

Original Research Article

Research on the reputation dilemma and countermeasures of CPA industry

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Abstract: This paper systematically analyzes the credit crisis faced by China's Certified Public Accountant (CPA) industry, identifying two systemic issues as their root causes: "independence dilemmas caused by distorted principal-agent relationships" and "a vicious cycle triggered by low-price competition." To address these challenges, the paper proposes three governance strategies: First, reconstructing a supervisor-oriented principal-agent model to correct distortions in incentive mechanisms at the source; Second, establishing a quality-driven market competition mechanism that breaks the downward spiral of low-price competition through demand guidance and price standardization; Third, building a long-term mechanism centered on supervision and reputation to strengthen external deterrence and internal constraints. The study demonstrates that only through collaborative efforts from all stakeholders can the industry's credibility be restored. The paper emphasizes that promoting healthy industry development requires measures such as enhancing regulatory transparency, implementing dual penalties, and improving personal integrity records.

Keywords: certified public accountant; reputation dilemma; legal risk

1. Background

As a vital component of the market supervision system, the Certified Public Accountant (CPA) industry has played a crucial role in maintaining capital market order and safeguarding public interests. However, recent years have witnessed a series of negative incidents within the sector that have severely undermined public trust and tarnished its reputation. Reputation serves as both the lifeline of the CPA industry and the foundation for its sustainable development. In light of this, this paper analyzes the current state of the industry's reputation, explores the root causes behind its reputation challenges, and proposes actionable recommendations to drive the industry's long-term growth.

2. Current status of reputation of CPA industry

2.1. Decline in professional credibility

The survival and development of the Certified Public Accountant (CPA) profession are deeply rooted in its professional credibility. This credibility is built upon four cornerstones: expertise, rigorous methodology, independent judgment, and ethical standards. Once these foundations become unstable, the industry's reputation will collapse, ultimately accelerating the erosion of both professional value and market recognition.

The industry's challenges often originate from a few major audit failures. Amplified by media coverage, these incidents transcend individual cases to challenge the profession's professionalism and independence, thereby weakening its credit enhancement function. This manifests through eroded client confidence, diminished bargaining power, and stagnant revenue growth^[1]. Yet a paradox emerges: Under mounting pressure from financial strain and trust crises, the sector must still meet rising public expectations and regulatory demands for audit quality. Accounting firms thus struggle to balance cost constraints with quality standards, often resorting to resource cuts like shortened working hours and simplified procedures – measures that ironically increase

failure risks. New failures further solidify public skepticism toward certified public accountants (CPAs), causing reputational decline and renewed distrust. This creates a vicious cycle of "reputation erosion → market penalties → resource scarcity → heightened risk → renewed credibility damage". The prolonged downward spiral ultimately devalues the profession's professional value and erodes market recognition.

2.2. Increased legal risk

The reputation crisis facing the CPA industry is most evident through increasingly stringent external oversight and legal sanctions. This trend indicates that professional conduct issues are no longer theoretical risks but have been institutionalized as concrete realities through administrative penalties and court rulings. Specifically, the challenges manifest in two interconnected dimensions. First, the scope and severity of administrative penalties have significantly expanded. According to the Ministry of Finance's 2024 Accounting Information Quality Announcement, financial authorities nationwide imposed penalties on 231 accounting firms: 7 had their practice licenses revoked, 64 suspended operations, 206 received warnings, and 181 were fined a total of 18.2812 million yuan for illegal gains. Penalty categories have evolved from traditional warnings and fines to include suspensions or revocations of securities practice qualifications, clearly demonstrating regulators' "zero-tolerance" stance toward audit failures. Second, accountability mechanisms have become normalized and targeted. In the same year, seven CPAs had their licenses revoked, 179 suspended, 359 received warnings, and 13 were fined 240,000 yuan, indicating that accountability has extended beyond institutional boundaries to directly penalize individual practitioners.

These official rulings by regulatory and judicial authorities constitute the most compelling evidence of industry credibility erosion, formally declaring institutional failures in critical operational aspects. This situation profoundly reveals that the industry's reputation crisis has transcended mere perception, evolving into a systemic risk documented in official records and quantified through economic compensation.

3. Reasons for the reputation dilemma of CPA industry

3.1. The independence dilemma under the alienation of principal-agent relationship

The root cause of the CPA industry's reputation crisis lies in the inherent conflict between professional independence and financial interests. This ethical dilemma isn't merely an isolated incident but stems from systemic flaws within the industry's payment structure and market mechanisms, with its core problem being the distorted audit client relationship. According to principal-agent theory, corporate owners delegate operational control to management while entrusting CPAs with independent oversight. However, in practice, auditors' appointment authority and fee collection power remain firmly held by the entities they're supposed to supervise—Management. This creates a paradoxical position for CPAs: they must fulfill their supervisory duties while being financially tied to those they're monitoring. When client management applies pressure or threatens to switch firms, adhering to principles risks losing critical business opportunities, whereas compromising could preserve long-term partnerships and stable income streams. Such entanglement fundamentally undermines audit independence^[2].

This conflict directly erodes industry reputation through two pathways. First, the infiltration of non-audit service benefits. It has become common practice for accounting firms to provide high-value-added services like management consulting and tax planning to audit clients. When audit revenue becomes closely tied to consulting income, audit opinions may lose objectivity^[3]. Second, economic dependence formed through long-term partnerships. While sustained collaboration helps auditors gain deep insights into client operations, the resulting stable income reliance and interpersonal connections increase risks of compromising independence for commercial interests. Clearly, the contradiction between independence and vested interests not only triggers

individual audit failures but also continuously depletes the industry's credibility capital, becoming a key mechanism for reputation deterioration.

3.2. The displacement of quality orientation by price orientation and its long-term reputational damage

The credibility crisis facing the CPA profession is directly linked to its rampant low-price competition. This unhealthy market dynamic, characterized by predatory pricing tactics, has been steadily eroding professional trust through a dual mechanism of "quality compromise" and "misleading market signals".

From the supply perspective, low-price competition inevitably compromises audit quality. As a highly specialized assurance service, audit quality fundamentally depends on sufficient time investment and professional judgment. When accounting firms accept projects at clearly unreasonable prices to maintain basic profits, they often cut corners by compressing audit procedures, reducing fieldwork hours, decreasing sample sizes, or assigning inexperienced personnel. This undoubtedly significantly increases the risk of audit failures. Each exposed failure becomes direct evidence questioning the industry's professional competence, causing substantial damage to its reputation. From the demand side, low-price competition sends strong negative signals: clients view audit services as price-compliant commodities rather than professional assurance, while investors suspect potential quality compromises or interest exchanges behind low pricing. Such perceptions erode public trust in audit reports, leaving even rigorously quality-standard adhering firms vulnerable. More critically, the low-price environment fosters a "bad money drives out good" effect—quality-conscious firms face survival pressures while compromising ones gain competitive advantages, ultimately exacerbating the industry's overall decline in credibility^[4].

Thus it can be seen that low price competition, through the dual mechanism of damaging audit quality and weakening market trust, continues to consume the credibility capital of the industry and becomes an important driving force for the reputation dilemma of the industry.

4. Strategies to deal with the reputation dilemma of CPA industry

4.1. Reshaping the principal-agent model based on owner supervision

To resolve the structural contradictions in audit independence, the core lies in reconstructing the audit client relationship. This requires shifting CPAs' primary focus from catering to management to genuinely serving public interests. First, audit committees should be granted full authority over firm selection, fee arrangements, and oversight. This aims to eliminate channels for management pressure on auditors at the source and eradicate risks of improper collusion. The committee must consist of independent directors with financial expertise to ensure effective supervision on behalf of stakeholders. Second, non-audit services must be strictly regulated and mandatorily disclosed. Specifically, firms should be prohibited from providing high-value-added services like management consulting or internal audit outsourcing that may create conflicts of interest. Other approved services must undergo comprehensive and transparent disclosure systems, subject to scrutiny by both investors and regulators. This essentially decouples audit and consulting interests, significantly increasing the opportunity costs for firms to compromise with management for consulting revenue. Only through such institutional restructuring can we fundamentally safeguard audit independence and ensure the objectivity and fairness of CPAs from the outset.

4.2. Building a quality-oriented market competition order

To break the vicious cycle of cutthroat price competition, the key lies in overturning the "winner-takes-all" market rule and redirecting competitive focus from price wars to quality excellence. Specific measures

include: First, regulatory bodies should issue guidelines requiring firms to prioritize audit team expertise, project timelines, quality control protocols, and historical performance metrics over pricing when selecting service providers^[5]. Second, industry self-regulatory organizations should develop and promote cost benchmarks tailored to enterprise size and operational complexity. For projects with bids significantly below these standards, both firms and clients must submit detailed explanations, with such cases designated as key regulatory targets. By guiding demand and standardizing pricing through this dual-track approach, we can fundamentally reshape market competition dynamics, fostering a healthy ecosystem where quality drives out inferior practices.

4.3. Establish a long-term mechanism with supervision and reputation as the core

Any well-designed institutional framework will remain superficial without effective oversight and disciplinary mechanisms. Therefore, it is imperative to establish robust external deterrence and internal restraint systems. The top priority lies in significantly enhancing regulatory transparency and imposing severe penalties. Regulatory bodies should intensify quality inspections of accounting firms with greater frequency and depth, particularly targeting institutions that frequently engage in low-bid practices. When independence issues or critical audit quality deficiencies are identified, a "dual penalty for one case" approach must be implemented—imposing severe sanctions on both the accounting firm and the individual certified public accountant (CPA) responsible. This ensures that non-compliance deters violators through clear consequences.

Building on this foundation, we will enhance the personal integrity records and industry reputation mechanisms for certified public accountants (CPAs). A nationwide, publicly accessible database will be established to comprehensively document audit failures, administrative penalties, and other professional misconduct throughout practitioners' careers. By deeply integrating audit quality with CPAs' personal reputations and career trajectories, maintaining professional credibility becomes an inherent requirement for every practitioner. Simultaneously, strengthening the industry ecosystem where "trustworthy professionals benefit while untrustworthy ones face consequences" will motivate CPAs to uphold ethical standards. This approach provides the most robust foundation for implementing the aforementioned institutional reforms.

5. Conclusions

Through systematic analysis, this study reveals that the credibility crisis in China's Certified Public Accountant (CPA) industry stems from two systemic issues: the "independence dilemma arising from distorted principal-agent relationships" and the "vicious cycle of cutthroat price competition." To address these challenges, three fundamental strategies are proposed: First, reconstructing an owner-supervised delegation model to correct distorted incentive structures at their source; Second, establishing quality-driven market competition mechanisms to break the downward spiral of low-price competition; Third, creating long-term regulatory frameworks with reputation management as core pillars to ensure sustainable industry development. Only through coordinated efforts across stakeholders can we rebuild the sector's public trust.

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