

Comparison of Domestic and Foreign Accounting Regulatory Systems from the Perspective of China

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ABSTRACT

The purpose of this article is to compare the accounting supervision system of China and other countries, to reveal their characteristics, advantages and shortcomings, and to discuss how to use the international experience to improve China's accounting supervision system. This paper summarizes the basic framework of accounting supervision system at home and abroad. Through comparative analysis, it points out the deficiencies of our country's accounting supervision system and the advantages of foreign systems. In addition, the paper also discusses the common challenges facing the accounting supervision system at home and abroad. Based on the results of comparative analysis, this article puts forward countermeasures and suggestions to improve our accounting supervision system. Through these measures, the aim is to build a more efficient, transparent and adaptable accounting supervision system.

KEYWORDS

Accounting supervision system; Comparative analysis; Laws and regulations; Regulatory agencies; Audit quality; International cooperation

1. INTRODUCTION

1.1. Research Background

Under the background of the global economy, accounting information is an important carrier of the financial status and operating results of enterprises, and its quality is directly related to the decision-making of investors, creditors, government regulators and other stakeholders. Therefore, establishing an efficient, transparent and fair accounting supervision system is of great significance for maintaining the order of market economy, protecting investors' rights and interests, and promoting the healthy development of economy. The bankruptcy of US energy giant Enron in 2001 for accounting fraud and financial falsification shocked global financial markets and revealed serious shortcomings in the US accounting regulatory system in terms of audit independence and internal controls. In the same year, China Yinguangxia was exposed for fictitious profits and assets, which exposed the deficiencies of China's accounting supervision system in the implementation of laws and regulations, audit quality and information disclosure, and prompted China to strengthen accounting supervision and the construction of auditing standards. In 2020, China Luckin Caffeine was investigated by the US Securities and Exchange Commission (SEC) for inflating sales revenue, which eventually caused the company's share price to plummet and be delisted from Nasdaq. This incident has once again reminded global investors and regulators about the authenticity of accounting information of cross-border listed companies. These events not only caused huge losses to the shareholders and employees of the companies involved, but also had a profound impact on the

stability of global financial markets and investor confidence. Therefore, the comparative study of domestic and foreign accounting supervision systems, in order to reveal their characteristics, advantages and shortcomings, and discuss how to use the international experience to perfect our accounting supervision system, has important practical significance.

1.2. The Importance of Accounting Supervision

Accounting data and information of enterprises have the basic attribute of guaranteeing their own products, and can effectively show the configuration of different interest subjects, which is one of the most lacking materials of enterprises. Due to the influence of the social market, there are some differences in the accounting information collected and sorted out by various enterprises. Generally speaking, the seller has relatively comprehensive accounting data, while the buyer's accounting information is relatively incomplete. It is precisely because of this "asymmetry" in grasping accounting information that the development status of the enterprise cannot be accurately evaluated only through internal supervision of the department. From this point of view, the accounting supervision of enterprises must be further developed, only in this way can avoid the frequent occurrence of accounting data fraud [1]. At present, the comparative study of accounting supervision systems at home and abroad not only has important theoretical value, but also has far-reaching practical significance in promoting the reform of China's accounting supervision system, improving regulatory efficiency, protecting investors' rights and interests, and promoting international cooperation.

1.3. The Difference and Challenge of Accounting Supervision System at Home and Abroad

Under the background of globalization and technological innovation, the accounting supervision system at home and abroad shows significant differences, and also faces a series of challenges. After the economic crisis of 1929-1939, people fully realized that accounting fraud and poor supervision were one of the main causes of economic crisis. In 1934, the United States took the lead in formulating accounting standards that reflect the will of regulators in the world accounting history. At the same time, in order to restore investor confidence and achieve the purpose of supervision, the United States set up the Securities and Exchange Commission (SEC) as the government's specialized regulatory agency [2]. Laws and regulations such as the Sarbanes-Oxley Act emphasize corporate governance and internal control, audit independence and quality are highly valued, information disclosure requirements are strict, and market transparency is high. In contrast, although China has made continuous progress in the establishment of regulatory bodies, legal and regulatory systems, audit systems and information disclosure, it still has problems such as overlapping responsibilities, insufficient enforcement, audit independence challenges and transparency gaps. The challenges both face include the cross-border regulatory challenges brought about by globalization, the impact of emerging technologies on traditional regulatory models, the limited and increasing demand for regulatory resources, and the difficulty of international cooperation and coordination. Through in-depth comparison and analysis of these differences and challenges, it can provide valuable experience for the reform of China's accounting supervision system, promote the improvement of laws and regulations, enhance the independence and efficiency of regulators, strengthen audit quality control, enhance the transparency of information disclosure, and promote international regulatory cooperation. To build an efficient, transparent and coordinated accounting regulatory system that ADAPTS to globalization and technological change.

2. OVERVIEW OF ACCOUNTING SUPERVISION SYSTEM AT HOME AND ABROAD

2.1. Chinese Accounting Supervision System

The domestic accounting supervision system is composed of the Ministry of Finance, the China Securities Regulatory Commission and other regulatory agencies, which are respectively responsible for formulating and implementing national accounting policies, supervising and managing the accounting industry, ensuring the correct implementation of accounting standards, and the disclosure of accounting information of listed companies and the supervision of audit quality. With the further development of China's market economy, many problems have arisen in the regulation and supervision system: 1) As the final authority to formulate accounting standards, the Ministry of Finance inevitably exceeds the consideration of the interests of state-owned equity and affects the interests of minority shareholders. 2) The SFC has the function of supervision, but it does not have the power of interpretation to implement supervision. It can be seen that the SFC's supervision power is insufficient, which is one of the reasons for the weak supervision. In addition, it should be noted that the power of China's Securities Regulatory Commission lacks a legal basis. Although China's Securities Law stipulates the powers and responsibilities of the securities regulatory agency, it does not clearly specify that this agency is the Securities Regulatory Commission. 3) The Association of Certified Public Accountants has a clear government color, and it is not clear whether it is a civil organization or a government agency. In terms of laws and regulations, including the Accounting Law, the Securities Law and the Accounting Standards for Enterprises, they jointly stipulate the basic principles of accounting, the responsibilities and rights of accountants, accounting supervision and other contents, as well as the information disclosure requirements and punishment measures for listed companies in the securities market [3]. In terms of audit system and standards, China's audit system requires certified public accountants to independently audit the financial statements of enterprises to ensure their authenticity and fairness, and the audit standards are gradually brought into line with the International Standards on Auditing (ISA) to improve audit quality and international recognition. On the whole, the domestic accounting supervision system aims to build a standardized, transparent and efficient accounting supervision environment through the coordination and implementation of these regulatory bodies, laws and regulations, and audit systems and standards, in order to adapt to the development needs of the market economy and the convergence trend of international accounting standards.

2.2. Foreign Accounting Supervision System

In 1929, the devastating Wall Street crash in the United States was followed by a global economic crisis that lasted four years. The lessons learned from the stock market crash led to the enactment of the Securities Act and the Securities Exchange Act in 1933 and 1934, and the creation of the Securities and Exchange Commission (SEC), which was given responsibility for enforcing laws relating to the issuance and trading of securities and for setting accounting standards. The establishment of these two laws and laws formed the basis of the current securities regulatory system in the United States. [4] At the same time, the Public Company Accounting Oversight Board (PCAOB) oversees the audit system, ensures audit independence and quality, and sets audit standards that comply with the International Standards on Auditing (ISA). In the UK, the Financial Reporting Council (FRC) is responsible for overseeing and promoting the quality of financial reporting and auditing, including the development and publication of accounting, auditing and corporate governance standards. In terms of laws and regulations, the Sarbanes-Oxley Act (SOX) in the United States has strengthened corporate governance and internal control, improved the transparency and reliability of financial reports, and put forward strict requirements on audit independence and quality. The International Financial Reporting Standards (IFRS), as a set of global accounting standards, was developed by the

International Accounting Standards Board (IASB) to improve the international comparability and transparency of financial reporting.

3. COMPARATIVE ANALYSIS OF ACCOUNTING SUPERVISION SYSTEM AT HOME AND ABROAD

3.1. Perfection of Laws and Regulations

Chinese and foreign accounting supervision systems show different characteristics and advantages and disadvantages in the perfection of laws and regulations. There are many deficiencies in the current body of accounting regulations in our country, such as the law of civil liability Compensation, which has not been introduced in our country, and the investigation and punishment of accounting information disclosure violation cases are mainly based on administrative punishments. The increase of punishment is basically reflected in the criminal responsibility of the main responsible person. In the aspect of property liability, it is generally manifested that all the illegal gains of the parties are handed over to the state, but there is no civil compensation liability for investors. Although the "Securities Law" stipulates the principle of civil liability priority, but in judicial practice, because of the lack of appropriate litigation mechanism in the existing law, investors' losses can not be compensated in fact. Even in terms of criminal responsibility and administrative responsibility, the severity of punishment is also insufficient. In contrast, foreign countries, especially the United States and the United Kingdom, have shown high perfection and enforcement of their legal and regulatory systems. The Sarbanes-Oxley Act (SOX) in the United States and the relevant regulations in the United Kingdom not only strengthen corporate governance and internal controls, but also impose strict requirements on audit independence and quality. The global universality of International Financial Reporting Standards (IFRS) improves the international comparability of financial reporting. Foreign laws and regulations are characterized by their meticulousness and strict implementation, which can provide investors with more transparent and reliable accounting information, protect the interests of investors, and promote the healthy development of the capital market.

3.2. Independence of the Regulator

There are significant differences between domestic and foreign accounting supervision systems in terms of the independence of regulatory bodies. Although domestic regulators, such as the Ministry of Finance and the China Securities Regulatory Commission, are legally entrusted with supervisory duties, in practice their independence may be affected by government policy orientation and administrative intervention, which may limit the full play of their supervisory functions to some extent. Domestic regulators may need to balance various interests when carrying out supervision tasks, which affects the independence and impartiality of their decision-making to a certain extent. In contrast, foreign regulators, such as the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) in the United States, and the Financial Reporting Council (FRC) in the United Kingdom, generally have a high degree of independence. These institutions are clearly defined in law to operate independently, free from direct government interference, and their decision-making processes are more transparent and impartial. For example, the SEC and PCAOB have broad authority and autonomy under U.S. law to independently develop and enforce regulatory policies that ensure audit quality and market integrity.

3.3. Assurance of Audit Quality

The accounting supervision system at home and abroad shows different characteristics and measures in the assurance of audit quality. The present situation and challenge of domestic audit quality are mainly reflected in the improvement of audit independence and professional ability. The Chinese Institute of Certified Public Accountants (CICPA) and audit institutions are faced with the challenge

of how to ensure audit independence, improve the professional level of auditors and cope with the complex economic environment when conducting audit work. The improvement of domestic audit quality needs to further strengthen the integration of audit standards with international standards, as well as the improvement of audit supervision and punishment mechanisms. In contrast, foreign countries, especially the United States and the United Kingdom, guarantee audit quality through a series of strict regulatory measures and system design. The Public Company Accounting Oversight Board (PCAOB) in the United States and the Financial Reporting Council (FRC) in the United Kingdom oversee auditors to ensure audit independence and quality. The Sarbanes-Oxley Act (SOX) in the United States has strengthened audit independence and internal controls, while the widespread adoption of the International Standards on Auditing (ISA) has improved audit consistency and comparability. Safeguards for audit quality in foreign countries also include severe penalties for audit failures and market exit mechanisms, as well as requirements for continuous education and professional development of auditors.

3.4. Transparency and International Cooperation

Accounting supervision system of China and other countries shows different status and advantages in transparency and international cooperation. The current state of transparency and international cooperation in China is reflected in the gradual strengthening of information disclosure requirements and international standards. The CSRC and the Chinese Institute of Certified Public Accountants (CICPA) have promoted transparency in financial reporting and actively participated in the development and implementation of international accounting and auditing standards, such as the adoption of International Financial Reporting Standards (IFRS) and International Auditing Standards (ISA). However, domestic transparency still faces challenges in terms of the quality and timeliness of information disclosure, as well as how to better integrate into the global regulatory network in international cooperation. By contrast, foreign countries, particularly the United States and the United Kingdom, show significant advantages in terms of transparency and international cooperation. The Securities and Exchange Commission (SEC) in the United States and the Financial Reporting Council (FRC) in the United Kingdom ensure that market participants have access to high-quality financial information through strict regulatory requirements and transparent disclosure mechanisms. The global adoption of International Financial Reporting Standards (IFRS) improves international comparability of financial reporting, while the consistent application of International Auditing Standards (ISA) enhances global standards for audit quality. In addition, foreign regulators have been more active in international cooperation, strengthening cross-border regulatory cooperation and information sharing through multilateral and bilateral agreements to effectively address the regulatory challenges brought about by globalization.

4. THE ENLIGHTENMENT OF THE UNITED STATES TO THE IMPROVEMENT OF OUR ACCOUNTING SUPERVISION SYSTEM

(1) Establish an accounting supervision model dominated by government supervision and supplemented by industry self-discipline. Enron and other cases have exposed serious defects and loopholes in the self-regulatory system of the United States. Practice has proved that this practice only emphasizes the self-discipline of the accounting industry, in fact, is an indulgence to the certified public accountants. It can be realized that in today's extremely complex multi-game capital market, it is not enough to rely on industry self-regulatory organizations to carry out accounting supervision. Accounting systems and standards are entirely formulated by private mechanisms, their authority will inevitably be weakened, and the efficiency of their supervision and implementation is low, especially the lack of independence of the formulation body. Therefore, according to China's capital market environment and regulatory requirements, it is suggested to build an accounting regulatory system guided by government regulation and supplemented by industry self-discipline management. The

Ministry of Finance, the National Audit Office, the Securities Supervision Commission and the Institute of Certified Public Accountants have no dependent relationship or interest relationship, independent status, statutory authority and coercive force, and have incomparable advantages over other organizations. They can assume the main functions of accounting supervision and perform various regulatory responsibilities, so as to make their supervision more authoritative. To ensure the healthy development of the capital market.

(2) Improve the legal system of accounting supervision, strengthen the behavior restraint and accountability of company executives From the current legal system of accounting supervision in China, there are departmental legislation, function segmentation, the lack of detailed rules of relevant measures, there are omissions and conflicts, the form is not standardized, and the style is not uniform, which makes it difficult for the regulatory authorities to characterize accounting violations. From the level of accounting supervision, the current accounting supervision system in our country has many deficiencies, such as our country has not yet introduced the "civil liability compensation law", from the current investigation and punishment of accounting information disclosure cases, mainly based on administrative punishment, the punishment is basically reflected in the investigation of the main responsible person's criminal responsibility. In the aspect of property liability, all the illegal gains of the parties are confiscated by the state, but there is no provision for the civil liability of investors. Although the "Securities Law" stipulates the principle of civil liability priority, but in judicial practice, because of the lack of appropriate litigation mechanism in the existing law, investors' losses can not be compensated in fact. Even in terms of criminal responsibility and administrative responsibility, the severity of punishment is also insufficient. According to the experience of the United States, it is necessary to impose legal constraints on the behavior of corporate executives. However, China's current relevant supporting laws are not perfect, and the senior executives have not been truly placed under the constraint of civil liability. Administrative punishment alone is neither a deterrent nor can it touch the vital interests of senior managers. In this respect, the United States has a relatively feasible supporting law on civil compensation, which can learn from the practice of the United States to fundamentally restrain some illegal acts of senior managers, so that the goal of accounting supervision can be successfully realized. In 1992, the COSO Committee put forward the framework of internal control reporting in Internal Control - Overall Structure, but it has not been clearly recognized by the SEC. After the introduction of Sarbanes Act in 2002, the new PCAOB absorbed the basic principles of COSO reporting and formulated audit standards. By endorsing this audit standard, the SEC officially endorsed the COSO framework. In 2004, the COSO Committee, based on the 1992 framework, published a new COSO framework, the overall Framework for Enterprise Risk Management. It can be seen that the current internal control standard in the United States is actually the new COSO framework released in 2004. At present, there is not enough research on internal control standards in China. At present, only industry regulators (such as securities Supervision Commission, insurance Supervision Commission and banking Supervision Commission) have respectively formulated internal control standards guidelines for financial enterprises such as securities companies, insurance companies and commercial banks. These guidelines are designed with reference to the COSO standard in 1992, and there are still many shortcomings in practical application, and the internal control standards of listed companies have not been issued yet [5].

5. CONCLUSION

It can be seen that the comparison of accounting supervision systems at home and abroad reveals the improvement needs of our country in the improvement of laws and regulations, the independence of regulatory agencies and the assurance of audit quality. The advantages of foreign systems in transparency, international cooperation and technology application provide lessons for our country. Limitations of the study may relate to the difficulty of data acquisition, the complexity of international comparisons, and the challenges of rapid technological change. The future outlook should focus on strengthening cross-border regulatory cooperation, integrating emerging technologies to improve

regulatory effectiveness, and promoting the modernization and globalization of China's accounting regulatory system through international exchanges.

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