set of indicators with explicit definitions, measurement units, and calibration methods

Firstly, Independence compliance. Fee-dependence threshold: define a quantitative indicator such that a single client’s fees exceed a predetermined share of the audit firm’s annual revenue (e.g., 15%, as proposed) and monitor for variations across time and offices. Supplement with a concentration index across the client portfolio. Dual-role and conflict checks: count occurrences where auditors hold concurrent positions or engagements that could give rise to conflicts; assess disclosure timeliness and access to alternative decision structures (e.g., independent review committees). Appointment independence: evaluate the independence of the audit firm in selecting engagement teams, including rotation of key partners, non-appointment of non-audit services by the same client, and governance safeguards against pressure from clients or lenders.

Secondly, Integrity performance. Truthful reflection indicator: track the frequency of material misstatement disclosures in audit reports, restatements triggered by auditor-initiated findings, and the proportion of significant audit adjustments proposed by the auditor that are accepted by management. Cover-up risk signals: monitor instances of management override indicators, suppression of evidence requests, or delays in evidence provision that align with known fraud patterns; correlate with subsequent enforcement actions or restatements. Report credibility proxies: incorporate external validation signals such as market reactions to audit-related announcements, auditor-provided assurance on critical disclosures, and consistency between audit opinions and subsequent corporate disclosures.

Professional ethics implementation. Skepticism proxy: quantify the degree of additional procedures undertaken beyond baseline requirements in response to abnormal financial indicators, related-party transactions, or complex revenue recognition schemes; track documentation quality and challenge frequency in working papers. Ethical culture indicators: assess the presence of internal ethical codes, whistleblowing channels, and remediation of ethical breaches; evaluate training intensity in ethics, integrity, and professional judgment, particularly in the context of digital transformation and artificial intelligence applications. Management pressure response: examine auditor behavior under management expectations, including timely escalation of concerns, refusal to acquiesce to improper requests, and adherence to professional standards in difficult negotiation contexts, which is also a key element in

business ethics and accounting professional ethics education .

Governance mechanisms to translate ethics assessment into practice. Qualification and licensing implications: tie ethics assessment results to renewal of professional licenses, continuing education requirements, and eligibility for certain high-risk engagements, with progressive sanction ladders for repeated or severe breaches. This governance approach should be integrated into the broader talent training system under digital transformation and accounting intellectual property transformation. Assessment result application mechanism: Link ethical assessment results to auditors ' qualification renewal and audit firms' bidding for government projects, and publicly disclose the ethical assessment grades of key audit firms to form market constraints on unethical behaviors.Regarding Reporting and disclosure ethics:

Audit reporting and disclosure ethics in China refers to the moral norms guiding auditors to issue audit reports and disclose audit-related information, with truthfulness, transparency, and accountability as the core principles. It differs from enterprise information disclosure ethics in that it focuses on auditors' professional responsibilities—including truthfully expressing audit opinions on the fairness of enterprise financial statements, fully disclosing material misstatements or fraud found during the audit, and avoiding ambiguous or misleading descriptions in audit reports. As specified in China's Auditing Standards for Certified Public Accountants and Code of Professional Ethics, this ethical requirement also includes disclosing "key audit matters" (KAMs) in audit reports for listed companies, ensuring stakeholders understand the focus areas and risks of the audit process, which reflects the ethical demand for audit to act as a "trust intermediary" in the capital market.

The practice of audit reporting and disclosure ethics in China is supported by a multi-layered institutional and regulatory system. At the legal level, the Securities Law and Audit Law clearly stipulate that auditors must issue audit reports based on sufficient and appropriate audit evidence, and bear legal responsibility for false or misleading reports. At the regulatory level, the China Securities Regulatory Commission (CSRC) and China Association of Certified Public Accountants (CICPA) have issued targeted rules—for example, requiring auditors to disclose specific reasons for modifying audit opinions (qualified, adverse, or disclaimer) and detailed information about KAMs, such as the audit procedures adopted and the conclusions reached. Notably, China's regulatory requirements further emphasize responsibility to national governance, such as mandating auditors to report material violations involving state-owned assets or national financial security to regulatory authorities, extending the ethical scope of audit disclosure beyond market stakeholders to national interests.

In practice, auditors in China face unique ethical dilemmas in reporting and disclosure, rooted in institutional and market characteristics. First, the dilemma of "opinion modification" under client pressure: When discovering material misstatements, auditors may be threatened by the audited entity (e.g., termination of cooperation, reduction of audit fees) to avoid issuing modified audit opinions, conflicting with the ethical principle of truthfulness. Second, the balance between "KAM disclosure detail" and "commercial confidentiality": Overly detailed disclosure of KAMs (e.g., specific internal control defects of the audited entity) may expose the

enterprise's core operational risks, while insufficient detail makes the disclosure formalized, failing to fulfill the ethical responsibility of transparency. Third, the pressure from "local administrative intervention": For local state-owned enterprises, auditors may face implicit demands from local governments to downplay financial risks in audit reports to maintain local economic stability, placing them in a conflict between professional ethics and administrative pressure.

To resolve ethical dilemmas and improve practice, targeted governance paths should be constructed based on China's context. First, strengthen the accountability mechanism for ethical violations: Regulators should impose graded penalties for unethical disclosure behaviors—for example, imposing heavier fines on auditors who deliberately conceal material misstatements than those who make technical errors, and publicly disclosing violation cases to enhance deterrence. Second, standardize the disclosure standards of KAMs: The CICPA should issue detailed guidelines on KAM disclosure, clarifying the scope and depth of information disclosure (e.g., specifying the circumstances under which commercial confidentiality can be exempted), reducing auditors' subjective judgment bias. Third, establish an ethical appeal channel for auditors: Set up an independent third-party platform (jointly managed by industry associations and regulatory authorities) to accept auditors' reports on client pressure or administrative intervention, providing institutional support for auditors to adhere to ethical disclosure principles.

Reporting and disclosure ethics in China occupy a pivotal role in aligning audit practice with foundational principles of truth, transparency, and accountability within the capital market. This expansion integrates theoretical rationales with practical mechanisms, clarifies the normative distinctions between audit reporting ethics and broader enterprise disclosure ethics, and articulates concrete governance instruments to strengthen ethical conduct in reporting and KAM disclosures. It also situates these debates within China's regulatory architecture, emphasizes empirical pathways for improvement, and outlines the likely implications for auditors, listed companies, and regulators.

The normative foundation of reporting and disclosure ethics Audit reporting ethics rests on the premise that auditors are trusted intermediaries who provide assurance about the reliability of financial statements. This role creates an obligation to express opinions that faithfully reflect the evidence obtained, even when such opinions carry reputational or economic costs for the audited entity. Within this framework, truthfulness requires that auditors avoid assertions not supported by evidence, and transparency demands that significant risks, misstatements, or uncertainties are communicated in a way that stakeholders can meaningfully interpret. Accountability complements these norms by ensuring there are consequences for improper disclosures or for failure to disclose material matters.

Distinctive facets in the Chinese context include the formalized treatment of KAMs for listed companies, which signals a shift toward more informative reporting that helps stakeholders understand where the audit focused and where risks remain. The ethical aim is not merely compliance with procedural checklists but the cultivation of trust in financial reporting as a credible basis for investment decisions.

Conceptual differentiation: audit reporting vs. enterprise disclosure ethics

Audit reporting ethics: focuses on the integrity of the auditor's communication—whether opinions issued about fairness and risk are anchored in evidence, whether material misstatements are disclosed, and whether reports avoid misleading ambiguity. It encompasses the ethical dimensions of independence, objectivity, professional skepticism, and courage to flag issues that management may resist.

Enterprise disclosure ethics: concerns the broader set of corporate disclosures that firms provide to markets, including sustainability reporting, governance disclosures, and risk disclosures. While related, audit reporting ethics specifically constrains the auditor's duty to report and interpret information derived from the financial statements, whereas enterprise disclosure ethics concerns the quality and completeness of information that management disseminates to the public and investors.

Key ethical concerns and dilemmas in practice

Opinion modification under client pressure: Auditors may confront threats when material misstatements are detected, facing early termination threats, pressure to retract concerns, or incentive misalignment due to fee dependence. The ethical response requires steadfast adherence to evidence-based conclusions and transparent communication of reasons for any modified opinion.

KAM disclosure detail vs. confidentiality: The obligation to reveal KAMs must balance the informational value to users with legitimate business confidentiality concerns. The ethical standard must clarify what constitutes material, decision-useful information versus sensitive operational detail that could unduly harm competitive positions.

Local administrative influence: In jurisdictions with strong local government involvement in SOEs, auditors may experience pressure to dilute findings to preserve regional economic stability. An ethical framework must provide robust safeguards—independent oversight, clear escalation channels, and penalties for politically motivated interference.

Truthful disclosure of sensitive issues: Auditors may identify issues involving fraud, internal control weaknesses, or non-compliance with laws and regulations. Ethical practice requires timely, accurate disclosure and careful consideration of the public interest and investor protection.

Regulatory and professional architecture supporting ethics

Legal incentives and liabilities: The Securities Law and the Audit Law establish the legal duties of auditors and the penalties for false or misleading reporting. These statutes create a deterrent framework for unethical disclosures and give regulators levers to enforce standards.

Regulatory guidance and standards: The CSRC and CICPA issue rules that specify when opinions must be modified, how KAMs should be described, and what constitutes adequate auditor documentation. Detailed guidance reduces ambiguity and supports more consistent ethical judgments.

National governance considerations: The ethical regime recognizes that auditors operate within a broader system of national interests, including state-owned assets, financial stability, and market integrity. This broader accountability expands the ethical responsibility of auditors beyond private stakeholder expectations.

Strategies to strengthen ethics assessment and practice

Strengthen accountability for ethical breaches

Graduated sanctions: Implement a tiered penalty system that escalates with the severity and intentionality of ethical violations. For example, deliberate concealment of material misstatements could trigger harsher penalties than inadvertent misstatements due to misapplication of standards.

Public accountability: Develop transparent case reporting for major ethical breaches, including anonymized summaries of enforcement actions, to deter misconduct and signal commitment to ethical norms.

Remedial remedies: Require corrective actions such as revised disclosures, enhanced internal controls, and mandatory retraining in professional ethics for involved personnel.

Secondly, Standardize KAM disclosure

CICPA should publish explicit criteria for what qualifies as a KAM, the depth of disclosure required, and permissible boundaries around commercially

Regarding Education, Training and Cultural Factors:

Ethical education in China's audit professional training has formed a "pre-service + in-service" dual system but faces the challenge of disconnection between theory and practice. In pre-service education (e.g., university accounting programs), ethical content is mostly integrated into courses like Audit Ethics and Professional Ethics for Accountants, focusing on the interpretation of institutional norms such as the Code of Professional Ethics for Chinese Certified Public Accountants. In in-service training, the China Association of Certified Public Accountants (CICPA) mandates annual ethical training for auditors, but the content is often dominated by policy interpretation and case reviews of typical violations, lacking scenario-based simulation of complex ethical dilemmas (e.g., handling conflicts between audit independence and client pressure). This makes it difficult for practitioners to translate ethical knowledge into practical judgment ability.

In recent years, China's audit ethical training has shown a trend of digitization and scenarioization to improve effectiveness. On one hand, digital training tools have been widely applied—audit institutions and industry associations have launched online platforms with interactive courses, such as ethical dilemma decision-making simulators, which allow auditors to experience real-world scenarios (e.g., whether to yield to management's request to omit sensitive information) and receive instant feedback on their choices. On the other hand, scenario-based offline training has been promoted, such as organizing role-playing activities where auditors act as audit project leaders, clients, and regulators to simulate negotiations on audit opinion modification. These methods break the traditional "lecture-based" training model, enabling auditors to deepen their understanding of ethical principles through immersive experience.

Chinese cultural factors exert a dual influence on audit ethics, presenting both promotive driving forces and potential constraints. On the positive side, traditional Confucian culture's concepts of "integrity" (Xin) and "righteousness over profit" (Yi Zhi Yu Li) align with audit ethics' core principles of integrity and independence, providing a cultural foundation for auditors to abide by professional ethics. For example, the emphasis on "sincerity in words and deeds" in traditional culture helps auditors internalize the ethical requirement of truthful audit reporting. On the negative

side, the "relationship-based" (Guanxi) culture in China may become a constraint—long-term cooperative relationships between audit teams and client management may weaken auditors' professional skepticism, and the emphasis on "harmony" may make auditors hesitant to issue modified audit opinions, leading to ethical compromises under interpersonal pressure.

To enhance the role of education, training, and culture in shaping audit ethics, targeted optimization paths are needed. First, integrate cultural elements into ethical education: Embed cases reflecting the combination of traditional integrity culture and modern audit ethics (e.g., historical stories of "honest accountants" in Chinese history) into pre-service and in-service courses, enhancing auditors' cultural identity with ethical norms. Second, build a "culture + technology" integrated training system: Develop digital training modules that combine scenario simulation with cultural values—for instance, designing role-playing scenarios that involve "relationship-based" pressure and guiding auditors to apply traditional integrity concepts to resolve ethical dilemmas. Third, promote industry-wide ethical culture construction: Encourage audit firms to establish corporate cultures centered on "integrity-based audit," such as setting up "ethical model auditor" selection mechanisms and displaying ethical cultural slogans derived from traditional culture in workplaces, forming a cultural atmosphere that advocates ethical practice.

About Ethical Dimensions of Regulation and Enforcement:

China's audit regulatory framework embeds ethical dimensions as core value benchmarks, forming a "normative constraints + value guidance" dual-layer system that transcends pure technical supervision. At the institutional level, ethical requirements are explicitly integrated into laws and industry norms: the Audit Law (2021 Revision) mandates auditors to "uphold professional ethics" as a statutory obligation, while the Code of Professional Ethics for Chinese Certified Public Accountants defines ethical boundaries such as restricting non-audit services for key clients to avoid self-interest threats. Distinct from international regulatory models, China's framework further ties audit ethics to national governance, requiring auditors to report ethical violations involving state-owned assets or financial security to regulators, reflecting the ethical orientation of "serving public interests and national strategy."

Audit enforcement in China has evolved into a "motivation-oriented law enforcement model" that focuses on both behavioral violations and underlying ethical defects. Regulators like the China Securities Regulatory Commission (CSRC) and Ministry of Finance conduct dual assessments of audit violations: first, verifying compliance with technical standards (e.g., adequacy of audit evidence); second, investigating ethical motivations, clearly distinguishing between "technical errors due to negligence" and "deliberate violations driven by client interest ties." For typical ethical violations—such as colluding with clients to cover up financial fraud or deliberately omitting sensitive information—enforcement measures combine punitive actions (fines, market entry bans) with ethical rectification (mandatory ethical training, submission of ethical commitment letters), aiming to correct not only surface behaviors but also distorted ethical cognition.

About Case studies and lessons:

Case selection for China's audit ethics research follows the principle of "reflecting typical ethical conflicts and institutional context", focusing on cases that reveal core contradictions between audit ethics, market environment, and regulatory constraints. These cases span three key stages of China's audit industry development: the initial marketization stage (1990s-2000s), the standardized development stage (2010s), and the comprehensive governance stage (2020s). Each case not only involves specific ethical violations (e.g., compromised independence, false reporting) but also mirrors the defects of the audit ethics system at that stage, providing a realistic basis for extracting targeted lessons rather than isolated experiences.

Typical Case 1: ZTE Kangxun Audit Failure (2005) – Independence Erosion Under Market Expansion

The ZTE Kangxun case was a representative audit ethics failure in the early marketization stage. The company inflated revenue by 1.19 billion yuan through fictitious sales, while its auditor, Shenzhen Dadeheng Accounting Firm, failed to verify the authenticity of sales contracts and ignored abnormal accounts receivable. The root cause of the ethical failure lay in excessive market expansion leading to weakened independence: the firm took on high-risk audit projects at low prices to occupy the market, and the project team, under performance pressure, abandoned professional skepticism and omitted key audit procedures. This case exposed the ethical risks of "low-price competition" in the emerging audit market and directly promoted the CICPA's issuance of Guidelines on Preventing Low-Price Competition in Audit Services in 2006.

Typical Case 2: Ruihua Accounting Firm's Violation in Kangde Xin Case (2020) – Internal Ethical Control Collapse

The Ruihua case reflected the ethical risks faced by large audit firms in the comprehensive governance stage. As the auditor of Kangde Xin, which fabricated 11.9 billion yuan in profits, Ruihua ignored the obvious inconsistency between the company's cash holdings and interest income, and failed to perform bank confirmation procedures in accordance with standards. Unlike early small-firm violations, Ruihua had a sound internal ethical system on paper, but the project team colluded with the client to bypass internal reviews, and the firm's quality control department failed to conduct effective supervision. The core ethical problem was the formalization of internal ethical control—ethical norms were reduced to documents rather than being implemented in the audit process. This case triggered the industry-wide "special rectification of audit firm internal control" by the Ministry of Finance in 2021.

Core Lessons and Institutional Implications

These cases provide three pivotal lessons for China's audit ethics governance. First, market competition must be constrained by ethical boundaries: The ZTE Kangxun case proves that unregulated low-price competition will force audit firms to cut ethical costs, requiring regulators to establish a "minimum audit fee + quality evaluation" mechanism to balance market competition and ethical compliance. Second, internal ethical control is more critical than external supervision: The Ruihua case shows that sound external norms are ineffective if internal quality control is perfunctory, so audit firms must build a "pre-audit ethical risk assessment, in-audit procedure supervision, post-audit quality review" full-process control system. Third, ethical responsibility

should be stratified and clear: Both cases reveal the ambiguity of ethical responsibility among audit partners, project managers, and field auditors, necessitating a stratified accountability mechanism that links ethical violations to individual career development (e.g., revoking the qualification of responsible partners) to form effective deterrence.

Regarding HR's selection of accountants and auditors

Integrity and Honesty Principle: Prioritize candidates' professional integrity records, ensuring no history of financial fraud, irregularities, or other negative behaviors. Since these positions involve direct access to core corporate financial data, integrity is fundamental to mitigating moral hazard.

Objectivity and Fairness Principle: Selection criteria must be consistent and transparent, unaffected by personal relationships or biases. This ensures candidates can conduct accounting and auditing work based on facts, avoiding any stigma associated with subjective biases.

Professional Competence Principle: Strictly verify qualifications (e.g., CPA, ACCA certifications) and practical abilities, eliminating candidates who are "certified but incompetent" or who have falsified their credentials. Ensure candidates possess the professional competence required for the job, preventing financial risks due to insufficient skills.

Confidentiality and Responsibility Principle: Emphasize the candidate's awareness of confidentiality. Conduct background checks to confirm whether they have a history of disclosing corporate financial information, safeguarding the company's financial data security and trade secrets.

Compliance and Legality Principle: Review candidates' familiarity with financial regulations and auditing standards, and check for any records of legal violations to ensure they can operate within a compliant framework and reduce legal risks for the company.

Fair Competition Principle: Provide equal opportunities to all qualified candidates, avoid discriminatory conditions, and prevent ethical risks associated with poaching competitors and the potential theft of trade secrets.

Thus, This chapter advances the study of the article's theme from four perspectives, tracing the development of China's accounting and auditing from historical and ethical angles. It emphasizes, in particular, the relationship between new technologies and auditors as illuminated by accounting ethics, thereby provoking thoughtful reflection.

3 Conclusions, Policy Recommendations and Limitations

3.1 Limitations and Future Prospects of the study

This study, while advancing understanding of China’s accounting and auditing development, has notable limitations that point to avenues for further research.

A key limitation lies in its empirical scope and data focus: the analysis primarily draws on macro-level institutional materials (e.g., policy documents, regulatory reports)

and case studies of large listed firms or state-owned enterprises, with insufficient attention to small and medium-sized enterprises (SMEs) and regional disparities. SMEs—critical to China's economy—face unique ethical challenges (e.g., limited resources for compliance), and ethical implementation gaps in less developed inland regions remain underexplored due to constrained access to micro-level data. Additionally, the study relies more on qualitative interpretation of historical and ethical dynamics than on longitudinal quantitative evidence (e.g., changes in practitioners' ethical behavior over time), limiting the ability to rigorously quantify the impact of institutional reforms on on-the-ground practices.

Future research can address these gaps and expand the study's scope in three key ways. First, it could incorporate micro-level primary data (e.g., surveys or interviews with accountants/auditors in SMEs and inland regions) to unpack grassroots ethical practices, offering targeted insights for regional policy adjustments. Second, adopting longitudinal quantitative methods (e.g., analyzing firm-level audit quality data before and after key policy events like the 2020 Securities Law amendments) would enable causal testing of how historical reforms shape ethical outcomes. Third, integrating cross-country comparisons (e.g., with other transition economies like Vietnam or India) could clarify whether China's "history-ethics" dynamics are context-specific or share universal patterns, enhancing the generalizability of findings. Additionally, extending the framework to emerging themes like ESG accounting—exploring how historical institutional legacies influence ethical norms around ESG disclosure—would address a timely, understudied intersection of policy, history, and ethics.

Expanding the Research Subjects from Macro-level Materials and Case Studies to More Representative Groups

Existing research focuses on large corporations and state-owned enterprises, with limited coverage of the impact of small and medium-sized enterprises (SMEs) and regional differences on accounting and auditing ethics. Future research should explicitly include SMEs as core research subjects, thereby revealing the trade-offs between resource constraints, internal governance capabilities, compliance costs, and ethical choices. Simultaneously, regional coverage should be expanded to developed coastal areas in the east, central regions, and inland provinces in the west, comparing ethical behavior differences across regions under the influence of factors such as regulatory intensity, marketization level, pension/welfare systems, local corruption environments, and corporate culture. This will not only help reveal the internal mechanisms of regional ethical implementation but also help examine the effectiveness and fairness of institutional reforms in different contexts.

Introducing a Cross-temporal and Spatial Comparative Research Framework

Future research should use comparative research design as its main approach, including both longitudinal time-series analysis and horizontal cross-regional and cross-national comparisons. Vertically, an event research framework can be constructed around several key institutional events (such as the 2020 revision of the Securities Law, the implementation of the registration system, and the internationalization of accounting standards) to measure the ethical performance and compliance improvements of different entities and regions before and after institutional changes. Horizontally, cross-country comparisons can be conducted, such as

comparing accounting ethics, audit independence, regulatory enforcement intensity, and information disclosure transparency with countries in transitional economies like Vietnam and India, exploring whether the "history-ethics" dynamic is universal or highly contextual. Through cross-temporal comparisons, researchers can more clearly define the boundary effects of institutional, market, and cultural factors in shaping ethics.

Concerning Systematic Collection of Micro-level Data

To compensate for the shortcomings of existing research at the micro-level, future research should design and implement multi-channel data collection schemes. This can be achieved through: Structured questionnaires targeting SMEs and local enterprises, covering dimensions such as compliance costs, ethical dilemmas, internal control mechanisms, reliance on external audits, and information disclosure habits; In-depth semi-structured interviews focusing on frontline stakeholders such as accountants, auditors, finance managers, and compliance officers, revealing resource constraints, ethical decision-making processes, and pressure sources from regulation and the market; Stratified regional sampling of interview samples to ensure sufficient representativeness in both inland regions and coastal economic zones, while also considering different industry distributions (manufacturing, services, finance, technology, etc.).

The above micro-level data can be corroborated by publicly available data, regulatory disclosures, and audit reports.

Concerning Integration of Time Series and Event Data

In the vertical dimension, in addition to enterprise-level disclosure data, information such as policy texts from regulatory departments, enforcement cases, records of violations and penalties, and compliance announcements from industry associations should be integrated to construct a multi-level time series database of "institutional change - enterprise response - ethical output." Methods such as segmented regression and discontinuous design (e.g., regression discontinuity) can be used to quantify the causal impact of institutional changes on ethical behavior.

Concerning Cross-border Data and Comparability Building

At the cross-border comparison level, establishing a unified system of comparable indicators is crucial. Comparable indicators such as the adoption rate of international accounting standards, audit independence scores, and information disclosure quality indices can be used to compare China with selected comparison countries under the same indicators. Controlling for confounding variables such as institutional maturity, marketization level, and education level can improve the credibility of inferences.

Enriching Methodologies and Analytical Strategies

Systematic Application of Mixed Methods

Future research should primarily utilize mixed methods, organically combining qualitative and quantitative research. The qualitative stage is used for constructing theoretical frameworks, naming and interpreting variables, and internalizing micro-mechanisms; the quantitative stage is used for testing causal relationships, estimating effect sizes, and robustness testing. Through sequential or parallel mixed designs, the reliability and validity of the research can be improved.

Concerning Long-Term Series Analysis and Causal Inference

In quantitative analysis, it is recommended to use long-term panel data and apply econometric methods such as fixed-effects/random-effects models, difference-differences (DiD), and regression discontinuity to assess the persistent impact of historical institutional reforms on accounting and auditing ethics. If possible, instrumental variables or natural experiment scenarios can be constructed to enhance the ability to identify causal relationships.

Construction and Measurement of Ethical Behavior

Ethical behavior is not a single dimension but encompasses multiple dimensions, including compliance, consistency of professional judgment, conflict of interest handling, and transparency of information disclosure. Research should systematically transform "ethical outputs" into observable variables, such as:

Trends in audit quality indicators (e.g., error disclosure rate, material misstatement disclosure ratio, sponsor's compliance record, etc.);

Indicators of internal control effectiveness (e.g., control deficiencies, rectification cycle, internal audit coverage);

Indicators of reporting transparency and disclosure completeness (e.g., disclosure consistency, disclosure delay, changes in disclosure scope);

Compliance costs and investment (e.g., training expenses, compliance personnel staffing, reliance on external consulting). Principal component analysis and latent category analysis are used to extract core elements, enhancing comparability and interpretability.

Case Comparison and Contextualized Analysis: A contextualized analytical framework is established between macro and micro levels. Comparative cases from typical regions or industries are selected to reveal the differences in the mechanisms by which institutional change operates under different contexts. For example, in resource-constrained inland regions, how do the cost pressures of ethical choices alter compliance behavior? In high-growth technology industries, how do information disclosure and ESG issues shape ethical norms? Through in-depth case studies, supplemented by extensive cross-sectional data comparisons, a solid explanation of the mechanisms is formed.

On Clarification of Theoretical Contributions and Policy Implications

Theoretical Deepening of the "History-Ethics" Dynamics: Research should clearly explain how historical institutional arrangements shape ethical norms in different economic ecosystems, revealing the interaction mechanisms between historical inertia, institutional memory, and ethical behavior. Questions to be answered include: Have historical regulatory models created transferable ethical frameworks? Is the ethical adaptation of enterprises under institutional pressure sustainable? Are there commonalities or differences in the history-ethics paths of different regions and industries? Empirical Support for Regional Governance and Policy Design

Transforming micro-level ethical findings into regional governance tools to propose more targeted policy recommendations. For example:Compliance cost mitigation mechanisms and technical support for SMEs (e.g., simplified disclosure, provision of compliance training subsidies, and promotion of the widespread use of accounting information tools); Regulatory incentives and enforcement coordination mechanisms

for inland regions (e.g., regional regulatory pilot programs, cross-departmental collaborative whistleblowing channels);

The relationship between ESG disclosure and historical ethical foundations, providing a historical-contextualized improvement path for policymaking.

Universality Test through Cross-Country Comparison: by comparing with other countries, examining the universality and boundary conditions of the "Chinese history-ethics" model. If certain conclusions are found to be transferable across multiple national contexts, the research will provide a reference framework for global accounting and auditing ethics governance; if significant contextual differences are found, it emphasizes that institutional design should be localized, avoiding simple copying.

Concerning Actionable Research Design Recommendations

Research Objectives: To reveal the micro-level behaviors of different regions and SMEs in China regarding accounting and auditing ethics, and the mechanisms by which these behaviors are influenced by historical institutions; to assess the causal effects of institutional reforms; and to conduct cross-border comparisons to test universality.Data Structure: Establish a comprehensive database including macro-level policy texts, enforcement records, disclosure data, enterprise-level micro-data, and regional economic and educational indicators.Research Design: Employ a hybrid approach; combining longitudinal event studies with cross-regional comparisons; designing causal inference strategies such as regression discontinuity; and supplementing with in-depth case studies.Indicator System: Multi-dimensional ethical output indicators, compliance costs and inputs, disclosure transparency, audit quality, etc., ensuring comparability and explanatory power.

Theoretically, to enrich the mechanistic explanation of the "history-ethics" dynamic; methodologically, to advance micro-data-driven research on accounting ethics in transitional economies; and policy-wise, to provide regionalized and tiered governance recommendations.

This study enriches and refines the dynamic theoretical framework of "history-ethics" by systematically revealing the causal links between historical institutional arrangements and ethical behavior. First, it reveals how historical memory forms stable ethical expectations and behavioral inertia at the population, organizational, and industry levels, explaining why the same institutional change produces differentiated ethical responses in different regions and enterprise types. Second, it elucidates the interaction mechanism between institutional memory and moral judgment, revealing how historical inertia further solidifies or transforms ethical standards through institutional symbols, professional norms, and training systems. Third, it defines the boundary conditions between historical path dependence, institutional resilience, and ethical adaptation, answering the questions of when historical heritage becomes a catalyst for ethical improvement and when it becomes a burden hindering innovation and compliance. Finally, the theoretical contribution extends to cross-disciplinary integration, exploring how history-ethics mechanisms form a systemic link between ESG disclosure, corporate governance, audit independence, and the quality of information disclosure, constructing a multi-layered ethical governance theoretical framework centered on historical governance memory.

Methodological:At the methodological level, the research aims to advance micro-data-driven accounting ethics research, particularly in transitional economies, to achieve higher evidentiary value and repeatability. Specific contributions include: a) constructing a data architecture covering the micro-level of enterprises, integrating multi-source data such as questionnaires, interviews, audit reports, compliance records, and internal control assessments to form a traceable and verifiable analytical baseline; b) developing a quantitative measurement system for ethical behavior, transforming multiple dimensions such as compliance costs, disclosure transparency, internal control effectiveness, and consistency of professional judgment into observable indicators, and refining core dimensions through dimensionality reduction and clustering methods; c) introducing a hybrid research design, transforming qualitative insights into variable definitions and hypotheses, and then using longitudinal panel data, regression discontinuity, and difference-difference causal inference methods to examine the real effects and mechanism transmission paths of institutional reforms; d) achieving cross-regional and cross-industry comparability analysis, using a unified indicator system for cross-sectional comparisons, promoting evidentiary dialogue across different stages of transformation, and improving the transferability and external validity of cross-border comparisons. By enhancing the aforementioned methodologies, this research will provide a highly reliable research paradigm for accounting ethics studies in transitional economies, promoting the establishment of a stable micro-level evidence system in the field.

Policy-level:At the policy level, the research will translate into regionalized, tiered governance recommendations to improve the precision of institutional design and the effectiveness of its implementation. Its core content includes: a) Addressing regional differences in governance solutions, proposing regionally feasible compliance support and incentive policies based on the differences between inland regions and coastal areas in terms of regulatory resources, enterprise size, and information disclosure capabilities. These policies could include simplifying disclosure processes, providing compliance training subsidies, and promoting accounting information tools to reduce compliance cost pressures on SMEs; b) Constructing a tiered governance framework, forming a governance network at the central and local levels characterized by collaborative enforcement, information sharing, and transparent enforcement, thereby improving enforcement consistency and preventative regulatory effectiveness; c) Incorporating a historical-ethical perspective into ESG reporting system design, emphasizing the impact of historical institutional memory on current disclosure standards, depth, and discloser behavior, and guiding the balance between localization and uniformity of regional disclosure standards; d) Identifying effective institutional combinations and governance tools based on cross-regional comparisons, promoting successful practices to similar economies, and providing a regional governance blueprint and reform path. By embedding research findings into the policy design cycle, this paper will provide actionable policy tools and an evaluation framework for regional governance, corporate compliance practices, and international governance collaboration.

The Comprehensive Significance of the Research and Practice: In summary, the theoretical contribution lies in deepening the understanding of the interaction between

historical institutional arrangements and ethical behavior; the methodological contribution lies in establishing and promoting a micro-data-driven paradigm for accounting ethics research; and the policy contribution lies in providing regionalized, hierarchical, and actionable governance recommendations. These three aspects complement each other, jointly promoting the systematic revelation and governance improvement of accounting and auditing ethics in transitional economies. Ultimately, the research not only enriches the theoretical spectrum of "history-ethics" but also provides a scientific basis for the coordinated design of corporate governance and public policy, promoting healthy, transparent, and sustainable regional economic development.

3.2 Summary of Key Findings and Substantive Recommendations

This paper explores the development of China's accounting and auditing systems from historical and ethical perspectives, with key findings as follows: China's accounting system has gone through three core stages: a planned economy-oriented stage (pre-1978) focusing on state resource allocation; a transitional stage (1978–2006) aligning with market reforms and drawing on Western accounting frameworks; and a standardized stage (post-2006) integrating International Financial Reporting Standards (IFRS) to meet the needs of global economic integration.Audit development lagged behind accounting but accelerated after 1992 (with the establishment of independent audit firms) and was further regulated by the implementation of China's Independent Auditing Standards in 2007, strengthening its role in corporate governance.Overall, the system has evolved from a government-led supervisory tool to a market-oriented governance tool centered on information credibility, and will deepen its development in line with trends like digitalization in the future to serve high-quality economic growth and sustainable national governance.Pertaining to Ethical Challenges: Tensions Between System and Practice.In terms of ethical development, China has strengthened ethical supervision in the accounting and auditing fields through a series of institutional reforms: in 2018, the National Audit Office integrated its corporate audit and market supervision functions, forming a "coordinated supervision and shared responsibility" structure to enhance audit independence and regulatory consistency; the 2020 revision of the Securities Law increased civil liability for financial fraud and clarified the accountability mechanism for audit institutions and practitioners to raise the cost of violations. Meanwhile, since 2019, mandatory professional ethics training for accountants and auditors has been implemented to promote the development of an "ethical accounting culture." Although this has improved the industry's ethical awareness, there are still gaps in implementation in less developed regions. Relating to Historical-Ethical Synergy: A Dual-Driving Force, historical policy shifts (e.g., marketization, global integration) have shaped the ethical demands of accounting/auditing—for example, IFRS adoption raised ethical standards for information transparency. Conversely, ethical failures (e.g., high-profile financial scandals) have driven historical adjustments to regulations, forming a reciprocal relationship between development stages and ethical norms.To address gaps in China's accounting and auditing development and strengthen alignment between historical progress and ethical norms, targeted actions are needed for both industry practice and institutional governance. In terms of substantive improvements for industry practice, prioritizing ethical capacity building and audit independence is critical. Mandate regular, scenario-based ethics training (e.g., case studies on earnings management or auditor-client conflicts) for all practitioners, with outcomes tied to professional qualification renewal—this closes implementation gaps, especially for SMEs. Additionally, extend key audit partner rotation beyond listed companies to SMEs and develop specialized guidelines for high-risk sectors (e.g., fintech, SOEs) to enhance audit quality and address underreported non-financial risks. For policy, focus on coordinated oversight and balanced global alignment. Consolidate functions across regulators (e.g., Ministry of Finance, CSRC) into a cross-sectoral mechanism to

eliminate overlap, while imposing deterrent penalties (e.g., extending civil liability to audit firm leadership) for ethical breaches to reinforce compliance. When integrating IFRS/ISA, develop clear local adaptation guidance for SOE-specific transactions to avoid mechanical alignment, and mandate phased ESG disclosure (starting with large listed firms) with standardized metrics to boost transparency. Finally, allocate targeted resources to less developed regions to ensure ethical progress is geographically inclusive. This study delivers targeted academic contributions and enhances theoretical depth for accounting and auditing research, especially in emerging and transition economy contexts. In terms of academic contribution, it addresses two critical gaps in existing literature. First, it moves beyond fragmented studies that treat China's accounting/auditing history and ethics as isolated topics, instead building an integrated analytical framework that maps how historical policy milestones (e.g., 1978 market reforms, 2006 IFRS adoption, 2018 regulatory mergers) directly shape ethical norms—and how ethical failures (e.g., high-profile financial scandals) in turn drive historical institutional adjustments. This reciprocal perspective provides a more holistic understanding of China's development trajectory, which prior works often overlook. Second, it offers context-rich empirical insights into China's unique state-market dynamic (e.g., SOE dominance, state-led regulation), filling the void of in-depth analysis on how transition economies balance global standards with local ethical and institutional constraints—insights that cannot be extrapolated from research on Western mature markets.Theoretically, the study enriches two core strands of theory. For institutional theory, it extends the understanding of "institutional co-evolution" by showing how formal institutions (e.g., audit standards) and informal norms (e.g., ethical culture) interact in a state-led market economy—revealing that China's ethical norms are not mere copies of global models but are rooted in historical legacies (e.g., planned economy-era compliance logics). For accounting ethics theory, it introduces the concept of "dual ethical pressure" (state policy demands vs. market transparency expectations) as a key influencer of practitioner behavior, supplementing existing theories that overemphasize either professional norms or market forces. Moreover, the analytical framework developed here is replicable, offering a useful tool for studying accounting/auditing development and ethics in other emerging economies.

One interesting part about this paper is changes in chinese accounting and auditing when AI is introduced. AI is bringing comprehensive and profound changes to China's accounting and auditing field, while also creating new challenges, specifically in five aspects: the first aspect is Business Processes,I t enables a shift from manual sampling to intelligent full-processing, significantly improving accounting efficiency (shorter month-end closing cycles, lower error rates) and audit accuracy (full-scale analysis replacing sampling), and driving the transformation of auditing towards real-time risk warning; The second aspect is Talent Structure: Demand for basic positions is shrinking, while the demand for "AI + Accounting" hybrid talent is surging. Practitioners need to master both technical skills and accounting expertise; The third aspect is Regulation and Standardization: The principle of "AI assistance, human responsibility" is being established, relevant work standards are being updated, and data traceability, ethical review, and security management are being strengthened; The fourth aspect is Service Value: The industry is expanding from single compliance services to providing

enterprises with comprehensive business consulting services such as investment and financing decision support and risk assessment; The fifth aspect is Challenges Faced: Issues such as data silos, algorithmic bias, and unclear definition of responsibility for technical risks exist. Currently, these are being addressed through unified data standards, the establishment of model accountability mechanisms, and the optimization of talent training systems.

China's accounting and auditing landscape is undergoing a transformative shift with the integration of artificial intelligence (AI). This evolution spans five interrelated domains—business processes, talent structure, regulation and standardization, service value, and emerging challenges—each carrying implications for theory, practice, and policy in financial information systems.

AI adoption reshapes routine and non-routine accounting tasks through intelligent end-to-end processing. Traditional sampling-based auditing is increasingly supplanted by continuous, data-driven analyses that leverage real-time transaction streams, anomaly detection, and predictive risk indicators. This shift yields shorter month-end closing cycles, reduced manual error rates, and enhanced audit accuracy via full-scale, granular assessment rather than selective sampling. The trajectory toward real-time risk warnings necessitates a reconfiguration of control frameworks: continuous monitoring, event-driven reporting, and near-instantaneous exception handling. From a research perspective, this raises questions about the optimal design of automated controls, the convergence of continuous auditing with continuous assurance, and the integration of AI-driven insights within established accounting standards. Empirical studies should examine performance differentials, the reliability of AI-generated conclusions under varied data quality conditions, and the impact on decision usefulness for stakeholders. Talent structure The labor market is divisively bifurcated: routine, manual tasks recede, while demand for "AI + Accounting" hybrids surges. Competencies in data science, machine learning, and analytics complement foundational accounting knowledge, enabling practitioners to interpret model outputs, validate data provenance, and ensure governance of automated workflows. This evolution invites a redefinition of professional curricula, certification regimes, and on-the-job training. Scholarly inquiry can explore optimal skill mixes, the effectiveness of cross-disciplinary training programs, and the development of competency frameworks that align with evolving job roles. Longitudinal analyses may track career pathways, wage dynamics, and the impact of AI literacy on professional performance and ethical conduct. Regulation and standardization A principle of "AI assistance, human responsibility" is increasingly shaping regulatory discourse. Data traceability, model governance, ethical review, and security management are being embedded into standards and supervisory practices. This entails updates to accounting and auditing standards to address AI provenance, model transparency, and decision accountability. Regulators face the challenge of balancing innovation with safeguards against opacity and systemic risk. Research contributions can illuminate effective governance architectures, such as risk-based AI oversight, model risk management frameworks, and methodologies for auditing algorithmic systems in financial contexts. Comparative studies across jurisdictions can reveal best practices and harmonization opportunities. Service value Industry offerings are broadening from compliance-oriented services to holistic business advisory

capabilities. AI-enabled insights support investment decisions, financing strategies, liquidity planning, and risk assessment. This expansion prompts investigations into value proposition design, client segmentation, and the measurement of value-add in AI-enhanced services. From a scholarly lens, there is merit in analyzing how AI-driven advisory affects client outcomes, trust, and information asymmetry between auditors, consultants, and enterprises. Methodologies could include counterfactual experiments, client case studies, and impact evaluations.Challenges faced Data silos, algorithmic bias, and ambiguous accountability for technical risks remain salient. Addressing these requires unified data standards, transparent model governance, and robust talent development. Academic work should examine data interoperability frameworks, bias mitigation strategies in financial contexts, and the assignment of responsibility across humans and machines in error scenarios. Experimental research can probe the efficacy of governance mechanisms, while policy-oriented studies can offer recommendations for standard-setting bodies and regulatory agencies. In summary, AI-driven changes in China's accounting and auditing domain necessitate interdisciplinary inquiry that blends accounting theory, data science, regulatory policy, and organizational behavior. Future research should prioritize empirical assessments of AI adoption impact, development of governance and competency frameworks, and rigorous evaluation of AI-enabled services' value to enterprises and society.

In addition, this paper, presents a novel perspective on the interaction between accountants and new technologies. These technologies (such as artificial intelligence, automation, blockchain, and big data analytics) are altering the ways information is produced, disseminated, and verified, making the question of who holds the "voice" and "decision-making power" a new ethical issue. Algorithmic-driven decision-making may weaken direct interpersonal interaction in interpersonal trust, shifting trust to the system's output. The ethical challenges lie in the transparency, explainability, and accountability of algorithms, as well as the ultimate responsibility of humans for algorithmic results.This necessitates establishing trust mechanisms: clearly defining the boundaries of algorithm use, disclosing key assumptions, providing controllable options for human-machine collaboration, and establishing independent oversight bodies to conduct ethical assessments of algorithms. New technologies possess powerful capabilities in collecting, analyzing, and sharing personal data, easily leading to privacy violations, data misuse, and surveillance threats. Ethical requirements extend from design—from minimizing data collection at the source, implementing data minimization principles, strengthening authorization and consent mechanisms, to establishing traceability for data use. At the interpersonal level, frequent collection and evaluation of personal information may alter the naturalness and sincerity of interpersonal interactions, leading to increased self-censorship and "performative" behavior. Technological proliferation may lead to new forms of inequality: the gap between individuals/organizations with access to advanced tools and marginalized groups is widening, impacting power dynamics, trust, and willingness to collaborate in relationships. Ethical responses include universal education, public digital literacy enhancement, affordable technology access, and the development of equitable resource allocation and equal opportunity policies. From the Emotional Dimension of Robotics and Interpersonal Relationships: Automated and intelligent interactive systems are

entering homes, workplaces, and public spaces, changing how people provide emotional support, companionship, and communication. The strategy lies in distinguishing between the "authenticity of emotional presence" and "procedural responses," avoiding placing emotional needs on machines lacking empathy, and simultaneously improving machines' ability to recognize and appropriately respond to human emotional cues through design. Boundaries of Rights and Responsibilities and Professional Ethics: New technologies are altering professional identities and boundaries (e.g., the responsibilities of doctors, lawyers, and teachers when using AI tools). Ethical requirements include clarifying the principle of "human-led, subject-responsible": machines serve only as auxiliary tools, with final judgment and accountability remaining with humans; and establishing clear correction and compensation mechanisms for algorithmic bias, misdiagnosis, or automation errors.

Ethical responses include reaffirming diverse values in education, design, and policy; encouraging the critical use of technology; and preserving and cultivating space for humanistic care and ethical sensitivity. This is especially important when HR hires accountants and auditors. HR shall actively follow the principles of honesty and integrity, objectivity and fairness, professional competence, confidentiality and accountability, legal compliance, and fair competition.

The integration of advanced technologies into accounting and auditing practices necessitates a rigorous, ethics-informed framework that foregrounds human judgment, transparency, and accountability. We argue that the contemporary convergence of artificial intelligence (AI), automation, blockchain, and big data analytics reconfigures not only technical processes but also the moral ecology of professional practice. This expansion outlines a coherent scholarly stance on how accountants and auditors can responsibly navigate algorithmic decision-making, data governance, interpersonal trust, and professional identity in an era of pervasive digital tools. It proceeds through four interrelated strands: epistemic authority and voice, governance of algorithmic systems, data ethics and privacy, and human-centric professional embodying of ethics.

Epistemic authority, voice, and decision-making in algorithmically enhanced practice We observe that algorithmic decision-making alters who claims epistemic authority within the audit and accounting process. The outputs of machine-driven analyses increasingly influence risk assessment, materiality judgments, and audit conclusions. Accordingly, we must reassert that humans retain ultimate responsibility for judgments and disclosures, while algorithms function as decision-support instruments. To preserve trust, we require explicit delineations of where machine outputs begin and end in the reasoning chain. Auditors should disclose the key assumptions embedded in algorithmic models, the data sources used, the limitations of models, and the criteria by which algorithmic results are interpreted. Auditing standards should mandate documentation of provenance for algorithmic outputs, including versioning of models, data lineage, and validation results. We advocate for human-in-the-loop designs that preserve auditable traces of human deliberation, whereby auditors review and, when necessary, override model-driven conclusions. By institutionalizing such practices, we maintain a clear line of accountability and reinforce stakeholders’ confidence in the integrity of audits conducted in a digitally enhanced environment.

We also emphasize the ethical imperative to preserve interpersonal trust within professional relationships. Algorithmic processes should not substitute for meaningful human interaction; instead, they should augment communicative clarity and collaborative problem-solving. This entails ensuring that computer-generated insights are translated into accessible explanations for clients, regulators, and the public. We promote a human-centered approach to algorithmic governance in which professionals solicit client input on model assumptions, disclose risk tolerances, and co-create audit approaches that reflect stakeholders' values and concerns. In practice, this means integrating qualitative narratives with quantitative outputs, so that decision-making remains legible, contestable, and socially accountable.

Transparency, explainability, and accountability of algorithms We require robust transparency and explainability in the deployment of AI and related technologies. Auditors should implement explainable AI (XAI) strategies that produce comprehensible justifications for algorithmic decisions. We advocate for standardized reporting that accompanies algorithmic outputs with plain-language interpretations, sensitivity analyses, and potential bias assessments. In contexts where commercial or security considerations restrict full disclosure, practitioners should provide carefully calibrated summaries that preserve methodological integrity without compromising critical competitive or security interests.

Accountability mechanisms must extend beyond technical performance. Independent oversight bodies should periodically review algorithmic systems for fairness, bias mitigation, data integrity, and alignment with regulatory norms. Regulators and professional bodies must articulate clear liability frameworks that specify responsibility for errors arising from algorithmic guidance, including scenarios of model drift, data contamination, or deliberate manipulation. We also encourage whistleblowing channels and external audits of critical AI tools used in financial reporting, risk management, and compliance processes. Collectively, these measures create a credible governance regime that mitigates the risk of opaque or unaccountable machine-driven judgments.

Data ethics, privacy, and responsible data stewardship The data lifecycle underpins the reliability and legitimacy of modern audit and accounting practices. We insist on principled data governance that minimizes risks to privacy and protects sensitive information while enabling rigorous analysis. Key commitments include:

Data minimization and purpose specification: Collect only data necessary for legitimate audit purposes, with explicit declarations of data use purposes, duration of retention, and scope of sharing. Limit intrusions into personal or proprietary information to what is essential for lawful and ethical accountability.

Informed consent and lawful basis: Where personal data are involved, obtain informed consent when appropriate, and ensure processing aligns with statutory frameworks and ethical norms. For data that do not require consent, ensure statutory basis and proportionality guide data handling.

Access controls and confidentiality: Implement robust authentication, authorization, and encryption measures to safeguard data. Enforce least-privilege access and rigorous confidentiality obligations for all personnel involved in audits.

Data provenance and traceability: Maintain transparent data lineage, including

source, transformations, and verification steps. Enable reproducibility of analyses by preserving documentation of data preparation choices and methodological decisions.

Privacy-preserving analytics: Leverage techniques such as differential privacy, secure multi-party computation, and federated learning where appropriate to balance analytic capability with privacy protections.

Data ethics for AI and automation: Ensure that data quality, representativeness, and potential biases are continuously monitored.

Some practical suggestions:

Embeddefine ethical assessments (ethics by design) throughout the entire technology development lifecycle: the needs phase, the design phase, the testing and deployment phase, and the operational monitoring phase.

Establish an interdisciplinary ethical governance framework that combines professional perspectives from fields such as technology, law, sociology, and psychology to ensure that the impact of technology on interpersonal relationships remains within a controllable range.

Promote transparency and accountability: Publicly disclose the key logic of algorithms, the scope of data use, stakeholder participation mechanisms, and complaint channels.

Focus on education and training to improve the digital ethics literacy of the public and professionals, ensuring that interpersonal interactions in technology scenarios remain centered on respect, empathy, and collaboration.

Embedding ethical assessments (ethics by design) throughout the technology development lifecycle

Ethics by design embeds normative considerations into every stage of development, from needs assessment to deployment and beyond. In the needs phase, ethical inquiry should illuminate not only user needs but potential social harms, power asymmetries, and future use misalignment. Stakeholder mapping ought to identify vulnerable communities, non-user bystanders, and long-term implications for interpersonal relations, with explicit criteria for evaluating respect, dignity, and autonomy. During the design phase, ethical analysis translates into concrete requirements: privacy-by-default and data-minimization mandates; fairness and non-discrimination constraints; and safeguards for consent, agency, and relational well-being (e.g., preserving trust, enabling humane interaction). Design reviews should operationalize metrics tied to interpersonal quality, such as perceived empathy support, avoidance of coercive nudges, and preservation of mutual respect in user interactions. In testing and deployment, ethical assessments encompass scenario-based evaluations, adversarial testing for bias and manipulation, and monitoring for unintended social consequences that alter communication patterns or power dynamics. Deployment plans include robust consent mechanisms, access controls, and redress pathways for harms to relationships, such as digital harassment or exclusion. Operational monitoring hinges on continuous ethical auditing: dashboards that track metrics related to social impact, user sentiment about relational adequacy, and incident response effectiveness. Feedback loops must be established so that learnings from operation trigger timely design refinements, governance updates, and policy revisions. Across the lifecycle, traceable documentation—ethics impact assessments, risk registers, and decision logs—supports

accountability and retrospective learning.

Establishing an interdisciplinary ethical governance framework

An effective governance framework integrates perspectives from technology, law, sociology, psychology, and related disciplines to bound the impact of technology on interpersonal relationships within a controllable range. Core components include: (i) a multistakeholder ethics board with rotating membership representing industry, academia, civil society, and affected communities; (ii) codified ethical principles mapped to actionable standards and measurable indicators; (iii) formal processes for deliberation, including public consultation, expert testimony, and deliberative forums; and (iv) mechanisms for enforcement, remediation, and adaptive governance. The framework should formalize methods for evaluating relational harms—such as erosion of trust, perceived coercion, or social fragmentation—and define thresholds for acceptable risk. Interdisciplinary collaboration enables triangulation of legal compliance, technical feasibility, sociocultural sensitivities, and psychological wellbeing, ensuring that interventions preserve interpersonal salience, consent-based interactions, and mutual regard. Governance processes must remain transparent, participatory, and adaptable to evolving technologies and societal norms.

Promoting transparency and accountability

Transparent governance requires public disclosure of core algorithmic logic, data use scoping, stakeholder participation channels, and avenues for recourse. Specifically: (a) publish high-level algorithmic architectures, decision rationales for major features, and the data lineage that informs outcomes, while safeguarding proprietary interests and individual privacy; (b) clearly delineate data collection, storage, processing purposes, retention periods, and data minimization strategies; (c) articulate stakeholder participation mechanisms, including who can engage, through what processes, and how input influences decisions; and (d) publicize complaint channels, response timelines, remediation options, and independent review opportunities. Accountability is reinforced through independent audits, red-teaming exercises for social harm, and open reporting of key metrics related to interpersonal quality, user trust, and complaint resolution performance.

Education and training to improve digital ethics literacy

Education initiatives should cultivate digital ethics literacy among the public and professionals, emphasizing interpersonal respect, empathy, and collaborative problem-solving in technology-mediated contexts. Curricula for professionals should integrate ethics-by-design methods, human-centered design, bias and discrimination awareness, and legal-regulatory literacy. Public education can leverage accessible pedagogy—case studies, interactive simulations, reflective practices, and community dialogues—to foster critical appraisal of technology's social implications. Training programs should emphasize practical competencies: how to conduct ethics impact assessments, how to recognize and mitigate harm in online interactions, and how to participate constructively in governance processes. Ultimately, the aim is to normalize ethical reflection as an everyday discipline embedded in technical work, ensuring that interpersonal interactions within technology-enabled ecosystems remain grounded in respect, empathy, and collaborative spirit.

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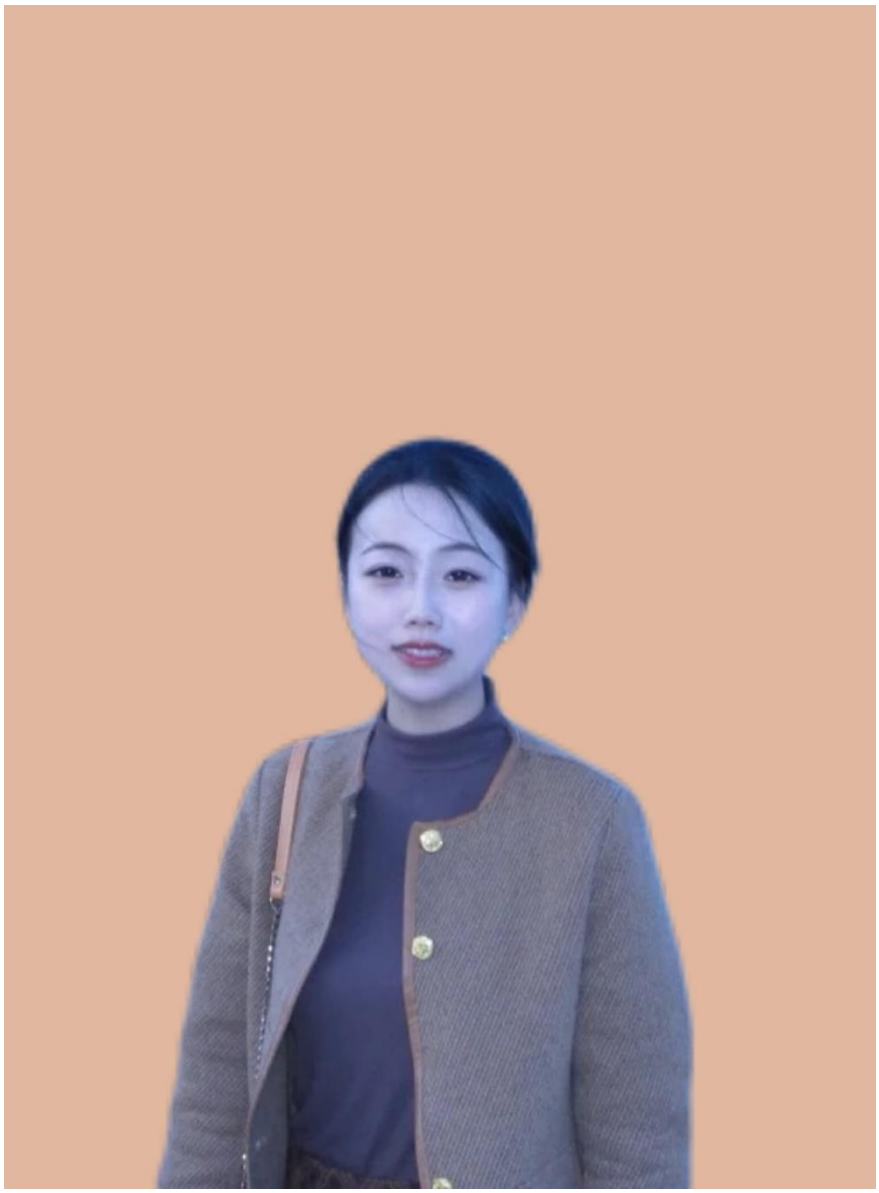

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