

Hunan Finance
Department



World Bank Group

CHINA

GUIDONG COUNTY, HUNAN PROVINCE

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA)
PERFORMANCE ASSESSMENT REPORT



Hunan Finance
Department



World Bank Group

**Guidong County
Hunan Province, China
(2020)**

Public Expenditure and Financial Accountability (PEFA) Performance
Assessment Report

Based on the 2020 Subnational PEFA Methodology

PREFACE

This PEFA assessment was conducted at the request of the Hunan Provincial Finance Department, People's Republic of China. The World Bank assessment team thanks the Government of Hunan Province and the Government of Guidong County for their cooperation, and the peer reviewers and PEFA Secretariat for their guidance. A substantial number of Guidong County officials participated in the assessment, readily providing most of the documentation used for the assessment, as well as their views and insights on the subjects covered.

Zhao Min (Senior Economist, WB) and Dong Yi (Senior Financial Management Specialist, WB) managed the assessments of eight county governments in Hunan Province. The team that conducted the assessment for Guidong County comprised Dong Yi (Task Team Leader, WB), Julia Dhimitri (Adviser/ PFM Specialist, PEFA Secretariat), Guillaume Brule (Adviser/ Financial Management Specialist, PEFA Secretariat), Du Li (Lead Consultants, Fudan University), Zhang Ping (Co-Lead Consultant, Fudan University), Guo Jianjun (Senior Procurement Specialist, WB), Yu Wenjie (Public Sector Specialist, CAFS), Hou Haibo (Public Sector Specialist, CAFS), Yi Xuan (PFM Specialist, Zhongnan University) and Xiao Haixiang (Consultant, Hunan University). The team is also grateful to Christina Schmalhofer (Consultant, WB) for her assistance in copyediting the report and Li Xiaoting (Program Assistant, WB) for providing excellent administrative support throughout.

The assessment report was prepared under the overall guidance of Lin Deyong and He Weiwen (Deputy Director-Generals of Hunan Provincial Finance Department), Martin Raiser (China Country Director, WB), Alma Kanani (Practice Manager of Governance Global Practice, WB), Sebastian Eckardt (Lead Economist, WB), and Jens Kristensen (PEFA Secretariat). The team benefited greatly from technical guidance of Mr. Liu Shangxi, the President of China Academy of Fiscal Sciences (CAFS), and comments by peer reviewers Deng Weiping, Su Zhili, Lewis Hawke, Sanjay Vani, Christoph Ungerer and Martin Bowen.

Currency and Indicative Exchange Rates

Local Currency Unit: Renminbi (RMB)

1 USD = RMB 7.0

Fiscal Year (FY): January 1 - December 31

Fiscal years covered in this report: FY2016-2018 and information at the time of assessment



The People's Republic of China
Hunan province – Guidong county

**Public Expenditure and Financial Accountability (PEFA) Performance
Assessment Report**

Based on the 2020 Subnational PEFA methodology

Version of March 1, 2021

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat

May 13, 2021

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ABBREVIATIONS AND ACRONYMS

AFS	Annual Financial Statements
CAFS	China Academy of Fiscal Sciences (CAFS)
CG	Central Government
CNAO	China National Audit Office
CPC	Chinese Communist Party
CPI	Consumer Price Index
DMS	Debt Management Strategy
DRB	Development and Reform Bureau
DRC	Development and Reform Commission
EBU	Extrabudgetary Unit
FY	Fiscal Year
GAU	Government Administrative Unit
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GFB	Government Fund Budget
GPB	General Public Budget
HLG	Higher-Level Government
ICB	Invitation Competitive Bidding
IMF	International Monetary Fund
IFMIS	Integrated Financial Management Information System
LGFV	Local Government Financing Vehicle
MOF	Ministry of Finance
NA	Not Applicable
NDRC	National Development and Reform Commission
NPC	National People's Congress
NU	Not Used
OCB	Open Competitive Bidding
PC	Public Corporation
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PforR	Program for Results
PI	Performance Indicator
PPP	Public Private Partnership
PRC	People's Republic of China
PSU	Public Service Unit
RMB	Ren Min Bi (Chinese National Currency)
SAI	Supreme Audit Institution
SCOB	State Capital Operating Budget
SNG	Sub-National Government
SOE	State-Owned Enterprise
SSB	Social Security Budget
TSA	Treasury Single Account
UDIC	Urban Development and Investment Corporation
VAT	Value Added Tax
WB	World Bank

EXECUTIVE SUMMARY

The purpose of this PEFA assessment is to provide an objective analysis of the present performance of the public financial management (PFM) systems in Guidong County, using the new 2020 Subnational PEFA Framework. The results of this assessment will inform the design of the Hunan Subnational Governance and Rural Public Service Delivery Program-for-Results lending operation and local specific PFM reform initiatives and appropriate technical support from development partners, as well as provide a baseline against which the future developments of PFM systems of Guidong County can be measured.

The assessment covers the county of Guidong, more specifically its government administrative units (GAUs, 行政单位) and public service units (PSUs, 事业单位), including budget-funded service delivery entities such as schools, hospitals, or agricultural service centers. While there are no extra-budgetary units in Guidong County, the social security fund is managed separately from the core budget system—the general public budget (GPB) and the government fund budget (GFB), and thus is classified as an extrabudgetary operation in this assessment. Following China’s legislative classification, state owned enterprises (SOE) are assessed as public corporations (PCs). China’s laws and regulations prohibit any SOE, including local government financing vehicles (LGFV), from financing government investment projects on behalf of the government. LGFVs that have been undertaking quasi-fiscal operations are required to be transformed into commercial entities, operating according to market rules, producing goods and services at market price, and bearing risks on their own. The government does not have any legislative obligation to bail out SOEs. Considering that they may present potential fiscal risk to the government, Annex 7 provides complementary information on the financial management performance of the LGFV in Guidong. At the time of assessment, there was one LGFV in Guidong still in the process of transforming toward a commercial entity.

The video conferences for the assessment were undertaken in March 2020. The fiscal years (FYs) covered for indicators that require an assessment of a three-year period, are 2016 to 2018.

Impact of PFM systems on the three main budgetary outcomes

Overall, the PFM systems of Guidong perform well in in-year budget reporting, public asset management, and internal controls. The main weaknesses pertain to budget reliability, transparency, and scrutiny; performance and medium-term orientation of the budget; public investment management; the predictability of in-year resource allocation; the monitoring of expenditure arrears; annual financial reporting; auditing; and public access to fiscal information. The context in which Guidong sets its budget is important. Guidong generally complies with the PFM practices mandated by the central and provincial governments. Improvement in the county’s PFM perform requires enhanced predictability of information on transfers to be received from higher-level governments (HLGs).

Fiscal discipline

The budget fails to impose much fiscal discipline in Guidong. The variation between outturn and budget estimates for aggregate expenditure (PI-1.1) and expenditure composition (PI-2.1) are both rated D, and there are significant budget adjustments for expenditures within the fiscal year (PI-21.4 is rated C). The uncertainty caused by HLG transfers (HLG-1 is rated D+) certainly contributes much to the SNG’s poor estimation of its expenditures. In-year policy change also makes it challenging for the SNG to project its own-source revenue (PI-3 is rated D). In-year resource allocation is frequent and largely unpredictable (PI-21, rated D+), modern cash

management is missing (PI-21.2 is rated D), and monitoring for expenditure arrears only started in 2018 for project expenditures (PI-22 is rated D).

However, Guidong do have some important control mechanisms over expenditures by budgetary units, which helps to maintain fiscal discipline. All government operations are included in financial reports (PI-6, rated A). Payroll control is effectively supported with centralized payment arrangements and auto-reconciliation through an IT system (the first three dimensions of PI-23 rated A). Strong internal control of non-salary expenditure (PI-25, rated B) and an internal audit system (PI-26, rated C+) have ensured strict control over spending during budget execution. Moreover, there is a sound reporting and recording system for debts (PI-13.1, rated C).

A major threat to fiscal discipline is that some important control and monitoring functions lay outside the PFM system. System weaknesses that allow for this threat include the entanglement of government units and the local government financing vehicle (LGFV); the fact that investment financing is delinked from the government budget; that large procurements and contracts are supervised by the Bureau of Development and Reform, not by the Finance Bureau; that expenditure arrears and small procurements are not monitored; that there is no effective supervision of public corporations (PCs); and that, while the Finance Bureau monitors financing by the LGFV, there is no fiscal risk assessment or monitoring of the operations of other PCs. In combination, this suggests a lack of institutional mechanism for ensuring hard budget constraints. Consequently, off-budget borrowing may arise. The lack of public scrutiny of financial assets, liabilities, PCs and investment projects is seen as an additional threat to fiscal discipline.

Another issue that undermines the fiscal discipline lies in the weak external auditing system. Both the internal audit (PI-26) and external audit (PI-30) are rated D+.

Strategic allocation of resources

The main PEFA indicator concerned with medium-term budget strategy, PI-14, was rated D+. There is no evidence that macroeconomic indicators have been considered for budget preparation, there is no medium-term budget strategy, and the fiscal impact of policy changes is not regularly estimated. In addition, costing information of major investment projects is not included in the budget documents (PI-11.3, rated D) and clear rules for prioritizing major investments are missing (PI-11.2, rated D).

The budget preparation process was assessed as reasonable (PI-17, rated C+) and legislative scrutiny of the budget was good (PI-18, rated B+).

Budget documentation was considered to be satisfactory, meeting three basic and two additional requirements (PI-5, rated C). However, the budget classification system is not fully in accord with international standards (PI-4, D).

Efficient use of resources for service delivery

Many required mechanisms are in place to reduce the possible leakage of funds, such as the asset management system (PI-12, B) and the internal control mechanisms for payroll (PI-23, C+) and non-salary expenditures (PI-25, B).

However, weak performance management system may undermine the efficient use of resources for service delivery. Less than 20% of the budgetary units in Guidong have a framework of PIs relating to the outputs or

outcomes (PI-8.1, D), the information on activities performed in relation to service delivery in FY 2018 covered 18.88 percent of total service delivery expenditures (PI-8.2, D), and independent evaluations of the efficiency or effectiveness of service delivery have not been carried out (PI-8.4, D), though good reporting on resources received by service delivery units is in place (PI-8.3, A). In addition, low budget reliability and predictability of in-year resource allocation (PI-21, D+) may further adversely affect the capacity of service delivery units to make efficient use of resources.

As for the procurement management system, data are not fully available to evaluate procurement monitoring (PI-24.1, D*) and procurement methods (PI-24.2, D*), and there is no reasonable information disclosure (PI-24.3, D), though the complaint solving regime is pretty good (PI-24.4, A).

Audit reports were submitted to the People’s Congress within six months (PI-30.2, B) and the county People’s Congress completed scrutiny of audit reports within one month (PI-31.1, rated A). The required follow-up actions were taken by related entities effectively and timely (PI-30.3, A). However, coverage of external audit is very low (PI-30.1, D), and audit reports and their hearings were not open to the public (PI-31.4, D).

In sum, the Guidong PFM systems perform at sub-optimal level. With the right regulatory framework set by the central and provincial government, there is great potential for improvement.

The assessment results shall be interpreted with an important caveat in mind. As Annex 7 shows, LGFVs carry out sizeable quasi-governmental activities while operating outside of the PFM system (Annex 7, PI-6, D). The Guidong Government has basic monitoring authority over the investment project that LGFVs implement (Annex 7, PI-11.4, C) and their liabilities (Annex 7, PI-13.1, B). A comprehensive assessment for LGFVs is warranted to reveal the impact of LGFVs on the PFM performance of the Guidong county.

China has launched ambitious fiscal and taxation reforms since 2014. The revised landmark Budget Law and its associated directives have laid out a solid foundation for a modern fiscal framework. The main motivation has been to better serve the transformation of the government functions from boosting growth more toward delivering quality public goods and services. The major changes mandated by the revised Budget Law fall into five areas: 1) making the budget comprehensive and transparent; 2) improving credibility and medium-term perspective of the budget; 3) allowing provinces to borrow on budget within the regulatory framework; 4) making transfers transparent, fair and pro-equalization; and 5) hardening budget constraint. The recently released Government Investment Decree, if effectively implemented, could enhance the discipline and scrutiny around government investment projects and contain contingent liabilities associated with their financing.

The reforms that are currently being pushed by the Central Government (CG), and fully embraced by Hunan Province, provide a good opportunity and foundation for the Guidong County Government to carry out the needed PFM reforms. PFM in China is a long-term endeavor, requiring concerted effort of all tiers of government and coordinated adaptation of all public-sector institutions.

Table 0.1: Overview of the scores of the PEFA indicators

PFM PERFORMANCE INDICATOR (PI)		SCORING METHOD	DIMENSION RATINGS				OVERALL RATING
			i	ii	iii	iv	
SNG PILLAR: Intergovernmental fiscal relations							
HLG-1	Transfers from an HLG	M2	D	D	B	D	D+
HLG-2	Fiscal rules and monitoring of fiscal position	M1					NU

PFM PERFORMANCE INDICATOR (PI)		SCORING METHOD	DIMENSION RATINGS				OVERALL RATING
			i	ii	iii	iv	
Pillar One: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	D				D
PI-2	Expenditure composition outturn	M1	D	NA	A		D+
PI-3	Revenue outturn	M2	D	D			D
Pillar Two: Transparency of public finances							
PI-4	Budget classification	M1	D				D
PI-5	Budget documentation	M1	C				C
PI-6	SNG operations outside financial reports	M2	A	A	A		A
PI-7	Transfers to subnational governments (SNGs)	M2					NA
PI-8	Performance information for service delivery	M2	D	D	A	D	D+
PI-9	Public access to fiscal information	M1	D				D
PI-9bis	SNG public consultation	M2					NU
Pillar Three: Management of Assets and Liabilities							
PI-10	Fiscal risk reporting	M2	C	NA	NA		C
PI-11	Public investment management	M2	C	C	D	D	D+
PI-12	Public asset management	M2	C	C	A		B
PI-13	Debt management	M2	C	A	D		C+
Pillar Four: Policy-based fiscal strategy and budgeting							
PI-14	Medium-term budget strategy	M2	C	D*	D	NA	D+
PI-15	Fiscal strategy	M2					NU
PI-16	Medium-term perspective in expenditure budgeting	M2					NU
PI-17	Budget preparation process	M2	B	B	D		C+
PI-18	Parliamentary scrutiny of budgets	M1	B	B	A	B	B+
Pillar Five: Predictability and control in budget execution							
PI-19	Revenue administration	M2	NA	NA	NA	NA	NA
PI-20	Accounting for revenue	M1	A	A	NA		A
PI-21	Predictability of in-year resource allocation	M2	C	D	D	C	D+
PI-22	Expenditure arrears	M1	D*	D			D
PI-23	Payroll controls	M1	A	A	A	C	C+
PI-24	Procurement management	M2	D*	D*	D	A	D+
PI-25	Internal controls on non-salary expenditure	M2	A	D	A		B
PI-26	Internal audit	M1	D	B	A	A	D+
Pillar Six: Accounting and reporting							
PI-27	Financial data integrity	M2	B	NA	NA	C	C+
PI-28	In-year budget reports	M1	A	A	B		B+
PI-29	Annual financial reports	M1	C	A	D		D+
Pillar Seven: External scrutiny and audit							
PI-30	External audit	M1	D	B	A	B	D+
PI-31	Parliamentary scrutiny of audit reports	M2	A	C	C	D	C+

1 INTRODUCTION

1.1 Rationale and purpose

1. China has launched ambitious fiscal and taxation reforms since 2014. The revised landmark Budget Law and its associated directives have laid out a solid foundation for a modern fiscal framework. While implementation of this framework at the subnational level remains challenging, Hunan Province in Southern China has been a leader in subnational PFM reform. Its sub-provincial governments execute around 90 percent of public expenditures in the province and are responsible for the delivery of major citizen-oriented services, such as education, primary health care or local infrastructure. For this reason, Hunan Province has shown strong commitment towards deepening its PFM reforms in the form of improved fiscal systems and an improved management capacity of its county governments. It has also had a longstanding relationship with the World Bank in this area and is currently engaging with the World Bank to design and implement a Program-for-Results lending operation to support a reform program for the improvement of PFM in the Province.

2. Against this backdrop, Hunan Province plans to conduct PEFA assessments in eight of its counties. The objective of these assessments is to provide a baseline against which the future development of county PFM systems can be measured, and more specifically, to inform the design of county specific PFM reform initiatives and appropriate technical support from the World Bank.

3. The present PEFA assessment will provide an analysis of the performance of the PFM systems in Guidong County.

1.2 Assessment management, oversight and quality assurance

4. The assessment management framework, oversight and quality assurance arrangements are summarized in Table 1.1 below.

Table 1.1: Assessment management, oversight and quality assurance arrangements

Lead Agencies	
Agency leading assessment	The World Bank
Funding agency	The World Bank (with labor contribution from CAFS)
Oversight Team	
Name, position and organization	Role
Lin Deyong, Deputy Director-General, Hunan Provincial Finance Department	To identify and agree on key responsibilities, approach to assessment, and timeline etc. Chair
Alma Kanani, Practice Manager, World Bank	Adviser
Sebastian Eckardt, Lead Economist, World Bank	Adviser
Liu Shangxi, President, CAFS, China MOF	Adviser
Huang Weixiong, Mayor, Pingjiang Government	Oversight Team Member

Wang Kunqiu, Vice Mayor, Liuyang Government	Oversight Team Member
Liu Zhengkai, Vice Mayor, Liling Government	Oversight Team Member
Li Zishan, Vice Mayor, Youxian Government	Oversight Team Member
Jiang Xiaozhong, Vice Mayor, Chaling Government	Oversight Team Member
Wu Zhiping, Mayor, Guidong Government	Oversight Team Member
Huang Zhiwen, Mayor, Rucheng Government	Oversight Team Member
Zhang Runhuai, Mayor, Yizhang Government	Oversight Team Member
Quality assurance	
Concept note	
Date submitted for review to Hunan Provincial Government and other peer reviewers:	November 19, 2019
Reviewers:	Liu Shangxi (President, CAFS of the MOF), Deng Weiping (Director, Hunan Provincial Finance Department), Lewis Hawke (Lead Public Sector Specialist, EEAG1), Sanjay Vani (Lead Financial Management Specialist, EEAG1), John Litwack (Lead Economist, EA1M2), Christoph Ungerer (Economist, EECM2), IMF Representative, and PEFA Secretariat.
Date of final CN to PEFA Secretariat:	Reviewers who provided comments: Liu Shangxi (CAFS of the MOF), Deng Weiping (Hunan Provincial Finance Department), Lewis Hawke (EEAG1), Sanjay Vani (EEAG1), Christoph Ungerer (EECM2), and Martin Bowen (PEFA Secretariat). Comments from Deng Weiping represent those of Hunan Provincial DOF and all 8 county governments.
PEFA assessment report	
Date submitted for review:	The first draft was submitted to the WB peer reviewers and PEFA Secretariat on November 14, 2020. The revised version incorporating comments from the peer reviewers of the WB and PEFA Secretariat was submitted to the Hunan provincial DOF and the Guidong County Government for review on January 15, 2021.
Reviewers and date they provided comments:	Written comments were received from Lewis Hawke (EEAG1), Christoph Ungerer (EECM2), and Guillaume Brule (PEFA Secretariat) in November 2020.
Date of final draft:	March 1, 2021
PEFA CHECK:	The two stages of the PEFA CHECK process were adhered to for the concept note and the response to comments on the draft report.

1.3 Assessment methodology

5. **Scope and coverage:** The assessment covers Guidong County, more specifically its government administrative units (GAUs, 行政单位) and public service units (PSUs, 事业单位), including budget-funded service delivery entities, such as schools, hospitals, or agriculture service centers. Annex 3 provides a list of the specific public sector agencies covered. Generally, and therefore also in Guidong County, there are no EBUs and no financially independent local governments below the county level in China. The social security fund is managed separately from the core budget system— the GPB public budget and the GFB, and thus is classified as extrabudgetary operation in this assessment. In addition, Guidong has 12 PCs (SOEs). These entities are legally separated from the government and incorporated under corporate law and as such are not considered part of the government

for the purpose of this assessment. China's laws and regulations prohibit any SOE, including local government financing vehicles (LGFV), from financing on behalf of the government. LGFVs that have been undertaking quasi-fiscal operations are required to be transformed into commercial entities, operating according to market rules, producing goods and services at market prices, and bearing risks on their own. The government does not have any legislative obligation to bail out SOEs. Considering that they may present potential fiscal risk to the government, Annex 7 provides complementary information on the financial management performance of the LGFV in Guidong. At the time of assessment, there was one LGFV in Guidong still in the process of transforming into a commercial entity.

6. Timing of assessment: The PEFA assessment in Guidong observed the following timelines:

Table 1.2: Timing PEFA Assessment Guidong County

Training for assessors and local government officials	December 15-21, 2019 and January 14-17, 2020
In-country (virtual) field work:	March 2020
Country FY:	January - December
Last three FYs covered:	FY 2016, FY 2017, FY 2018
Latest budget submitted to legislature:	FY 2019
Time of assessment (cut-off):	December 2019

7. Sources of information: The assessment team consulted a wide range of documents from various sources, including agencies within the SNG, such as the Finance Bureau, the Development and Reform Commission (DRC), the Audit Office, and the Education Bureau; local institutions, such as the local People's Congress or local SOEs; as well as institutions at the HLG level. A consolidated list of the data and evidence used for this assessment, including by indicator and dimension, can be found in Annex 4. The names of persons interviewed are listed in Annex 5.

8. Other methodological issues regarding the preparation of the report: The assessment was carried out using the 2020 Subnational PEFA Framework supported by the Subnational Field Guide. All indicators and their dimensions were assessed and followed the methodology without deviation in terms of coverage and application. Indicators not applicable were scored Not Applicable (NA).

9. A series of PEFA methodology trainings were held. The first one took place in April 2019 in Beijing for officials from CG and 40 SNGS. A second training was held in October 2019 in Changsha for officials from Hunan Provincial Government and its sub-provincial governments. The third training was conducted in December 2019 for officials from the eight counties to be assessed in 2019 and 2020, as well as for the local assessors. These trainings were delivered by a team from the PEFA Secretariat led by Jens Kromann Kristensen and consisting of Julia Dhimitri and Guillaume Brule.

2 COUNTRY AND SNG BACKGROUND INFORMATION

2.1 Economic situation

2.1.1 China and Hunan Province

10. China is one of the largest countries in the world with a land area of 9.63 million square kilometers and a population of 1.4 billion in 2019. It is a unitary state consisting of five tiers of governments – the CG, 34 provinces and municipalities, 333 prefectures, 2,851 counties and 39,945 townships.¹

11. China has made remarkable economic achievements in the past 40 years and has risen from a least-developed country to an upper-middle income country. Since the start of China's reform and opening in the late 1970s, GDP growth has averaged almost 10 percent a year and more than 850 million people have been lifted out of poverty. Today, China ranks as the second largest economy, behind the United States. The Chinese authorities are committed to lifting all citizens out of extreme poverty by 2020.

12. Entering a new stage of development, China is confronted with new development challenges as it seeks to transition to slower but more balanced and sustainable growth. This entails shifting from an investment- and export-led economy based on labor-intensive manufacturing towards one led by domestic consumption, services, and productivity. This transition has been well-managed, as evidenced by key economic indicators shown in Table 2.1.

Table 2.1: Selected economic indicators for China (2016-2018)

Economic indicators	2016	2017	2018
GDP (Billion RMB)	74,006	82,075	90,031
GDP per capita (RMB)	53,680	59,201	64,644
Real GDP growth, at constant market prices (%)	6.7	6.8	6.6
Unemployment rate (%)	3.4	3.1	2.8
Inflation (consumption price index, %)	2.0	1.6	2.1
Public finance (% of GDP)			
General public budget (GPB)			
Revenues	22.4	22.0	21.6
Expenditures	25.3	24.8	24.1
Fiscal balance (official)	-2.9	-2.9	-2.6
Government fund budget (GFB)			
Revenues	6.2	7.4	8.2
Expenditures	6.3	7.4	8.9
Debt (% of GDP)	37.0	36.5	36.9

Data source: World Bank.

¹ Source: China Statistics Yearbook, 2018.

13. Hunan is a landlocked province in the interior of China and ranked 16th among 31 mainland provinces and municipalities in terms of per capita GDP in 2018. Table 2.2 provides an overview of selected economic indicators for Hunan for the period 2016-2018. While Hunan's per capita GDP is close to the national average, large disparities still exist between rural and urban areas within Hunan – as is the case in the rest of China. In 2018, about 44 percent of Hunan's 69 million-strong population resided in rural areas. While the relative income gap between urban and rural residents has narrowed since 2012, rural incomes are on average only about 38 percent of urban residents. Having eliminated extreme poverty, Hunan's development focus is now shifting towards consolidating the achievements of the poverty reduction program and revitalizing rural areas. An important element of Hunan's rural revitalization strategy is to close gaps in the access to, and quality of, rural public services, which have remained despite the significant progress in recent years. While the province sets the overall policy framework, Hunan's 122 county governments are mainly responsible for implementing the rural revitalization program, including through the delivery of essential public services.

Table 2.2: Selected Economic indicators for Hunan Province (2016-2018)

Economic indicators	2016	2017	2018
GDP (Billion RMB)	3155.1	3390.3	3633.0
GDP per capita (RMB)	46,382	49,558	52,949
Real GDP growth rate (%)	8.00	8.00	7.80
Unemployment rate (%)	4.19	4.02	3.58
Inflation (CPI, %)	1.88	1.43	1.96
Average disposable income of urban residents (RMB)	31,284	33,948	36,698
Average disposable income of rural residents (RMB)	11,930	12,936	14,093
Public Finance (% of regional GDP)			
GPB			
Revenues	8.6	8.1	7.9
Net Transfers from CG	9.1	9.7	9.5
Expenditures	20.1	20.3	20.6
Overall balance	-2.5	-2.4	-3.2
GFB			
Revenues	3.3	3.8	6.1
Net transfers from CG	0.2	0.2	0.1
Expenditures	3.2	3.5	5.9
Overall balance	0.3	0.5	0.4
SNG debt (% of GDP)	21.6	22.6	24.0

Data source: Hunan Department of Finance.

14. A strong PFM system is indispensable for driving the economic transformation in China and further developing it to a high-income country. China's fiscal system has successfully supported the economic growth and rebalancing in the last decade. It helped raise the tax share of GDP from 10 percent in 1994 to 19 percent in 2013 and contributed significantly to financing the infrastructure needed to accommodate urbanization in the 1990s and 2000s. China also recognizes public finance as the foundation of national governance for addressing the development challenges going forward. "A good fiscal and taxation system is the institutional guarantee for optimizing resource allocation, maintaining market integration, promoting social equity, and

achieving long-term national stability” (The Reform Decision, 2013). The revision of Budget Law in 2014 is a landmark reform for strengthening the fiscal discipline of SNGs and for protecting the integrity of the tax system. However, major implementation challenges persist. Hunan Province, a pioneer in leading PFM reform in China, has been tapping into the assistance of the World Bank in this matter, by means of a development policy loan and an upcoming PforR operation. Chapter 5 provides a more detailed discussion about China’s PFM reform program.

2.1.2 Intergovernmental fiscal arrangements

15. China is by far the most decentralized country in the world, with responsibilities for basic public services being highly decentralized to SNGs. As of 2013, SNGs accounted for about 85 percent of total public expenditure. Tax rates for major taxes are set centrally with revenues being shared between different levels of governments. In addition, significant shares of revenues are transferred from the CG to the provinces, and from provinces to local governments, both as earmarked and general-purpose grants. These transfers are generally adequate to cover the gap between revenues and recurrent expenditures at the subnational level.

16. China takes a cascading approach to decentralization arrangements. The CG decides its tax sharing and expenditure assignments with provinces and municipalities, and each province and municipality decides on its respective tax sharing and expenditure assignments with cities and counties in its jurisdiction. The intra-budgetary system in most provinces, including Hunan Province, is streamlined to two tiers – the province and the prefectures/counties. The counties, though administratively reporting to the prefectures directly interact with the province for fiscal affairs, and the counties also directly manage the finance for their subordinated townships.

Assignment of expenditure responsibility

17. The clarification of the division of functions across levels of government is a crucial reform expected to ensure mandates of SNGs are clear and adequately funded. To delineate the functionalities and expenditure responsibilities between the CG and the SNGs, China now classifies government functions in three categories: (i) CG functions; (ii) SNG functions; and (iii) CG-SNG shared functions. The main principle is that the CG should directly provide public services that affect market integration and those with strong externalities, such as national defense. SNGs are assigned functions which benefit their respective jurisdictions, such as municipal transportation and rural roads. Responsibility for functions that have both national and localized benefits should be shared. This last group includes several key, high cost public services, including basic pensions, compulsory education and basic medical care.

18. Building on the functional division between the CG and the SNGs, Hunan province has been formulating the functional division between province and sub-provincial governments accordingly. For the shared functionalities, while county governments will take the ultimate responsibility for the delivery of services, the financing share undertaken by counties varies depending on their level of development and fiscal capacity. Guidong, as a national poverty county, will take on only 20 percent financing share for most public services.

Tax revenue sharing

19. Tax-sharing arrangements between the CG and SNGs are stable and are governed by State Council Decrees No. 85, 1993 and No. 37, 2001. Taxes are collected by the National Tax Administration to the National Treasury Single Account (TSA) and disbursed to the provinces. Provinces then decide the tax-sharing arrangements

between the provincial government and their city/county governments within their jurisdiction. SNGs in China generally do not have the authority to set tax rates. Since 2017, local governments have been granted the right to set rates for resources tax and environmental tax, however, within the parameters set by the CG. Table 2.3 lists the tax sharing arrangements between the CG, Hunan Provincial Government and the sub-provincial governments of Hunan Province.

Table 2.3: Tax sharing arrangements between the CG and Hunan provincial and sub-provincial governments in 2019, as percentage

Items	Central	Hunan	
		Provincial	Sub-provincial
Custom duty	100	0	0
Consumption tax	100	0	0
Vehicle purchase tax	100	0	0
Value-added tax (VAT)	50	12.5	37.5
Corporate income tax	60	12	28
Personal income tax	60	12	28
Resource tax	0	25	75
Environmental protection tax	0	30	70
Urban land use tax	0	30	70
Urban maintenance and construction tax	0	0	100
Property tax	0	0	100
Stamp duty	0	0	100
Vehicle and vessel tax	0	0	100
Land VAT	0	0	100
Arable land occupancy tax	0	0	100
Deed tax	0	0	100

Data source: Guidong Finance Bureau.

Intergovernmental transfer

20. Intergovernmental transfers are mostly rule-based, and adequately cover the gap between revenues and recurrent expenditures. Intergovernmental transfers consist of general transfers and earmarked transfers. General transfers are mainly the CG's financing obligation for shared public services and for equalization purposes to fill the financing gap between standard revenues and standard expenditures. Earmarked transfers protect the funding for the CG's priority programs, mostly in education, public health, social housing, and environmental protection.

Subnational borrowing

21. Until 2015, SNGs were not allowed to borrow on-budget and therefore relied heavily on borrowing through LGFVs to finance infrastructure investment. Amendments to the Budget Law that became effective at the beginning of 2015, allowed for explicit subnational borrowing within limits set by the CG, while restricting off-budgetary borrowing for investment finance.

2.1.3 Main facts and economic indicators of Guidong

22. Main facts and selected economic indicators for Guidong County are summarized in Table 2.4 and Table 2.5 below.

Table 2.4: Summary of main facts of Guidong County

Guidong County	Detail
Tier of government	As a county, Guidong is subordinated to Chenzhou, a prefecture-level city of Hunan Province. With regard to PFM, Guidong is directly administered by Hunan Province as a result of the 'province directly administering county' reform, which has been implemented in Hunan since 2010. Bypassing Chenzhou Prefecture, it is having direct fiscal relations with Hunan Province at the third tier of the fiscal system.
Population	232,000
Main characteristics	With per capita GDP at USD 2,313, Guidong is one of the poorest counties in Hunan Province. The rural per capita disposable income increased to a level above the national poverty line in 2017. About 53 percent of the population lives in rural areas, while urban-rural income disparity remains significant.
Economy	Main industries are agricultural product processing, Chinese herb medicine processing, tea processing, health tourism and bamboo processing. Agriculture, manufacturing, and services accounted for 13, 25 and 62 percent of GDP, respectively, in 2018. Major economic challenges for the county include maintaining economic growth and narrowing income disparity between rural and urban areas.
Services provided by the SNG	Guidong provides a wide range of public services to its citizens, including education, health care, infrastructure, transportation etc.

Data source: Guidong Statistics Bureau and Guidong Finance Bureau.

Table 2.5: Selected economic indicators for Guidong County (2016-2018)

Economic indicators	2016	2017	2018
GDP (billion RMB)	3.1	3.4	3.7
Share of sectors			
Agriculture	17%	14%	13%
Industry	25%	24%	25%
Services	58%	63%	62%
GDP per capita (RMB)	12,912	13,953	15,033
GDP growth rate	8.6%	8.6%	7.3%
Average disposable income of urban residents (RMB)	15,872	18,693	20,282
Average disposable income of rural residents (RMB)	7,081	8,761	9,602

Data source: Guidong Statistics Bureau.

2.2 Fiscal and budgetary trends in Guidong

23. For FYs 2016 to 2018, the overall financial situation in Guidong County was not stable (see Table 2.6 and Table 2.7). The total GPB and GFB expenditures increased sharply from 51.8 percent of GDP in 2016 to 66.8 percent in 2017 and 64 percent in 2018 to materialize the mandate of eliminating extreme poverty by 2019.

The tax revenues and non-tax revenue in GPB stood steady at around four percent and two percent of GDP respectively from 2016 to 2018. However, Guidong relied heavily on transfers from HLGs, and the total transfer from HLGs increased from 41.4 to 51.8 percent of GDP from 2016 to 2017 and then dropped to 36.8 percent of GDP in 2018, which undermined Guidong's ability to finance its higher GPB expenditures. Thanks to the vibrant real estate market, the government's land sales revenues in GFB increased from 2.2 percent of GDP in 2016 to 12.9 percent in 2018, however, the expenditures in GFB increased in a higher rate. As a result, the combined overall balance of the GPB and the GFB expanded from -0.8 to -7.0 percent of GDP from 2016 to 2018.²

Table 2.6: GPB - Source of funding, Guidong County, million RMB

	Million RMB			As percentage of GDP		
	2016	2017	2018	2016	2017	2018
Expenditure	1,513	2,052	1,872	48.8%	60.4%	50.6%
Revenue	190	216	238	6.1%	6.4%	6.4%
Tax	131	150	164	4.2%	4.4%	4.4%
Non-tax	59	66	75	1.9%	1.9%	2.0%
Transfer from HLGs	1,282	1,761	1,361	41.4%	51.8%	36.8%
Tax rebate	28	31	31	0.9%	0.9%	0.8%
General transfer	695	774	827	22.4%	22.8%	22.4%
Special transfer	563	960	518	18.2%	28.2%	14.0%
(-) Transfer to HLGs	(4)	(4)	(15)	-0.1%	-0.1%	-0.4%
Overall balance	(42)	(75)	(272)	-1.4%	-2.2%	-7.4%
Transfer from GFB and others	4	8	28	0.1%	0.2%	0.8%
Change in cash balance	(5)	(9)	13	-0.2%	-0.3%	0.4%
Withdrawal from reserve	(8)	10	(1)	-0.3%	0.3%	0.0%
Financing	50	66	232	1.6%	1.9%	6.3%
Borrowing	573	260	309	18.5%	7.6%	8.4%
Debt amortization	(524)	(194)	(77)	-16.9%	-5.7%	-2.1%

Data source: Guidong Finance Bureau.

Table 2.7: GFB - Source of funding, Guidong County, million RMB

Source of funding	Million RMB			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
Expenditures	94	221	495	3.0%	6.4%	13.4%
ow. Urban and rural community services (land and infrastructure development)	82	155	478	2.6%	4.6%	12.9%
Social security and jobs	2	3	7	0.1%	0.1%	0.2%
Interest	0	4	4	0.0%	0.1%	0.1%
Revenues	80	161	502	2.6%	4.7%	13.6%

² Data source: The assessment team's calculation is based on the county's budget execution report. China's Budget Law requires county governments to adopt a balanced budget, treating all financing transactions above the line. The official headline GPB balance needs to be zero or positive.

Source of funding	Million RMB			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
ow. Land sales revenues	69	151	476	2.2%	4.4%	12.9%
Net grants from HLGs	32	54	7	1.0%	1.6%	0.2%
Overall balance	18	-5	14	0.6%	-0.1%	0.4%
Withdrawal from reserves and other sources	16	29	16	0.5%	0.9%	0.4%
Transfer to GPB	4	8	28	0.1%	0.2%	0.8%
Financing	0	0	10	0.0%	0.0%	0.3%
Debt	124	0	35	4.0%	0.0%	0.9%
Debt amortization	124	0	25	4.0%	0.0%	0.7%
Carry-over to next year	29	16	12	0.9%	0.5%	0.3%

Data source: Guidong Finance Bureau.

24. The core public services are financed from the GPB. The size of total expenditures of GPB increased from 48.8 percent in 2016 to 50.6 percent of GDP in 2018 (Table 2.6). The major functions in rank of their share in the GPB are agriculture, education, subsidies to social security, health care, and transport. Of these, the expenditure on agriculture gained most, with its share in GPB non-interest expenditures increasing by seven percentage points (Table 2.8). This reflected the government's effort to give a last push to lift all rural households out of poverty. The overall deficit of GPB expanded to 7.1 percent of GDP in 2018. It was financed from the transfer from the GFB surplus (0.8 percent of GDP) and through debt (6.3 percent of GDP).

Table 2.8: General GPB expenditure by function, Guidong County, million RMB

Expenditures by function	2016	2017	2018	2016	2017	2018
Total GPB Non-Interest Expenditures	1,502	2,026	1,844	Proportion		
Agriculture, forestry and water conservation	369	580	582	24.6%	28.6%	31.5%
Education	244	281	292	16.3%	13.9%	15.8%
Social security and employment	167	249	225	11.1%	12.3%	12.2%
Health care and family planning	146	180	162	9.7%	8.9%	8.8%
General public service	190	182	157	12.6%	9.0%	8.5%
Transportation	48	123	128	3.2%	6.1%	7.0%
Public security	71	76	46	4.7%	3.7%	2.5%
Energy conservation and environmental protection	44	45	46	2.9%	2.2%	2.5%
Culture, sports and media	41	41	42	2.7%	2.0%	2.3%
Science and technology	15	21	37	1.0%	1.0%	2.0%

Data source: Guidong Finance Bureau.

25. Guidong prepared the GPB expenditures by economic classification for the first time in 2018. As shown in Table 2.9, this revealed that the Guidong County Government spends most on subsidies, mainly to households and social security funds, which accounted for 44 percent of total expenditure. The second largest spending component was labor, taking a 26 percent share. Goods and services took 22 percent. The spending on capital expenditures accounted for 6 percent, equivalent to 3.2 percent of GDP.

Table 2.9: GPB expenditure by economic classification, Guidong County, 2018

Expenditures by economic classification	Million RMB	Share in total
Total	1,872	100%
Labor	487	26%
GAUs	487	26%
PSUs	0	0%
Goods and services	413	22%
GAUs	413	22%
PSUs	0	0%
Interest	28	2%
Subsidies	827	44%
Subsidies to firms	40	2%
Subsidies to households	209	11%
Subsidies to social security funds	130	7%
Subsidies to non-profit entities and others	448	24%
Capital Expenditures	117	6%
GAUs	117	6%
PSUs	0	0%
Capital subsidies to firms	14	0%

Data source: Guidong Finance Bureau.

26. Revenues from government funds were ringfenced for specified purposes according to the rules for each fund. Revenues from transfer of land-use rights dominated GFB revenues, accounting for 86-94 percent, and were mainly used for land and infrastructure development. When GFB revenues need to be used to finance other public services, the latter are transferred to the GPB. These transfers amounted to 0.1, 0.2, and 0.8 percent of GDP in the years 2016 to 2018.

27. Since 2015, Guidong has received on-lend from subnational bonds issued by Hunan Province. The general bond proceeds are recorded in the GPB; the project bond proceeds are recorded in the GFB. The legacy off-budget debt has been entirely swapped with subnational bonds. By the end of 2018, Guidong's total debt amounted to RMB 1.6 billion, equivalent to 43.1 percent of GDP (see Table 2.10).

Table 2.10: Subnational debt outstanding at end of 2018, Guidong County

Subnational debt	Million RMB	% of GDP
Debt outstanding	1,594	43.1%
General obligation bonds	1,435	38.8%
Project bonds	159	4.3%

Data source: Guidong Finance Bureau.

2.3 Legal and regulatory framework for PFM

28. China's Constitution (the current version was approved in 2018) provides for the National People's Congress (NPC) as the highest representative body for citizens to exercise legislative power; the State Council as the highest government executive body; and the China National Audit Office (CNAO) as the highest audit body. Among many responsibilities, the State Council prepares and executes the social and economic development plan and the government budget, subject to review and approval by the NPC, and audit by the NAO. The Standing Committee of the NPC exercises legislative power, as well as reviews and approves adjustments to the budget and the budget execution report during the closing period of the Plenary Conference of the NPC. A similar structure is established in the provinces, cities, and counties.

29. The Budget Law lays out the regulatory framework for both the national and subnational budgets, including the process, schedule, scope, approval, supervision, and accountability for budget preparation, execution and adjustment. It stipulates each tier of government to prepare its own budget. Moreover, cities/counties, together with the HLGs, shall prepare a consolidated budget that aggregates the revenues and expenditures of their own and that of their subordinated governments.

30. The Budget Law was first enacted in 1994 and revised in 2014 and 2018. The revision in 2014 has significantly brought budgeting practices closer to the international norm. The current Bylaw on Budget Law Implementation was approved in 1995 and revised in 2020. The Budget Law is supplemented by a series of State Council directives providing detailed guidelines for implementation. The major ones include:

- Document 43 (2014) on the Subnational Debt Regulatory Framework.
- Document 45 (2014) on Budget Management.
- Document 62 (2014) on Cleaning Up and Regulating Tax Preferential Treatment Policies.
- Document 63 (2014) on Government Comprehensive Financial Reporting.
- Document 71 (2014) on Inter-Governmental Transfer.
- Document 3 (2015) on the Medium-Term Fiscal Plan.
- Document 35 (2015) on Fiscal Fund Integration.
- Document 49 (2016) on the delineation of inter-governmental assignments of functionalities and expenditure responsibilities.

31. The Audit Law, enacted in 1994 and revised in 2016, empowers the audit institutions to carry out audit on revenues and expenditures of all GAUs, PSUs, financial and non-financial corporations of both the CG and the SNGs. Every year the audit institutions at each level of government audit the government budget execution reports and prepare audit reports, which are subject to the scrutiny of the People's Congress at the same level.

32. The Bylaw on Government Investment was issued by the State Council and came into effect as of July 1, 2019. It lays out the legislative framework for public investment funded by the government budget, including the principles for investment planning, the sources of funding, the eligible areas for government investment, the rationale for investment project selection, and the processes for project management, project supervision and accountability.

2.4 Institutional arrangements for PFM

2.4.1 Overall institutional arrangements for PFM

33. The regulatory framework for both the national and subnational budgets is legislated in the Budget Law, which is supplemented with many other directives and guidelines issued by the State Council and the Ministry of Finance (MOF). When the laws and regulations are passed down, each tier of government adds more detail.

34. With gradual and continued improvements made since the revision of the Budget Law in 2014, China has established a budget framework that serves the basic functions of the government. This includes a budget classification code, a chart of accounts, and public sector accounting standards that are common to all SNGs. Each SNG establishes a TSA system to manage its own fiscal funds. Subnational PFM is supported with a variety of IT systems, some of them are developed by the central MOF, while others are developed following a protocol set by the MOF.

35. Chinese government operations are large and complex. There are more than 749,000 budget units with 40.4 million public employees across China's five levels of administration. Over the course of ongoing market-oriented reforms, government agencies tend to limit themselves as administrators and regulators, and assign most public services delivery functions to PSUs and SOEs (e.g. Guidong Urban Development Investment Corporation, Guidong UDIC hereinafter). The governments' budgets financially intertwined with these entities in a complicated way. The introduction of new service delivery modalities such as public-private partnerships (PPP) and outsourcing of public services further complicate government operations and finance. As a result, the boundary between the State and Market remains blurred.

36. The MOF is designated by the State Council to manage budget preparation, execution and reporting, and lead the budget system reform. The budget system has five tiers, corresponding to the tiers of administration, consisting of the center, the provinces, the prefectures, counties, and townships. At each tier, the finance department, with the designation from the government executive, prepares an annual budget for its own tier of government and a budget that consolidates all governments within its jurisdiction. For example, a province finance department will prepare a provincial-level government budget and a whole-province budget. The latter consolidates the budgets of the provincial level-government budget and those of all municipalities and counties within the province. This makes budget preparation a long process, starting with governments at the lowest level. The township governments, with a few exceptions, generally rely on the county government to prepare their budget and manage their finances.

37. All government operations are presented in four budgets, while only the GPB and the GFB present governmental activities. The GPB holds tax and non-tax (fee and charges) revenues and finances core government services. The GFB holds the revenues from the 30 plus government funds and each fund revenue is earmarked for specified expenditures. The land revenues dominate the GFB and are mainly used for land preparation and infrastructure investments. There is the state capital operating budget (SCOB) that holds the profits surrendered by SOEs. Its proceeds are used to invest in SOEs or other commercial activities. A proportion of the SCOB revenues gets transferred to the GPB, if being used to finance public services. The social security budget (SSB) holds the contributions of firms and individuals to social security funds (SSF), investment earnings of SSF and other revenues, and pays participants their entitled social security benefits. The financing gap is filled by the transfer from the GPB. PFM performance of the SNG is hence assessed on basis of the GPB and GFB in this assessment, except that the social security funds covered by the SSB are treated as extra-budgetary units and are assessed in PI-6.3.

38. Each tier of government above county-level holds its own budget and manages its own treasury. TSA management has been adopted and plays an effective role in controlling departmental expenditures and pooling cash for centralized management. Budget appropriation between different tiers of government is notified through paper documents (called ‘budget appropriation notifications’). The funds are settled in the net amount at year-end after reconciling all transactions between the two tiers of government. During the year, the upper-tier treasury often provides funds to the lower-tier treasuries for liquidity purposes. At the time the fund is appropriated out of the treasury from one government to the lower tier’s government treasury, it is recorded as payables and receivables.

39. Provincial governments can issue bonds subject to annual quotas both for themselves and on behalf of local (sub-provincial) governments. The Golden Rule applies that such borrowing can only be used to finance capital expenditures. The Law also prohibits the CG from bailing out SNGs. Quotas for the nationwide aggregate outstanding subnational debt and net debt financing require the approval of the NPC. Within these aggregate limits, the MOF sets a debt ceiling for each province and closely monitors compliance, while provinces set debt ceilings for local governments within the overall limit. In addition, SNGs are authorized to issue bonds to swap legacy off-budget government debts that have now been made the explicit responsibility of SNGs. To access the capital market, provinces must also follow regulations for information disclosure, obtain credit ratings, and follow market rules.

40. The CNAO plays a supervisory role for the internal audit function of both the public and private sectors in China. The MOF formulates practical standards and guidelines on internal control. The Regulation for Internal Control of GAUs and PSUs, issued by the MOF in 2012, laid out a comprehensive framework for internal control to be set up at all budgetary units, at both the central and SNGs, to strengthen their internal control. In recent years, the MOF issued a set of standards and detailed practical guidance to which all public sector entities can refer when setting up their own internal control procedures. All public sector entities are required to prepare an internal control report every year. The Inspection and Evaluation Bureau of the MOF is in charge of the internal control and internal audit of the MOF and provides operational support to, and supervises, the internal control of the finance departments of the SNGs. In 2014, the MOF further extended its guidance on internal control to all line departments at both the central and subnational level (Caiban Decree No. 40, 2014).

41. In most SNGs, the institutional arrangement of the internal audit function in the public sector is carried out as part of the PFM or discipline inspection function. Guidong County has established an internal control system that segregates duties throughout the whole budget execution process, with responsibilities clearly defined for each unit. Control on public expenditure is exercised through the centralized TSA system. Internal audit functions are required for all budgetary units.

2.4.2 Subnational institutional arrangements for PFM

42. Table 2.11 presents the structure of Guidong County in terms of its spending units. The county is divided into 11 townships. As these townships do not have independent PFM systems, they are regarded as regional spending units in this assessment. In total, there are 408 budgetary units, including 103 GAUs, 11 townships, and 294 PSUs. 68 of the 408 budgetary units are primary budgetary units directly receiving budget appropriation from the Finance Bureau, while the remainder are secondary spending units managed by the primary budgetary units. All PSUs including public schools and hospitals are covered in the budget management system. All PSU revenues and expenditures, except for the revenues and expenditures of public hospitals, are included in the budget execution reports. There are no EBUs in Guidong.

Table 2.11: Budgetary units of the Guidong Government – Number of entities

Budgetary units	Primary budgetary units	Secondary budgetary units	All budgetary units
Subtotal	68	340	408
GAUs	46	57	103
Townships	11	0	11
PSUs	11	283	294

Data source: Guidong Finance Bureau.

43. As shown in Table 2.12, there are 12 SOEs that are directly controlled by the Guidong County Government or government entities, of which only one is a financial institution. All these SOEs are treated as PCs in this assessment. SOEs in Guidong are supervised by the Enterprises Division and the Investment and Financing Service Center under the Guidong Finance Bureau. China's laws and regulations require SOEs to operate on commercial basis and the government to provide no guarantee for any SOE. A number of SOEs that carry out quasi-governmental activities such as managing the government investment projects were classified as LGFVs. Under the recent reform program to restore government budget constraints and contain subnational fiscal risks, the legacy SNG debt of LGFVs has been swapped with the proceeds of SNG bonds. Most ex-LGFVs have been either closed or transformed into commercial SOEs. At the time of this assessment, only one LGFV in Guidong was still in the process of transformation. Although it is no longer allowed to borrow on behalf of the SNG, it can present potential fiscal risk to the government. An additional assessment has been carried out for this LGFV, the results of which are presented in Annex 7.

Table 2.12: Summary of PCs in Guidong County

Type	Number	Assets (million RMB)	Liabilities (million RMB)	Equity (million RMB)
Non-financial	12	9,045,190.30	3,263,142.74	5,782,047.60
Financial	-	-	-	-
TOTAL	12	9,045,190.30	3,263,142.74	5,782,047.60

Data source: Guidong Bureau of Finance.

44. The parties involved in Guidong's budget process (see Box 1) are in line with the generally accepted practice of SNGs in China. The County People's Congress, the People's Government of Guidong, the Finance Bureau and the County Audit Office share their functions at different stages of the budget process. One unique feature of Guidong is that since 2007, it has established a Government Investment Management Center with the responsibility of preparing government investment plans, supervising the financing and implementation of major investment projects, and reporting the plans and implementation progress to the government executives and the Standing Committee of the County People's Congress.

Box 1. Parties involved in the Guidong County budget process

- **The Finance Bureau of Guidong.** The divisions that are relevant for PFM are:
 - The Budget Division: Prepares the budget and organizes public participation in the budget.

- The Treasury Division: Operates the single treasury account and financial management system.
- Finance and Debt Division: Responsible for debt management and oversight of investment finance, PPPs and other contingent liabilities.
- Fiscal Supervision and Inspection Office: Responsible for internal audit.
- Non-tax Revenue Management Bureau: Collects non-tax revenues (administrative fees and charges).
- Fiscal Investment Evaluation Center: Conducts fiscal capacity assessments of proposed government investment projects.
- Payment Center: Supervises and processes non-salary payments.
- Enterprises and Foreign Economic Affairs Management Division: Oversees SOE operations.
- Assets and Natural Resources Management Division: Oversees assets of all GAUs.
- Fiscal Performance Management Division: Oversees the performance evaluation of all budgetary units.
- Government Procurement Supervision Office: Administrates public procurements above the threshold.
- **The County Development and Reform Commission:** Prepares the development plan for the whole county and reviews and approves county-level investment projects.
- **The County Urban Development and Investment Management Center:** Guidong established the center in 2007. It is run by the UDIC, and it prepares annual investment plans, mobilizes financing and manages the implementation of major development and investment projects. It operates under the direct supervision of the government executive and files the annual investment plan with an itemized project list to the Standing Committee of the County People's Congress for review.
- **The County People's Congress and its Standing Committee:** Review and approve of the county's five-year social and economic development plan; the government's budget, adjustment to the budget and the budget execution report; the government's investment plan; and the audit report on the county government budget; public participation in the budget.
- **The County Audit Office:** Carries out audits of county finance; develops proposals and recommendations on measures to be taken, such as measures for elimination and prevention of violations; and transfers cases for further inspection when severe violation or clues of criminality are identified; and involves public participation in the budget. The head of the Audit Office is nominated by the government executive and approved by the County People's Congress.
- **The Mayor** is an elected official and chief executive of the county. The mayor is responsible, and takes full accountability, for budgeting and strategic planning of the county.

3 ASSESSMENT OF PFM PERFORMANCE



SNG PILLAR: Intergovernmental fiscal relations

HLG-1. Transfers from an HLG

45. This indicator assesses the extent to which transfers to the SNG from an HLG are consistent with original approved budgets of the HLG and are provided according to agreed time frames. The indicator contains the four dimensions listed in the below table and uses the M2 (AV) method for aggregating dimension scores. The assessment covers the SNG budgetary units, including the GPB and the GFB, and is based on HLG transfers for FYs 2016, 2017 and 2018.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
HLG-1. Transfers from a higher-level of government (M2)		D+
HLG-1.1: Outturn of transfers from higher levels of government	Actual transfer outturns for 2016, 2017 and 2018 were 204.8%, 253.1% and 109.4% of the original budget, respectively. They were above 116% of the original budget estimate in two of the last three FYs.	D
HLG-1.2: Earmarked grants outturn	The variance in transfer composition of ear-marked grants was 65.5%, 80.5% and 14.0% for FYs 2016-2018, respectively. It was higher than 15% for two of the completed FYs.	D
HLG-1.3: Timeliness of transfers from higher levels of government	A disbursement timetable is prescribed by law. Over 75 percent of actual transfers were on time in one of the last three years.	B
HLG-1.4: Predictability of transfers	The HLG provides only partial information on transfers for the coming FY, and there is no explanation for changes between the current and the previous year.	D

46. In China, transfers from HLGs are divided into three categories: tax rebates, general transfers and special transfers. Tax rebates and some items of the general transfers - for instance, balanced transfers or institutional adjustment transfers - can be freely allocated by the local governments. Other items of the general transfers must be used for their specified purposes, such as transfers for compulsory education, transfers for key ecological functional areas, or transfers for resource-exhausted regions. All special transfers must be used for their specified purposes.

47. To be consistent with international standards, this assessment treated tax rebates and general transfers that can be freely allocated as non-earmarked transfers and treated all remaining general transfers and all special transfers (lump sum) as ear-marked transfers. An overview is provided in Table 3.1.

Table 3.1: Classification of HLG transfers

Item	Classification in the assessment	Classification in the SNG budget
Income from income tax rebate	Non-earmarked transfer	General transfer
Income from VAT rebate		
Income from excise tax rebate		
Income from VAT 50:50 sharing rebate		
Income from other tax rebate		
Institutional adjustment subsidies		
Equalization transfer		
Awarded transfer under the basic financial support mechanism for counties		
Settlement subsidies		
Subsidies for budget-level adjustment of enterprises and institutions		
Fixed amount subsidies		
Transfers for old revolutionary base areas		
Transfers for poor areas		
Other general transfers	Earmarked transfer	
Tax rebate for fuel tax reform		
Transfers for resource-exhausted cities		
Transfers for the Public Security, Prosecution and Legal Department		
Transfers for compulsory education		
Transfers for basic old-age insurance		
Transfers for urban and rural basic medical insurance		
Transfer for rural comprehensive reform		
Rewarding fund for large grain (oil) producing counties		
Transfers for key ecological functional areas	Earmarked transfer	Special transfer

Dimension HLG-1.1: Outturn of transfers from an HLG

48. Table 3.2 shows how the outturn of HLG transfers in Guidong compares to the approved budget amounts of HLG transfers for FYs 2016, 2017, and 2018 (see Annex 6 for more detail). As the outturn was above 116 percent for two of the three years, the score for this dimension is D.

Table 3.2: Outturn of HLG transfers

Aggregate expenditure	2016	2017	2018
Approved budget (in 10,000 RMB)	62,795	69,715	125,815
Outturn (in 10,000 RMB)	128,590	176,442	137,658
Outturn as a percentage of budget	204.8%	253.1%	109.4%
Composition variance of earmarked grants	65.5%	80.5%	14.0%

Data source: Budget documents for FYs 2016, 2017 and 2018.

Dimension HLG-1.2: Earmarked grants outturn

49. As Table 3.2 above shows, the composition variance of earmarked transfers in the last three completed FYs (2016, 2017 and 2018) was 65.5, 80.5, and 14.0 percent, respectively. It was more than 15 percent for two of the three years. Hence, the score is D.

Dimension HLG-1.3: Timeliness of transfers from HLGs

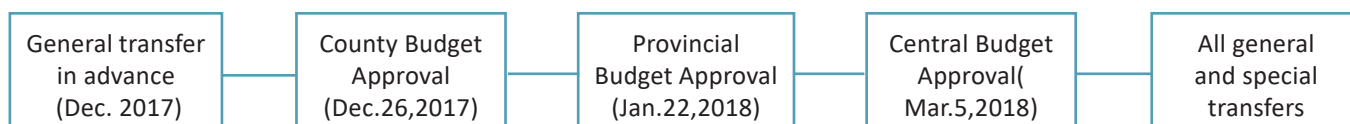
50. The schedule of transfers to SNGs is codified in the Budget Law. General transfers and earmarked transfers from the CG to the provinces are to be disbursed within 30 days and 90 days, respectively, upon the NPC's approval of the central budget. After receiving the central transfers, the provincial government is asked to disburse the transfers to the local governments within 30 days. As general transfers are to be paid within 60 days after central budget approval, they can be considered to be on time. Similarly, for earmarked transfers, the time range is 120 days after central budget approval. Meanwhile, the tax rebate is disbursed according to a specified formula after the end of the previous FY.

51. In practice, tax rebate disbursements are on time every year as they tend to be completed in January. As for the general and earmarked transfers, according to the disbursement dates recorded in a computerized transfer management system,, in 2016, 2017 and 2018, 68.52%, 58.50% and 76.41% transfers were on time respectively. As over 75 percent of actual transfers were on time in one of the last three years, the score for dimension HLG-1.3 therefore is B.

Dimension HLG-1.4: Predictability of transfers

52. In Guidong, it is hard for the County Government to fully and precisely predict the transfers from the HLG. Prior to the beginning of the FY, the HLG will provide some indicative notification of part of the transfers, and only these transfers are included in the budget estimate. In most cases, these transfers are general transfers. Only after the approval of the HLG budget, the County Government will receive the remaining transfers and adjust the budget in the middle of the FY. The HLG provides no explanation on changes between the current and the previous year. Score D.

Figure 3.1: 2018 HLG transfer disbursement process of Guidong



HLG-2. Fiscal rules and monitoring of fiscal position

53. HLG-2 assesses the extent to which the CG sets fiscal rules framing the budget and granting SNGs the right to borrow. It also assesses the extent to which the CG monitors the financial position of SNGs.

54. HLG-2 is a pilot indicator. As CG didn't publicize the fiscal rules, the Guidong County Government chose not to use this indicator in this assessment.



PILLAR 1: Budget reliability

55. Pillar One measures whether the government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

56. Following the New Budget Law, the budget is presented in four books - the GPB, the GFB, the SCOB and the SSB. Details of the four books were discussed under section 2.4.1. The assessment under this Pillar is based solely on the GPB and GFB. However, the SSB is used to assess PI-6 on SNG operations outside financial reports.

PI-1. Aggregate expenditure outturn

57. This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. There is one dimension to this indicator. The assessment covers the SNG budgetary units and looks at the budgeted and actual expenditures for FYs 2016, 2017, and 2018.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-1: Aggregate expenditure outturn (M1)		D
PI 1.1 Aggregate expenditure outturn	Aggregate expenditure outturn deviated significantly from the budgeted amounts in the last three FYs, amounting to 165.0%, 206.8% and 109.6% of the approved budget, respectively.	D

58. Annex 6 presents the PEFA framework spreadsheets comparing the original budgets approved by parliament with the actual outturns as documented in the budget execution reports for 2016, 2017 and 2018. The figures are summarized in the below Table 3.3. As shown, the outturn was 165.0, 206.8, and 109.6 percent, respectively. Thus, the assigned score is D.

Table 3.3: Aggregate expenditure outturn

Aggregate expenditure (billion RMB)	2016	2017	2018
Approved budget	0.9737	1.0986	2.1600
Outturn	1.6071	2.2723	2.3668
Outturn as a percentage of budget	165.0%	206.8%	109.6%

Data source: Budget document for 2016, 2017, 2018.

59. The significant deviations in all three years was mainly caused by the weak predictability of HLG transfers. Guidong County is highly dependent on HLG transfers: In 2017, the percentage of actual transfers against the actual budget was 86 percent. The transfer amounts in the budget estimate were less than 50 percent of the actual transfers. Moreover, the amount of special transfers in the budget estimate for 2017 was only 13.25% of the actual special transfers. The deviation in that year was therefore particularly high. Score D.

PI-2. Expenditure composition outturn

60. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. This indicator has three dimensions. The assessment covers Guidong's budgetary units over the last three completed FYs (2016-2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-2. Expenditure composition outturn (M1)		D+
2.1 Expenditure composition outturn by function	Variance in expenditure composition by functional classification was more than 15% for each of the last three years. The variances of the three years are 60.2%, 62.7% and 46.6%, respectively.	D
2.2 Expenditure composition outturn by economic type	2016-2018, there was no economic classification for governmental funds.	NA
2.3 Expenditure from contingency reserves	In the last three FYs, the budget for contingency reserves was arranged but not used. Therefore, actual expenditure charged to a contingency vote was on average less than three percent of the original budget.	A

Dimension PI-2.1 Expenditure composition outturn by function

61. Annex 6 presents the PEFA framework spreadsheets showing the original budgets approved by the People's Congress compared with the actual outturns as documented in the budget execution reports for FYs 2016, 2017, and 2018 provided by the Finance Bureau. The spreadsheets also show the composition variations by functional classification.

Table 3.4: Expenditure composition outturn by function

Variance	2016	2017	2018
Functional classification	60.2%	62.7%	46.6%

Data source: Budget documents for FYs 2016, 2017, 2018.

62. For expenditures funded from own sources, Guidong Government has a strong capacity of estimation and allocation. Also, general transfers from HLGs are relatively predictable based on previous years. It is particularly the special transfers that are hard to predict, both in terms of amount and composition. It is for this reason that the amounts of transfers are largely not included in the year-beginning budget, but only included in the budget during the mid-year budget adjustment, which caused the high variance in expenditure composition outturn. As the variance was above 15 percent for each of the last three FYs (Table 3.4), the score for this indicator dimension is D.

Dimension PI-2.2 Expenditure composition outturn by economic type

63. While the GPB contains functional and economic classifications, the GFB contained no economic classification in the last three years (Table 3.5). Hence, dimension PI-2.2 was rated NA.

Table 3.5: Expenditure composition outturn by economic type

Variance	2016	2017	2018
Economic classification	NA	NA	NA

Data source: Budget documents for FYs 2016, 2017, 2018.

Dimension PI-2.3 Expenditure from contingency reserves

64. Every year for the last three FYs, there was a budget arrangement for contingency reserves. However, the government did not use the contingency reserves. Consequently, actual expenditure charged to a contingency vote was on average less than three percent of the original budget (Table 3.6). Score A.

Table 3.6: Expenditure from contingency reserves

Variance	2016	2017	2018
Contingency expenditure share of budget, %	0	0	0

Data source: Budget documents for FYs 2016, 2017, 2018.

PI-3. Revenue outturn

65. This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores. The assessment covers the SNG budgetary units and spans the last three completed FYs (2016-2018).

66. The assessment uses the Chinese classification of revenues, which is more disaggregated than the GFS classification (see Annex 6). Revenue includes own source revenue (excluding transfers) from the GPB and GFB. As extrabudgetary revenues are not reported nor fully covered by the main budget, they are assessed by PI-6 (dimension PI-6.2).

Indicators/ Dimensions	Assessment of performance	2019 Score
PI-3. Revenue outturn (M2)		D
3.1 Aggregate revenue outturn	In 2016, 2017 and 2018, actual aggregate revenue outturn was 89.5%, 107.9% and 83.6% of budgeted revenue, respectively. The performance is less than required for a C score.	D
3.2 Revenue composition outturn	Composition variance in revenue collection in the last three FYs was 48.2%, 29.4% and 23.8% respectively, all more than 15%.	D

Dimension PI-3.1 Aggregate revenue outturn

67. Annex 6 presents the PEFA framework spreadsheets showing the original budgets approved by the People's Congress compared with the actual outturns as documented in the budget execution reports for FYs 2016, 2017, and 2018.

Table 3.7: Aggregate revenue outturn

Total revenue (billion RMB)	2016	2017	2018
Approved budget	0.3014	0.3496	0.8857
Outturn	0.2698	0.3772	0.7404
Variance (as a % of original budget)	89.5%	107.9%	83.6%
Composition Variance	48.2%	29.4%	23.8%

Data source: Budget documents for FYs 2016, 2017, and 2018.

68. In 2016 and 2018, revenue outturn was 89.5 percent and 83.6 percent of budgeted revenue or lower than 92 percent in two of the last three FYs (Table 3.7). As performance is less than required for a C score, the score for this dimension is D.

Dimension PI-3.2 Revenue composition outturn

69. In 2016, 2017 and 2018, the variance in revenue composition outturn was 48.2 percent, 29.4 percent and 23.8 percent (see Table 3.7). It therefore was higher than 15 percent in each of the assessed years. Score D.



PILLAR 2: Transparency of public finances

70. Pillar Two assesses whether information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification; transparency of all government revenue and expenditure, including intergovernmental transfers; published information on service delivery performance; and ready access to fiscal and budget documentation.

PI-4. Budget classification

71. This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. The assessment covers the SNG budgetary units and looks at the last completed FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-4. Budget classification		D
4.1 Budget classification	Budget documentation is nationally consistent. The GPB is based on functional and economic classifications, but the GFB is only based on functional classification.	D

Dimension PI-4.1: Budget classification

72. In 2007, the Chinese MOF updated the budget classification system based on function in order to conform better with international practice and to be more suitable for China and its national conditions.

73. The MOF update the budget classification code annually. Prior to 2018, only functional classification and economic classification for budgetary units had been issued, economic classification for the whole government was not issued until 2018. China's budget classification code is largely consistent with international standards (Table 3.8). The main deviation from international standards is the treatment of tax expenditures, which are deducted directly from revenues rather than being recorded as expenditures.

74. GPB formulation, execution, and reporting in Guidong are based on administrative, functional, and economic classification. But GFB formulation, execution, and reporting are based on administrative and functional classification only, not on economic classification. Hence, the score is D.

Table 3.8. Comparison of budget classification between China and the International Monetary Fund (IMF)

Economic Classification		Functional Classification	
China	IMF	China	IMF
Compensation of employees	Compensation of employees	General public service	General public services
Use of goods and services	Use of goods and services	Diplomacy	

Economic Classification		Functional Classification	
China	IMF	China	IMF
Subsidies to individuals and families	Subsidies	Defense	Defense
Subsidies to enterprises and institutions		Public safety	Public order and safety
Grants	Grants	Education	Education
Donation		Science and technology	
Interest on debt	Interest	Culture, sports and media	Recreation, culture, and religion
Debt-servicing expenses		Social security and employment	Social protection
Capital expenditure	Consumption of fixed capital	Social security fund expenditures	
Other capital expenditures		Health	Health
Loan transfers and equity participation		Environmental protection	Environmental protection
Other expenses	Other expenses	Urban and rural community Services	Housing and community amenities
	Social benefits	Agroforestry and water services	
		Transport	
		Industry, business, finance and other services	Economic affairs
		Other expenses	
		Transfer expenses	

PI-5. Budget documentation

75. This indicator assesses the comprehensiveness of the information provided in the annual budget documentation as measured against a specified list of four basic and eight additional elements. The assessment covers the SNG budgetary units and looks at the most recent budget submitted to the legislature (FY 2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-5. Budget documentation		C
5.1 Budget documentation	Budget documentation contains three basic elements and two additional elements.	C

Dimension PI-5.1: Budget documentation

76. Annual budget documentation refers to the budget proposals for the next FY with supporting documents as submitted to the People's Congress (Standing Committee) for scrutiny and approval. The budget documentation submitted to the People's Congress is comprehensive (Table 3.9). It contains comprehensive data on expenditure and revenue estimates and outturns, as well as other fiscal aggregates. It includes three basic elements and two out of seven additional elements. The missing elements include fiscal deficit forecasts, a complete presentation of macroeconomic assumptions, financial assets information, and an explanation of the budget implications of new policies. Also, no documentation is included on the quantification of tax expenditures. Elements regarding the documentation on deficit financing and medium-term fiscal forecasts are not applicable to the Guidong County Government. Score C.

Table 3.9: Budget documentation

	Item	Included (Y/N)	Source of evidence and comments
Basic elements			
1	Forecast of the fiscal deficit or surplus or accrual operating result.	N	The Budget Law stipulates the original budget of local governments shall be balanced, and deficit financing might be arranged only in the middle of the FY through a budget adjustment proposal.
2	Previous year's budget outturn, presented in the same format as the budget proposal.	Y	Reports on the 2018 budget execution and the 2019 budget proposal.
3	Current FY's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Y	Enacted budget 2019.
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Y	Enacted budget 2019.

Item	Included (Y/N)	Source of evidence and comments
Additional elements		
5	Deficit financing, describing its anticipated composition.	NA The local government receives information on quota of subnational borrowing after the beginning of the FY. The Budget Law stipulates that deficit financing of SNGs is documented in the budget adjustment proposal and submitted to the Standing Committee of the Local People's Congress for approval in the middle of the FY.
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	N
7	Debt stock, including details at least for the beginning of the current FY presented in accordance with the government financial statistics (GFS) or other comparable standards.	Y Reports on the 2018 budget execution and the 2019 budget draft.
8	Financial assets, including details at least for the beginning of the current FY presented in accordance with GFS or other comparable standard.	N
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	Y Reports on the 2018 budget execution and the 2019 budget draft disclose the amount of contingent liabilities by the end of 2018, including implicit contingent liabilities.
10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	N
11	Documentation on the medium-term fiscal forecasts.	NA No medium-term expenditure and revenue estimates were prepared, so this element is not applicable (referring to PI-14.3)
12	Quantification of tax expenditures.	N

PI-6. SNG operations outside financial reports

77. This indicator measures the extent to which government revenue and expenditure are reported outside financial reports. The assessment of this indicator is based on the information and reports available for FY 2018. PI-6.1 and PI-6.2 covers GPB and GFB, and PI-6.3 covers SSB.

78. In terms of GPB and GFB, the Guidong Government does not have any EBUs. But the expenditure of three major public hospitals that are financed from self-generated revenues are not covered in either the GPB or GFB and thus are considered as extrabudgetary activities and assessed in dimension 6.1 and 6.2. Social security funds, which are covered in the SSB and treated as EBUs in this assessment, are assessed in dimension 6.3. More details of the GPB, GFB and SSB were discussed under section 2.4.1.

79. Also, Guidong's LGFV has been undertaking quasi-governmental activities. Although the government does not have any legislative obligation to bail the latter out, it still presents potential fiscal risk to the government. Since the scoring of this indicator does not reflect reporting on quasi-fiscal activities, the performance of this LGFV is separately assessed in Annex 7 to complement the PEFA assessment.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-6. SNG operations outside financial reports (M2)		A
6.1 Expenditure outside financial reports	There are three public hospitals with extrabudgetary activities. However, all extrabudgetary expenditures were recorded in the financial reports of the Health Bureau in the last three FYs.	A
6.2 Revenue outside financial reports	There are three public hospitals with extrabudgetary activities. However, all extrabudgetary revenues were recorded in the financial reports of the Health Bureau in the last three FYs.	A
6.3 Financial reports of EBUs	Financial reports of all extrabudgetary activities, containing full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and supported by a reconciled cash flow statement, are submitted to the SNG annually within one month of the end of the FYs.	A

Dimension PI-6.1 Expenditure outside financial reports

80. In Guidong, there are no budgetary entities the plans of which do not appear in the budget or that do not use treasury systems to maintain their accounts. At schools, donors and parents are now using treasury systems and the fiscal specialized accounts for donations and student fees. Consequently, there are no extrabudgetary activities at the schools of Guidong. But there three public hospitals with extrabudgetary activities.

81. The revenue of the public hospitals in Guidong has three sources, the GPB, social security funds and self-allocated funds, for example in the form of patient fees. The latter are not recorded in the treasury systems and thus represent extrabudgetary operations. It is this portion of revenue that is defined as extrabudgetary revenue. However, all revenues and all expenditures were recorded in the financial reports of the Health Bureau in the last three FYs. Score A.

Dimension PI-6.2 Revenue outside financial reports

82. As mentioned above, there are three public hospitals with extrabudgetary activities in Guidong. However,

all revenues were recorded in the financial reports of the Health Bureau in the last three FYs. The narrative is the same as for PI-6.1. Score A.

Dimension PI-6.3 Financial reports of extrabudgetary units

83. Every assessed year, the Guidong Government presented the financial report on social security funds to the County People's Congress for approval. For FY 2018, the Bureau of Human Resources and Social Security submitted the financial report on social security funds to the Country Finance Bureau on January 15, 2019. The coverage of the report is comprehensive, covering revenues, expenditures, financial and tangible assets, liabilities, guarantees, and long-term obligations, as well as a reconciled cash flow statement. Score A.

PI-7. Transfers to SNGs

84. This indicator assesses the transparency and timeliness of transfers to lower levels of SNG with direct financial relationships to the Guidong Government. It considers the system for allocating transfers and whether the lower-level SNGs receive information on their allocations in time to facilitate budget planning. It contains two dimensions. Time period assessed is the last completed FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-7. Transfers to SNGs		NA
7.1 System for allocating transfers	There are no separate lower-level SNGs, rather deconcentrated units of the county government.	NA
7.2. Timeliness of information on transfers	There are no separate lower-level SNGs, rather deconcentrated units of the county government.	NA

85. In Guidong, the townships are treated as deconcentrated budgetary units of the county for the purpose of financial management. The indicator is NA.

PI-8. Performance information for service delivery

86. Good practice stipulates that PIs for the planned outputs and outcomes of programs or services financed through the budget should be included in the executive's budget proposals, as well as in the year-end report, audit reports, and performance evaluation reports, in order to promote greater operational efficiency in service delivery. Service delivery units should also know what resources they can expect to be available to enable them to discharge their responsibilities and achieve annual and medium-term performance targets as well as strategic sector objectives.

87. This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation and in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. It contains four dimensions. Coverage includes the budgetary units of Guidong. And there are no EBUs in Guidong. Services managed and financed by other tiers of government were included if Guidong significantly finances and implements such services through reimbursements or earmarked grants or uses other tiers of government as implementing agents. Under dimension PI-8.1, PIs are assessed for planned outputs and outcomes for the next FY (2019), and under dimension PI-8.2, for outputs and outcomes of the last completed FY (2018). Under dimension PI-8.3 and PI-8.4, the last three completed FYs (2016-2018) are examined.

88. In the assessment under this indicator, 14 departments are defined as service delivery units: the Education Department, the Science and Technology Department, the Industry and Information Technology Department, the Housing and Urban-Rural Development Department, the Civil Affairs Department, the Human Resources and Social Security Department, the Transportation Department, the Water Resources Department, the Agricultural Department, the Forestry Department, the Commerce Department, the Culture and Tourism Department, the Health Department and the Natural Resources Department. Each department comprises a relevant bureau and its subordinate budgetary units. For example, the Education Department comprises an education bureau and various schools.

89. To assess dimension 8.1, assessors collected PIs for all service delivery programs of the departments, to check whether policy or program objectives, planned outputs, outcomes or activities were specified for each program, service or function, and whether the planned outputs and planned outcomes specified for each indicator are measurable. Dimension 8.2 measures the results (i.e., outputs and outcomes) achieved by the programs and services delivered directly by the SNG and its budgetary units. It covers programs and services funded from all funding sources. For dimensions 8.3 and 8.4, according to the scale of resources received by the service delivery units, assessors selected the three largest subnational public service departments, which are the Education Bureau for Compulsory Education, the Sanitary Bureau for Public Health, and the Transportation Bureau for Road Building and Maintenance. All resources received by service delivery units were considered, including budget resources, own source revenues (i.e., fees and charges collected directly by the service delivery units, whether these are transferred to the Treasury or retained), and funds received from external resources (e.g., international organizations and other donors).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-8. Performance information for service delivery (M2)		
8.1. Performance plans for service delivery	16.42% of expenditures of service delivery units have a framework of PIs relating to the outputs or outcomes.	D+

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
8.2. Performance achieved for service delivery	The 14 largest service delivery departments published the performance achieved in FY 2018 on their websites. Information on activities performed covered 18.88% of total expenditures of service delivery units.	D
8.3. Resources received by service delivery units	Information on resources received by frontline service delivery units is collected and recorded for the selected service delivery units, disaggregated by source of funds. A report compiling the information is prepared at least annually.	A
8.4. Performance evaluation for service delivery	Evaluations of the efficiency or effectiveness of service delivery were not carried out between 2016 and 2018.	D

Dimension PI-8.1. Performance plans for service delivery

90. Of the 14 largest departments in Guidong, some have specified highly detailed and quantified PIs as part of their budget documentation (see Table 3.10). For example, the Natural Resources Department has specified quantitative PIS, such as size of the reclamation area, acre yield or vegetation coverage. In some instances, however, outcomes and outputs are described vaguely and interchangeably, and PIs are often not sufficiently specified to facilitate the capturing information on whether planned outputs (e.g., the number of students enrolled) and outcomes (e.g., the rate of attendance, national minimum education standards) have actually been achieved. Nonetheless, all PIs are annually published on the official website of the Guidong Government:

http://www.gdx.gov.cn/20330/24933/24935/content_2872969.html
http://www.gdx.gov.cn/20330/24933/24935/content_2874543.html
http://www.gdx.gov.cn/20330/24933/24935/content_2874543.html
http://www.gdx.gov.cn/20330/24933/24935/content_2874334.html
http://www.gdx.gov.cn/20330/24933/24935/content_2873617.html
http://www.gdx.gov.cn/20330/24933/24937/content_3030725.html
http://www.gdx.gov.cn/20330/24933/24937/content_3034939.html
http://www.gdx.gov.cn/20330/24933/24935/content_2873474.html
http://www.gdx.gov.cn/20330/24933/24935/content_2872742.html
http://www.gdx.gov.cn/20330/24933/24935/content_2874543.html
http://www.gdx.gov.cn/20330/24933/24935/content_2874058.html

Table 3.10: Performance information for the 14 largest service delivery agencies (2019)

	Name of service delivery department	Total budget expenditure (thousand)	Budget expenditure with performance plans (thousand)	Program objectives specified (Y/N)	Key PIs (Y/N)	PI-8.1 Planned performance	
						Planned outputs (Y/N)	Planned outcomes (Y/N)
1	Education	304,164.0	60,098.2	Y	Y	Y	Y
2	Civil Affairs	100,707.4	42,624.1	Y	Y	Y	Y
3	Housing	19,750.0	7,800.1	Y	Y	Y	Y
4	Science and Information Technology	3,113.3	1850.6	Y	Y	Y	Y

	Name of service delivery department	Total budget expenditure (thousand)	Budget expenditure with performance plans (thousand)	Program objectives specified (Y/N)	Key PIs (Y/N)	PI-8.1 Planned performance	
						Planned outputs (Y/N)	Planned outcomes (Y/N)
5	Human Resources and Social Security	137,516.7	9,286.6	Y	Y	Y	Y
6	Transportation	92,909.4	21,416.4	Y	Y	Y	Y
7	Water Resources	14,829.2	1,998.9	Y	Y	Y	Y
8	Agriculture and Rural Affairs	21,462.0	8,726.8	Y	Y	Y	Y
9	Forestry	47,677.3	4,794.8	Y	Y	Y	Y
10	Commerce	5,774.7	1,850.6	Y	Y	Y	Y
11	Culture and Tourism	13,111.8	4,286.9	Y	Y	Y	Y
12	Health	227,971.1	55,785.2	Y	Y	Y	Y
13	Natural Resources	390,305.0	5,825.0	Y	Y	Y	Y
14	Industry and Information Technology	13,946.0	2,467.4				
Total		1,393,237.9 (a)	228,811.6 (b)				
Percentage			16.42%(b/a)				

Data source: Guidong Finance Bureau.

Dimension PI-8.2. Performance achieved for service delivery

91. 14 service delivery departments published the performance achieved in FY 2018 on their websites. Of the disclosed performance information, the information on activities performed in relation to service delivery in FY 2018 covered 18.88 percent of total expenditures of service delivery (Table 3.11), far behind the majority of total expenditures required by a C score, Therefore, the assigned dimension score is D.

Table 3.11: Actual performance measured by the 14 largest service delivery agencies, 2018

	Name of service delivery agency	Total expenditures (thousand)	Expenditures subject to performance evaluation (thousand)	Expenditures subject to performance evaluation (% of total)	Information on activities undertaken (Y/N)
1	Education	304164.0	42573.0	14	Y
2	Civil Affairs	100707.4	100707.4	100	Y
3	Housing and Urban-Rural Development	19750.0	6208.8	31.44	Y
4	Science and Information Technology	3113.3			
5	Industry and Information Technology	13946.0	22570.0	98.84	Y
6	Commerce	5774.7			
7	Human Resources and Social Security	137516.7	9080.0	6.6	Y
8	Transport	92909.4	20972.1	22.57	Y

	Name of service delivery agency	Total expenditures (thousand)	Expenditures subject to performance evaluation (thousand)	Expenditures subject to performance evaluation (% of total)	Information on activities undertaken (Y/N)
9	Water Resources	14829.2	7114.0	47.97	Y
10	Agricultural	21462.0	8065.1	37.58	Y
11	Forestry	47677.3	2250.0	4.72	Y
12	Culture and Tourism	13111.8	5214.3	39.77	Y
13	Health Commission	227971.1	32844.0	14.41	Y
14	Natural Resource	390305.0	5400.0	1.38	Y
	Total	1393237.9 (a)	262998.7 (b)		
	Percentage		18.88%(b/a)		

Data source: Guidong Government, Finance Bureau and related budgetary units.

Notes: The public website of the work summary and performance self-assessment report can be found in Annex 2.

The Science and Information Technology Department, Industry and Information Technology Department and Commerce Department merged in FY 2019.

Dimension PI-8.3. Resources received by service delivery units

92. This dimension measures the extent to which a system is in place to monitor whether the service delivery units receive the funds allocated to the sector/services as planned. The Guidong Finance Bureau collects and records information on resources received by frontline service delivery units annually. No in-kind resources are received by service delivery units. All resources received by service delivery units are recorded in the service delivery units' budget execution report, and disaggregated by source of funds, except for hospitals. Hospitals only report the appropriation from the government in the budget execution report, while their other revenues, mainly from medical charges, are recorded in their financial report. In 2016 and 2017, the financial reports were submitted to the Guidong Health Bureau annually with detailed breakdown information on source of funds. Since 2018, the financial reports are submitted once a half year.

93. The administrative departments overseeing these key service delivery units, such as the Education Bureau and the Health Bureau, confirmed that resources to frontline units are reliable and in line with budgeted allocations at the beginning of the FY. A consolidated financial report on the resources received by the frontline units is prepared by the administrative department of each sector at least annually.

94. The score for this dimension is A.

Dimension PI-8.4. Performance evaluation for service delivery

95. Evaluations of the efficiency or effectiveness of service delivery have not been carried out between 2016 and 2018. Thus, the score is D.

PI-9. Public access to fiscal information

96. This indicator assesses the comprehensiveness of fiscal information available to the public based on nine specified elements (five basic and four additional elements) of information to which public access is considered critical. The time period covered is the last completed FY, 2018, and assessed are the SNG budgetary units.

97. In Guidong, the transparency of public finances is undermined by the fact that some relevant documents are not made publicly available. As shown in Table 3.12, only three basic elements are made available to the public within the specified time frame.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-9. Public access to fiscal information		D
9.1 Public access to fiscal information	The Guidong Government made available to the public three basic elements within the specified time frame.	D

Table 3.12: Public access to fiscal information of FY 2018

Item	Criteria met (Y/N)	Explanation	Source of evidence
Basic elements			
1	N	Annual executive budget proposal documentation. A complete set of executive budget proposal documents (as presented by the country in PI-5) is available to the public within one week of the executive's submission of them to the legislature.	The budget document for 2018 was submitted on December 26, 2017, as mentioned in PI-17.3. It was available to the public on January 10, 2018.
2	Y	Enacted budget. The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	http://www.gdx.gov.cn/20330/24933/24935/content_2645491.html
3	N	In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.	A first half-year report was prepared, but it was not made available to the public.
4	Y	Annual budget execution report. The report is made available to the public within six months of the FY's end.	The budget execution report for 2017 was publicized on January 10, 2018.
5	Y	Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve months of the FY's end.	The summarized report for FY 2017 prepared by the Audit Office and discussed in the hearing chaired by the Standing Committee was posted on the county government website on November 26, 2018.

Item	Criteria met (Y/N)	Explanation	Source of evidence
Additional elements			
6	N	There was no pre-budget statement.	
7	N	Other external audit reports was not available to the public.	
8	N	The summary of the budget proposal (“citizens’ budget”) was not produced.	

PI-9bis. SNG public consultation

98. This indicator assesses the extent to which the SNG conducts public consultation in preparing the budget, designing service delivery programs, and planning investments.

99. This is a pilot indicator. Guidong County Government chose not to use this indicator in this assessment.



PILLAR 3: Management of assets and liabilities

100. Pillar Three measures the effectiveness of the government's management of assets and liabilities and the extent to which this ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

PI-10. Fiscal risk reporting

101. This indicator measures the extent to which fiscal risks to the SNG are reported. Fiscal risks can arise from adverse macro-economic situations, financial positions of SNGs, PCs, and contingent liabilities from the SNG's own programs and activities, including PPPs. The assessment for this indicator is based on the information available for the most recent FY (2018). Under dimension 10.1, the SNG-controlled PCs are covered. For dimension 10.2, it should be the SNG entities that have direct fiscal relations with the SNG. However, for Guidong, there are no such entities. For Dimension 10.3, the explicit contingent liabilities arising from the financing of public investment projects are assessed.

102. Chinese authorities have clearly stated that all SOEs including LGFVs are prohibited from borrowing on behalf of the government, and LGFVs shall be transformed to market-oriented entity, operating in compliance with market rules and bearing risk on their own. Nevertheless, LGFVs may still present significant fiscal risks to the government as they have been undertaking quasi-governmental operations. By 2018, there was only one LGFV left in Guidong. An additional assessment was carried out for this LGFV. The results of the assessment are presented in Annex 7.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-10: Fiscal risk reporting (M2)		C+
10.1. Monitoring of PCs	Nine of the ten largest PCs in Guidong submitted financial reports to the controlling entities within four months after the end of the FY.	C
10.2. Monitoring of SNGs	There are no SNGs within Guidong.	NA
10.3. Contingent liabilities and other fiscal risks	There are no state insurance schemes, PPP projects, guarantees or any other contingent liabilities in Guidong.	NA

Dimension PI-10.1. Monitoring of PCs

103. In 2018, there were 12 PCs in Guidong. They were administered directly by the Guidong County Government (reporting to the Finance Bureau), or by PSUs or GAUs other than the Finance Bureau (see Table 2.12). The Enterprise Division and the Investment and Financing Service Center under the Finance Bureau take the responsibility of overseeing the operation of all PCs.

104. Table 3.13 presents the ten largest PCs in terms of assets held by the government.

105. In 2018, Xinghuo UDIC was the largest PC in Guidong, which held several other large PCs and played a key role in the financing and implementation of government investment projects in Guidong.. Xinghuo UDIC

also served as the Urban Development Investment Management Center, which was a GAU type budgetary unit under the Administration Office of Guidong Government, all borrowing operations were conducted in the name of UDIC, and it also collected financial reports of other PCs on behalf of the government.

106. For 2018, nine of the ten largest PCs in Guidong submitted financial reports to the government within four months of the end of the year, and all of the financial reports submitted were audited within four months. However, none of the submitted financial reports were published. There is no consolidated report for all PCs.

107. The score is C.

Table 3.13: Financial reports of PCs

Ten largest PCs	Held or administered by	Total assets, Thousand RMB (Government share)	Percentage of ten largest PCs	Date of audit of the financial report	Date of submitting financial report to govt.
1. Guidong Xinghuo UDIC	Guidong Finance Bureau	4,133,047.3(100%)	57.76	2019.4.28	2019.4.28
2. Guidong Urban Development and Investment Corporation	Xinghuo UDIC	1,498,899.7(56%)	20.95	2019.4.28	2019.4.28
3. Guidong Xinggui Real estate co. LTD	Xinghuo UDIC	473,349.2(100%)	6.62	2019.4.28	2019.4.28
4. Guidong Agricultural Development and Investment co. LTD	Xinghuo UDIC	438,300.6(38.46%)	6.13	2019.4.28	2019.4.28
5. Guidong Transportation Construction and Investment co. LTD	Xinghuo UDIC	256,997.1(100%)	3.59	2019.4.28	2019.4.28
6. Guidong Yangtianxia Mountain Products Co. Ltd.	Xinghuo UDIC	196,552.8(100%)	2.75	2019.4.11	2019.4.11
7. Guidong Tourism Development and Investment co. LTD	Xinghuo UDIC	73,116.9(100%)	1.02	2019.4.28	2019.4.28
8. Guidong Xinhui Investment and Development Co. Ltd.	Xinghuo UDIC	50,198.4(100%)	0.70	2019.4.28	2019.4.28
9. Guidong Bamianshan Water Industry co. LTD	Xinghuo UDIC	25,240.0(100%)	0.35	N	N
10. Guidong Chengguan Grain Supply Center	Guidong DRC	9,676.0(100%)	0.14	2019.3	2019.1

Data source: Guidong Bureau of Finance.

Dimension PI-10.2. Monitoring of SNGs

108. Within Guidong County, there are 11 townships. The township governments are treated as deconcentrated budgetary units in Guidong, so there are no financially independent lower-tier SNGs. This dimension is NA.

Dimension PI-10.3. Contingent liabilities and other fiscal risks

109. This dimension assesses the monitoring and reporting of any significant contingent liabilities for which the SNG is responsible, including those of its EBUs. According to the Guidance for SNG PEFA Assessments, significant contingent liabilities are defined as those with a potential cost in excess of 0.5 percent of total expenditures of the budgetary units of the SNG being assessed, and for which an additional appropriation by the legislature would be required.

110. More specifically, the explicit contingent liabilities may include state guarantees for various types of loans, state insurance schemes (such as deposit insurance, private pension fund insurance, and crop insurance), state guarantees on private investments of different types, including special financing instruments, such as PPPs.

111. There are no state insurance schemes (such as deposit insurance, private pension fund insurance, and crop insurance) operated at county level in China. According to the new Budget Law, SNGs are not authorized to issue loan guarantees as of 2015. In Guidong, the debt management IT system is in place, and the data shows there are no legacy guaranteed debts and other contingent debts which were incurred prior to the 2014 Budget Law. Meanwhile, according to data from the PPP information platform managed by the MOF, at the time of assessment, there were no signed PPP contracts in Guidong. This dimension is therefore NA.

PI-11. Public investment management

112. This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government. It also assesses the extent to which the government publishes information on the progress of the projects, with an emphasis on the largest and most significant projects. It contains four dimensions. The assessment covers both the budgetary units and EBU of the SNG, and the investment projects co-funded by the CG, as long as Guidong Government participates in the selection process and is in charge of their implementation. The time period assessed is the last completed FY (2018).

113. For the purpose of this indicator, ‘major investment projects’ are defined as the 10 largest projects (by total investment cost) of the Guidong Government.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-11 Public investment management (M2)		D+
11.1 Economic analysis of investment proposals	Economic analyses are conducted according to national guidelines to assess all major investment projects, and are reviewed by a third party (DRB); but they are not published.	C
11.2 Investment project selection	The Guidong DRB is responsible for selecting the projects and making proposals to the County Committee. But no clear criteria are provided for project selection.	C
11.3 Investment project costing	Investment project costing information is not included in the budget documents.	D
11.4 Investment project monitoring	The total costs and physical progress of only part of the major investment projects are monitored monthly throughout project duration by the Guidong DRB. Information on the implementation of ‘major investment projects’ is prepared annually but not published. Standard procedures and rules governing project implementation are available.	D

Dimension PI-11.1. Economic analysis of investment proposals

114. According to the national guidelines (*Outline of Contents for Preparation of Feasibility Study Report (2012 National Development and Reform Commission (NDRC) Standard Edition*)), a feasibility study report is prepared for all public investment projects in Guidong and reviewed by the DRB. Economic analyses are included in the feasibility study reports, but the reports are not published. Therefore, the economic analysis of investment proposals in Guidong meets the criteria for a C score.

Dimension PI-11.2. Investment project selection

115. The DRB is responsible for selecting projects and making proposals to the County Committee. However, no clear criteria are applied to project selection. The score is C.

Dimension PI-11.3. Investment project costing

116. In Guidong, information about the capital costs of major investment projects is included in the investment plan submitted to the Guidong People’s Congress, but not together with the budget documents (see Table 3.15). Therefore, investment project costing in Guidong receives a D score.

Table 3.15: Investment project costing and monitoring of the ten largest major investment projects in FY 2018

10 largest major investment projects	Data for PI-11.3 Investment project costing			Data for PI-11.4 Investment project monitoring				
	Life cycle cost in budget documents (Y/N)	Capital cost breakdown in budget documents (Annual/Three-year)	Recurrent costs included in budget documents (Annual/Three-year)	Monitoring of total cost (Y/N)	Physical progress monitoring (Y/N)	Standard rules and procedures exist (Y/N)	High level of compliance with procedures (Y/N)	Information on total cost and physical progress published annually (Y/N)
Relocation of Impoverished Residents in Guidong, Hunan in 2018	N	-	-	N	Y	Y	Y	N
Platform and Infrastructure Construction Project of Poverty Alleviation Industrial Park of Traditional Chinese Medicine	N	-	-	Y	Y	Y	Y	N
Furong School Construction Project	N	-	-	Y	Y	Y	Y	N
Shatian Town Shanty Town Reconstruction Project Supporting Infrastructure Construction Projects	N	-	-	Y	Y	Y	Y	N
Beicheng District Shanty Town Reconstruction Project Supporting Infrastructure Construction Projects	N	-	-	N	N	N	N	N
Work - Relief Demonstration Project in Guidong, Hunan	N	-	-	N	N	N	N	N
Shatian Town General Rural Dilapidated Housing Reinforcement and Renovation Project	N	-	-	Y	Y	Y	Y	N

10 largest major investment projects	Data for PI-11.3 Investment project costing			Data for PI-11.4 Investment project monitoring				
	Life cycle cost in budget documents (Y/N)	Capital cost breakdown in budget documents (Annual/Three-year)	Recurrent costs included in budget documents (Annual/Three-year)	Monitoring of total cost (Y/N)	Physical progress monitoring (Y/N)	Standard rules and procedures exist (Y/N)	High level of compliance with procedures (Y/N)	Information on total cost and physical progress published annually (Y/N)
Qingshan Town General Rural Dilapidated Housing Reinforcement and Renovation Project	N	-	-	Y	Y	Y	Y	N
Guidong Urban and Rural Construction Land Increase or Decrease Linked Project Land Reclamation (Phase II) Project in 2017	N	-	-	Y	Y	Y	Y	N
Guidong Urban and Rural Construction Land Increase or Decrease Linked Project Land Reclamation (Phase I) Project in 2017	N	-	-	Y	Y	Y	Y	N
Total/Coverage								

Data source: DRB, Guidong County.

Dimension PI-11.4. Investment project monitoring

117. In Guidong, detailed rules, the *Government Major Investment Project Management Methods*, guide the implementation of investment projects. Accordingly, the DRB is responsible for project monitoring, and monthly reports on cost and physical progress are submitted by each construction control unit to the Bureau. However, the assessors found that three of the ten largest investments projects were not properly monitored by the DRB. The reports on implementation of major investment projects are prepared annually but not published. Investment project monitoring in Guidong thus obtains a D score.

PI-12. Public asset management

118. This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. The assessment covers the SNG budgetary units over the course of the last completed FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-12. Public asset management (M2)		B
12.1. Financial asset monitoring	The Guidong Government maintains records of its holdings in all major categories of financial assets (including cash, term deposits, account receivables, leases, equity). The information is not available to the public.	C
12.2. Non-financial asset monitoring	The Guidong Government maintains records of its holdings of fixed assets and collects partial information on their usage and age. The information is mostly not available to the public.	C
12.3. Transparency of asset disposal	Procedures and rules for the transfer or disposal of financial and non-financial assets are established. Information on asset transfer and disposal is included in the state-owned assets management report submitted to the People's Congress.	A

Dimension PI-12.1. Financial asset monitoring

119. Per the PEFA Assessment Field Guide, categories of financial assets of county government may include cash, term deposits, leases, securities, loans, and receivables owned by the government, as well as equity in state-owned and private sector institutions.

120. According to the Management Methods for the Annual Report of State-Owned Assets held by GAUs and PSUs published by MOF in 2017 (Circular Cai Zi, 2017, No.3), the Guidong Finance Bureau compiled the Summary Table of State-Owned Assets of GAUs and PSUs in 2018, where balances of cash, term deposits, leases, receivables and social insurance funds were recorded. The SOE Center under the Finance Bureau can provide a list of the equity held by the county in the SOEs. The SNGs in China do not make portfolio investment and own no securities. Therefore, the Guidong Government maintains records for its holdings in all categories of financial assets. However, the information is not available to the public (see Table 3.16).

121. Financial asset monitoring in Guidong receives a C score.

Table 3.16: Financial asset monitoring – check list of record of holdings

Asset Type	Holdings of financial assets maintained (Y/N)	Acquisition cost recorded (Y/N)	Fair value recognized (Y/N)	In line with international accounting standards (Y/N)	Information on performance published annually. (Y/N)
Equity	Y	N	N	NA	N
Bank dep.	Y	Y	Y	Y	N
Leases	Y	Y	N	NA	N
Receivables	Y	NA	Y	Y	N

Asset Type	Holdings of financial assets maintained (Y/N)	Acquisition cost recorded (Y/N)	Fair value recognized (Y/N)	In line with international accounting standards (Y/N)	Information on performance published annually. (Y/N)
Loans to PCs	NA	NA	NA	NA	NA

Data source: *Summary Table of State-owned Assets of GAUs and PSUs in 2018*; statistics of basic information of SOEs, Guidong County.

Dimension PI-12.2. Non-financial asset monitoring

122. Per the *PEFA Assessment Field Guide*, categories of non-financial assets of county governments may include fixed assets (building and structures, machinery and equipment, etc.), inventories, and valuable and non-produced assets (land, mineral and energy resources, other naturally occurring assets and intangible non-produced assets).

123. The *Summary Table of State-Owned Assets of GAUs and PSUs of 2018* compiled by the Guidong Bureau of Finance covered intangible assets, land, and most items of fixed assets (such as office buildings, economic affordable housing, roads and bridges, urban facilities, vehicles, and other machinery and equipment), and kept detailed records including on their usage and age. Upon requirements for budget disclosure, the GAUs and PSUs separately disclose their holdings and usage of their state-owned assets.

124. The Guidong Bureau of Finance has not kept information on natural resources other than land, but relevant records are maintained by other departments. Records on water resources are kept by the Guidong Water Conservancy Bureau and the Hydrology Bureau. The records on reserves of mineral resources are kept by the Guidong Natural Resources Bureau, which also keeps information on the exploitation rights and mining capacity of local mining enterprises. The records on forest resources are kept by the responsible departments at the provincial level. The aforementioned information of natural resources is not disclosed to the public.

125. As the Guidong Government maintains records for its holdings of fixed assets, land, and mineral resources, and collects partial information on their usage and age, but the information is not available to the public (see Table 3.17), this dimension meets the criteria for a C score.

Table 3.17: Non-financial asset monitoring – check list of record of holdings

Register of fixed assets (Y/N)	Information on usage and age (Y/N)	Register of land assets (Y/N)	Register of subsoil assets (if applicable) (Y/N/NA)	Information on performance published annually (Y/N)
Y	Y	Y	Y	N

Data source: Asset registers.

Dimension PI-12.3. Transparency of asset disposal

126. In 2008, Guidong County published the *Implementation Rules for the Management of State-Owned Assets* and in 2017, the *Procedures for the Disposal and Transfer of State-owned Assets*, which cover non-financial assets (including fixed assets, intangible assets, land-use rights, etc.) and financial assets (e.g. equity in SOEs). In 2018, the Guidong Government also reported to the county People's Congress on asset disposal and transfer in a special report on the management of state-owned assets held by the GAUs and PSUs.

127. Transparency of asset transfer and disposal in Guidong meets the criteria for an A score.

Table 3.18: Transparency of asset disposal

Procedures for non-financial asset disposal established (Y/N)	Procedures for financial asset disposal established (Y/N)	Information included in budget documents, financial reports or other reports (Full/Partial specify)	Register of subsoil assets (if applicable) (Y/N/NA)	Information on asset disposal submitted to legislature (Y/N)
Y	Y	Full	Y	Y

Data source: Guidong Bureau of Finance.

PI-13. Debt management

128. This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. For assessment of this indicator, both budgetary units and EBUs of the SNG were included. The time period assessed is 2019 (at time of assessment) for PI-13.1, 2018 (the last completed FY) for PI-13.2, and 2019 with reference to the preceding three completed FYs (2016-2018) for PI-13.3.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-13. Debt management (M2)		C+
13.1. Recording and reporting of debt and guarantees	Domestic and foreign debt records are complete, accurate, updated monthly, and reconciled annually. Comprehensive management and statistical reports covering debt service, stock, and operations are produced annually.	C
13.2. Approval of debt and guarantees	The Guidong Bureau of Finance is the responsible debt management entity and is authorized to borrow on behalf of the county government and monitor the financing transactions according to the debt management rules. Annual borrowing is approved by the Guidong People's Congress.	A
13.3. Debt management strategy	There is no mid-term DMS indicating the risk indicators such as interest rates, exchange rates, and refinancing alternatives.	D

Data source: Guidong Finance Bureau.

Dimension PI-13.1. Recording and reporting of debt and guarantees

129. According to the Budget Law promulgated in 2014, provincial governments are authorized to issue new bonds within a quota set by the State Council, and then on-lend these bonds to their counties. The debts incurred by LGFVs and budgetary units prior to 2014 have by now been swapped to bonds. According to the new Budget Law, the issuance of guarantees by SNGs has not been allowed since 2015. (The reporting on the balance of guaranteed debts and other contingent debts incurred prior to 2015 has been assessed in dimension PI-10.3).

130. In Guidong, all bonds are recorded through a debt management system developed by the MOF. The records, together with their supporting documents, are entered by the borrowing units and checked by the Debt Office under the Finance Bureau. The records are updated monthly. All debt is on-lending of the subnational bonds issued by Hunan Province. The Hunan Department of Finance reconciles the records with the Guidong Finance Bureau annually. Comprehensive management and statistical reports covering debt service, stock, and transactions are produced annually.

131. The recording and reporting of debt and guarantees in Guidong meet the criteria for a C score.

Table 3.19: Recording and reporting of debt and guarantees

Domestic and foreign debt records maintained (Y/N)	Frequency of update of records (M/Q/A)	Records are complete and accurate (Y/N)	Frequency of reconciliation M=Monthly Q=Quarterly A=Annually N=Not done (Add whether All; Most: Some; Few)	Statistical reports (covering debt service, stock and operations prepared) M/Q/A/N	Additional information from reconciliation reported (if no statistical report) y/n
Y	M	Y	A (All)	A	NA

Data source: Guidong Bureau of Finance.

Dimension PI-13.2. Approval of debt and guarantees

132. For county governments, debt financing shall be arranged through budget adjustment upon approval of the People's Congress of the same level.

133. Guidong County has published the Government Debt Management Methods of Guidong County to provide guidance on how to borrow, issue new bonds, undertake debt-related transactions, and monitor debt management transactions. Accordingly, the county Finance Bureau shall be the responsible debt management entity and is authorized to borrow on behalf of the county government upon approval of the county mayor and monitor debt transactions.

134. Evidence shows that the Budget Law and the above Methods have been strictly adhered to. The borrowing amount of Guidong in 2018 was included in the budget adjustment and approved by the County People's Congress. The transactions of government bonds were handled by the Debt Office under the Finance Bureau according to established procedures. The score for this dimension is A.

Table 3.20: Approval of debt and guarantees, FY 2018

Primary legislation exists (Y/N; Name of Act)	Documented policies and guidance (Y/N, Name of regulation/policy)		Debt management responsibility (Y/N; Name and location of unit)		Annual borrowing approved by government or legislature (Y/N, specify last date of approval)
	Guidance to single debt management entity	Guidance to several entities	Authorization of debt granted to single responsible entity	Transactions reported to and monitored only by single responsible entity	
Budget Law of the PRC	Y (Government Debt Management Methods of Guidong County)	N	Y (Debt Division of Finance Bureau)	Y (Debt Division of Finance Bureau)	Y (October 31,2018)

Data source: Guidong Bureau of Finance.

Dimension PI-13.3. Debt management strategy

135. There is no evidence that Guidong has prepared a medium-term debt management strategy (DMS) on basis of major risk indicators such as interest rates, exchange rates, and refinancing alternatives. The score therefore is D.



PILLAR 4: Policy-based fiscal strategy and budgeting

136. This pillar assesses whether the government's fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

PI-14. Medium-term budget strategy

137. This indicator measures the ability of a county to develop robust macroeconomic and fiscal forecasts, which are crucial for developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. The assessment covers the SNG budgetary units and the last budget (2019) submitted to the elected local legislature.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-14. Medium-term budget strategy (M2)		D+
14.1. Preparation of the budget	Budget preparation is based on information of transfers, revenue and expenditure.	C
14.2. Fiscal impact of policy proposals	It is not clear whether Guidong prepares estimates of the fiscal impact of policy changes for the budget year.	D*
14.3. Medium-term expenditure and revenue estimates	No medium-term expenditure and revenue estimates are prepared.	D
14.4. Consistency of budget with previous year estimates	No medium-term expenditure and revenue estimates are prepared.	NA

Dimension PI-14.1. Preparation of the budget

138. Based on the information provided by the Guidong Finance Bureau, the budget for FY 2019 was prepared on basis of the budget reports of the previous years, mainly last FY, which include data on HLG transfers, revenues and expenditures of Guidong.

139. The preparation of the budget in Guidong meets the criteria for a C score.

Dimension PI-14.2. Fiscal impact of policy proposals

140. According to the *Guidance for SNG PEFA Assessments*, policy proposals include revenue policy proposals, such as changes in the rate and coverage of major tax or non-tax revenues or the creation or assignment of a new revenue source, as well as expenditure policy proposals, such as proposals on capital investment projects, the assignment of new policies, and changes in the rate or coverage of subsidies.

141. The budget report for FY 2019 submitted to the legislature stated that the GPB expenditure would increase due to a number of poverty alleviation policies. However, the list of policy changes was not provided

to the assessors, thus it is unclear whether estimates of their fiscal impact were prepared.

142. The score is D*.

Table 3.21: Fiscal impact of policy proposals

Estimates of fiscal impact of ALL proposed changes prepared		
FY	Two following FYs	Submitted to legislature
Unclear	N	Unclear

Data source: Interview, Guidong Bureau of Finance.

Dimension PI-14.3. Medium-term expenditure estimates

143. According to interviews with staff of the Guidong Finance Bureau, no medium-term expenditure and revenue estimates were made in preparing the budget for FY 2019. The score is D.

Table 3.22: Medium-term expenditure estimates

Classification	FY (Y/N)	Two following FYs (Y/N)
Administrative	Y	N
Economic	Y	N
Program/Function	Y	N

Data source: Interview, Guidong Bureau of Finance.

Dimension PI-14.4. Consistency of budget with previous year's estimates

144. No medium-term expenditure and revenue estimates are prepared. This dimension is NA.

PI-15. Fiscal strategy and PI-16. Medium-term perspective in expenditure budgeting

145. According to the *2020 Subnational PEFA Framework*, the original PI-15 and PI-16 are not used (NU) in the subnational PEFA assessment. They have been converted to the current PI-14.

PI-17. Budget preparation process

146. This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. The assessment of this indicator covers the budgetary units of the SNG. It comprises the last budget (2019) submitted to the elected local legislature for dimensions 17.1 and 17.2, and the last three completed FYs (2016-2018) for dimension 17.3.

Indicators/ Dimensions	Assessment of performance	2019 Score
PI-17. Budget preparation process (M2)		C+
17.1 Budget calendar	A clear annual budget calendar exists and is adhered to. Four weeks are provided to allow budgetary units to complete their detailed estimates. All budgetary units are able to complete their estimates on time.	B
17.2 Guidance on budget preparation	The expenditure ceilings approved by the cabinet were provided on November 16, 2018, after the distribution of the budget circular to the budgetary units, but before the budgetary units completed their submission on November 21, 2018.	B
17.3 Budget submission to the legislature	Only in one of the last three years, the executive submitted the annual budget proposal to the legislature at least one month before the start of the FY.	D

Dimension PI-17.1. Budget calendar

147. Conforming to a predetermined calendar, budget preparation in Guidong follows a clear annual process, requiring the orderly and timely engagement of all parties (see Table 3.23). The government issues two budget circulars. The first circular asks the budgetary units to prepare their budget proposals and submit them to the Finance Bureau by a specified deadline, while the second circular includes the expenditure or revenue ceilings and requests the budgetary units to make revisions to their budget proposals according to these ceilings. The government then submits the budget plan to the legislature, and once approved, notifies the budgetary units of their respective budgets.

148. The annual budget calendar is generally adhered to. Date of the FY 2019 first budget circular was October 22, 2018. The deadline for the first submission of budget estimates was set for November 21, 2018. This means that budgetary were given four weeks from receipt of the budget circular to submission of the estimates. All budgetary units were able to complete their estimates on time.

Table 3.23: Budget calendar and guidance on budget preparation

Budget calendar exists (Y/N)	Date of budget circular	Deadline for submission of estimates	Coverage	% of ministries complying with deadline	Date Cabinet approved ceilings	Budget estimates are reviewed and approved by Cabinet after completion (if ceilings not issued) (Y/N)
Y	2018.10.22	2018.11.21	Covering total expenditure for the full FY	100%	2018.11.16	NA

Data source: Notice of the Guidong County Finance Bureau on completing the budget preparation of county departments for FY 2019.

Dimension PI-17.2. Guidance on budget preparation

149. Before budgets are prepared, clear guidance on the budget process is provided. This includes information on the expenditure ceilings covering total budget expenditure for the full FY as approved by the Guidong Government. For FY 2019, the expenditure ceilings were approved by the cabinet on November 16, 2018, after the budget circular had been distributed to the budgetary units, but before budgetary units completed their submission on November 21, 2018. The score is B.

Dimension PI-17.3. Budget submission to the subnational council

150. This dimension assesses the timeliness of submission of the annual budget proposal to the legislature or similarly mandated body so that the legislature has adequate time for its budget review and the budget proposal can be approved before the start of the FY.

151. A C score requires that the executive submitted the annual budget proposal to the subnational legislature at least one month before the start of the FY in two of the last three completed FYs. In Guidong, only in one of the three assessed years, the submission took place one month before the start of the FY (Table 3.24). Thus, the score is D.

Table 3.24: Budget submission to legislature

Budget of FY	Date of submission of budget proposal
2017	November 26, 2016
2018	December 16, 2017
2019	December 30, 2018

Data source: *Report on the Budget Execution of 2016 and Budget Proposal 2017*, *Report on the Budget Execution of 2017 and Budget Proposal 2018*, *Report on the Budget Execution of 2018 and Budget Proposal 2019*.

PI-18. Legislative scrutiny of budgets

152. This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex ante approval by the legislature. The assessment covers the budgetary units of the SNG. The time period assessed for dimensions 18.1, 18.2, and 18.4 is the last completed FY (2018), and for dimension 18.3 the last three completed FYs (2016-2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-18. Legislative scrutiny of budgets (M1)		D+
18.1. Scope of budget scrutiny	Budget scrutiny by the Guidong People's Congress covers details of expenditure and revenue, and fiscal policies, but not medium-term fiscal forecasts and medium-term priorities.	B
18.2. Legislative procedures for budget scrutiny	A set of Laws and Rules stipulate the legislative procedures for budget scrutiny. The procedures include arrangements for public consultation, as well as internal organizational arrangements, such as the role of standing committees and budget committees in the County People's Congress. The procedures are partly adhered to.	B
18.3. Timing of budget approval	The county legislature approved the annual budget proposal before the start of the FY in all of the last three years.	A
18.4. Rules for budget adjustments by the executive	Clear rules for budget adjustments exist, and they are adhered to in most instances.	B

Dimension PI-18.1. Scope of budget scrutiny

153. The legislature in Guidong is the County People's Congress and its Standing Committee, which has the power to scrutinize and approve the annual budget proposal. The budget proposal is first submitted to the Standing Committee of the County People's Congress for scrutiny and approval. The annual budget proposal includes aggregates and details of expenditure and revenue and fiscal policies for the coming FY, but does not include medium-term fiscal forecasts or medium-term priorities (see Table 3.25). The assessors collected evidence about the scrutiny procedure, such as the agenda, the minutes, and resolutions of the plenary meeting of the County People's Congress, as well as the budget documents presented in the plenary, including a report on the scrutiny.

154. The scope of budget scrutiny in Guidong meets the criteria for a B score.

Table 3.25: Scope of budget scrutiny

Legislature reviews budget (Y/N)	Coverage (specify)				
	Fiscal policies	Medium-term fiscal forecasts	Medium-term priorities	Aggregate expenditure and revenue	Details of expenditure and revenue
Y	Y	N	N	Y	Y

Data source: Guidong Bureau of Finance.

Dimension PI-18.2. Legislative procedures for budget scrutiny

155. The budget review procedure of the legislature was stipulated in the 2014 Budget Law, the Supervision Law of the Standing Committee of the People's Congress at Various Levels of the PRC, and the *Rules of the Standing Committee of the Guidong County People's Congress*. In accordance with the provisions of these Laws and *Rules*, prior to the meeting of the County People's Congress to scrutinize the budget proposal, the Standing Committee of the County People's Congress shall conduct preliminary scrutiny, and the representatives to the People's Congress be organized in various forms to hear the views of voters and all sectors of society. During the plenary meeting of the County People's Congress, the Guidong County Government shall report to the People's Congress on the budget proposal, then the Standing Committee of the People's Congress shall report to the presidium the findings of the preliminary scrutiny of the budget proposal. After that, the People's Congress may approve the budget proposal. The above Laws and *Rules* also stipulate in detail the contents of the Standing Committee's scrutiny of the budget proposal and the key points that the People's Congress shall pay attention to in budget scrutiny.

156. When reviewing the 2018 budget, the Finance and Economic Commission of the Guidong People's Congress went to the budgetary units for preliminary investigation, mainly to assess, among other things, the feasibility of the budgetary units' financial revenue and expenditure, the budget implementation of the previous FY, whether the budget arrangement was in line with the provisions of the People's Congress, and whether the budget was complete. It then issued the review report on the 2017 budget execution and the 2018 budget proposal of Guidong County. However, during the process of budget review, no public consultation was arranged to take into account the views of voters and various sectors of society. The legislative procedures for budget scrutiny therefore meet the criteria for a B score.

Table 3.26: Legislative procedures for budget scrutiny

Legislative procedures exist	Approved in advance of budget hearings	Procedures are adhered to	Procedures include organizational arrangements
Y	Y	Y (partly)	Y

Data source: Guidong Bureau of Finance.

Dimension PI-18.3. Timing of budget approval

157. As shown in Table 3.27, in 2016, 2017, and 2018, the annual budget proposals were approved by the Guidong People's Congress on December 30, 2015, November 29, 2016, and December 28, 2017, respectively. China's FY begins on January 1. Therefore, in the last three years, the county legislature approved the annual budget proposal before the start of the FY. The timing of budget approval in Guidong meets the criteria for an A score.

Table 3.27: Timing of budget approval

Budget for FY	Date of budget approval
2016	December 30, 2015
2017	November 29, 2016
2018	December 28, 2017

Data source: Guidong Bureau of Finance.

Dimension PI-18.4. Rules for budget adjustments by the executive

158. The 2014 Budget Law stipulates the contents and review procedures for budget adjustments. Accordingly, except for special transfers from HLGs that do not require matching funds, any budget adjustment should be implemented following the approval of the People's Congress at the corresponding level. However, these stipulations are not strictly adhered to at the subnational level.

159. In 2018, the Guidong People's Congress officially approved the budget adjustment on October 31, which covered the bonds on-lent by Hunan Province and part of the earmarked transfers. However, 76 percent of budget adjustments did go through the approval procedures of the legislature (see Table 3.28). This accounted for about 32.4 percent of the actually executed expenditure.

Table 3.28: Budget adjustments in Guidong for the 2018 FY (thousand RMB)

Item		GPB (D)	GFB (E)	Total (D + E)	
Budget adjust- ments	In accordance with rules	Earmarked transfers	518,340.0	7250.0	525,590.0
		Bonds, on-lending	232,000.0	10,000.0	242,000.0
		Subtotal (A)	750,340.0	17,250.0	767,590.0
	Not in accordance with rules	Tax rebate	13,900.0		13,900.0
		General transfer	168,340.0		168,340.0
		Carry-over from last year	19,410.0	16,210.0	35,620.0
		Transferred-in from other budgets	28,280.0		
	Other		89,430.0	89,430.0	
	Expenditure in adjusted budget		1878,100.0	506,970.0	2385,070.0
	Expenditure in originally approved budget		899,250.0	537,880.0	1437,130.0
Total budget adjustment (B)		978,850.0	-30,910.0	1009,760.0	
Actually executed expenditure (C)		1871,950.0	494,820.0	2366,770.0	
Actual amount of reallocations in accordance with rules (% of BCG budget) (A/C)				32.4	
Extent of adherence to rules (A/B)				76.0	

Data source: Guidong Bureau of Finance.

160. Therefore, clear rules exist, and they were adhered to in most instances (see Table 3.29). Rules for budget adjustments by the executive in Guidong thus meet the criteria for a B score.

Table 3.29: Rules for budget adjustments

Clear rules exist (Y/N)	Rule include strict limits (extent and value)	Actual amount of reallocations in accordance with rules (% of BCG budget)	Extent of adherence to rules (All, most, some)
Y	Y	32.3	most

Data source: Guidong Bureau of Finance.



PILLAR 5: Predictability and control in budget execution

161. This pillar assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

PI-19. Rights and obligations for revenue measures

162. This indicator focuses on the administration of the SNG core taxes. It assesses the procedures used to collect and monitor the core taxes of the SNG. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores.

163. For the purpose of this indicator, core taxes at the SNG are all major direct and indirect taxes, including those (a) administered and collected directly by the SNG or (b) administered directly by the SNG but collected by an HLG or agency and that account for 75 percent or more of the total tax revenue of the SNG. Inclusion of the many small revenue-generating taxes would overly complicate the assessment process.

164. In China, the tax-sharing-system reform in 1993 was implemented (partly) to change/adjust the fiscal relationship between the CG and the SNGs. As a result of this reform, taxes were divided into three types: central taxes, local taxes, and shared taxes. Since then, there had been both national tax bureaus and local tax bureaus in each locality. The national tax bureaus collected central and shared taxes, while the local tax bureaus collected local taxes.

165. In 2018, there was another reform which combined the two tax bureaus. After merging the local and state tax bureaus, the collection of core taxes - the major direct taxes (corporate income tax and individual income tax) and major indirect tax (VAT) - have been administered and collected by the State Administration of Taxation and its subordinate entities at the provincial and county level governments. Governments at county level are no longer authorized to administrate and collect these core taxes. Thus, local governments in China currently do not have the authority/autonomy for revenue management. The core tax revenue is shared among the central, provincial, and county level governments. For instance, in Guidong's case, in FY 2018, the tax sharing percentage for the county level government was 37.5 percent of VAT revenue, 28 percent of corporate income tax revenue, 28 percent of individual income tax revenue, and 75 percent of resources tax revenue.

166. Given the above, this indicator PI-19 is NA to China's local governments.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-19. Revenue administration (M2)		NA
19.1. Rights and obligations for revenue measures	Core taxes - the major direct taxes (corporate income tax and individual income tax) and major indirect tax (VAT) - have been administered and collected by the State Tax Administration and its subordinate entities at provincial and county level. Governments at county level are not authorized to administrate and collect these core taxes. PI-19 is NA.	NA
19.2. Revenue risk management	ibid	NA
19.3. Revenue audit and investigation	ibid	NA
19.4. Revenue arrears monitoring	ibid	NA

PI-20. Accounting for revenue

167. This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling revenue accounts. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores. This indicator was assessed 'at time of assessment' (2019). It comprises the SNG budgetary units and EBUs.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-20. Accounting for revenue (M1)		A
20.1. Information on revenue collections	The Treasury Office of the Guidong Finance Bureau obtains revenue data from the departments responsible for collecting fiscal revenue (the Taxation Bureau and the Non-Tax Revenue Administration) and compiles a monthly unified income completion statement which details the monthly completion and cumulative completion for each revenue type.	A
20.2. Transfer of revenue collections	All tax revenues are transferred to the Guidong County Treasury on a daily basis, while non-tax revenues are paid directly into the special accounts under the TSA system.	A
20.3. Revenue accounts reconciliation	Governments at county level are not authorized to administrate and collect taxes. The duty of tax revenue reconciliation is not applicable to Guidong county.	NA

Dimension PI-20.1 Information on revenue collections

168. Referring to PI-19, fiscal revenues in Guidong include tax revenues and non-tax revenues. The tax revenues are collected by the Guidong Tax Bureau, which is directly under the State Tax Administration at national level. Under the tax-sharing regime, part of the tax revenues will accrue to Guidong County. The non-tax revenues are collected by the Non-Tax Revenue Office under the Guidong Finance Bureau, all of which will accrue to Guidong County.

169. The Treasury Office under the Guidong Finance Bureau obtains revenue data from the Guidong Tax Bureau and the Non-Tax Revenue Office under the Guidong Finance Bureau, and compiles a consolidated revenue report every month. The report covers both GPB revenue and government fund revenue and provides detailed information for revenue of every type. The dimension score is A.

Dimension PI-20.2 Transfer of revenue collections

170. Guidong set up the TSA system in 2009, which is composed of the Guidong County Treasury and seven special accounts: the non-tax income settlement account, the food risk fund account, the education transfer fund account, the escrow funds account, the agricultural integration fund account, the social security account and the non-tax income management account, which actually manages education funding.

171. All tax revenues collected by the Guidong Taxation Bureau are transferred to the Guidong County Treasury on the same day. Non-tax revenues collected by the Non-Tax Revenue Administration are paid directly into the non-tax special accounts. The score for this dimension is A.

Table 3.30: Accounting for revenues

Entity	Revenue and % of Total CG Revenue		Data collected by the MOF			Revenue collections deposited		Reconciliation	
	Revenue type (million RMB)	% of Total	At least monthly (Y/N) - entered into IFMIS	By revenue type (Y/N)	Consolidated report (Y/N) – prepared by IFMIS	Frequency	To Treasury Account	Frequency	Within
Revenue collected by budgetary units									
Guidong Tax Bureau	Tax (174.07)	23.36	Y	Y	Y	Daily	Treasury Account	Daily	
Guidong Tax Bureau	Non-tax (12.25)	1.64%	Y	Y	Y	Daily	Treasury Account	Daily	
Guidong Finance Bureau	Non-tax (558.72)	75%	Y	Y	Y	Daily	Special Financial Account	Daily	
Sub-total	745.04	100							
Revenues collected by EBUs: none									

Data source: Guidong Tax Bureau, Guidong Finance Bureau

Note: The revenue data are for FY 2019.

Dimension PI-20.3 Tax accounts reconciliation

172. Various taxes are levied in Guidong, namely the VAT, enterprise income tax, individual income tax, etc. All these taxes are collected and administered by the Guidong Tax Bureau, which is directly under the State Tax Administration at national level, rather than under the Guidong County Government. As the Guidong County Government does not have the duty of collecting any taxes, the responsibility of tax accounts reconciliation is not applicable to Guidong. NA.

PI-21. Predictability of in-year resource allocation

173. This indicator assesses the extent to which the MOF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. Coverage of the assessment includes the budgetary units of the SNG. The time period examined for 21.1, 21.2, and 21.4 is at 'time of assessment', and for 21.3, the last completed FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-21. Predictability of in-year resource allocation (M2)		D+
21.1. Consolidation of cash balances	The Guidong Finance Bureau obtains a daily balance report from the Treasury, and the balances of special accounts are consolidated monthly. Most cash balances are therefore consolidated on a monthly basis, the balance of the Treasury that is consolidated daily accounting for 43%.	C
21.2. Cash forecasting and monitoring	Except for monthly forecasting on tax income, Guidong Finance Bureau has not conducted cashflow forecasting and monitoring.	D
21.3. Information on commitment ceilings	Payments can be largely made within the approved budget. Expenditure commitment ceilings are not effectively applied.	D
21.4. Significance of in-year budget adjustments	Significant in-year budget adjustments to budget allocations are frequent and are partially transparent.	C

Dimension PI-21.1 Consolidation of cash balances

174. The TSA system set up in Guidong in 2009 covers all accounts of the budgetary units, but it involves a number of bank accounts. The Treasury account is opened at the Guidong branch of China Construction Bank; the non-tax income settlement account is opened at the Hunan Guidong Rural Commercial Bank, the China Construction Bank, the Agricultural Bank of China, and the China Post Savings Bank; the food risk fund account is located at the Agricultural Development Bank of China; the education transfer fund account at the Agricultural Bank of China; the escrow funds account at the Construction Bank; the agricultural integration fund account at the Hunan Guidong Rural Commercial Bank; and the non-tax income management account at China Construction Bank. All banks are commercial banks.

175. The Guidong Treasury, managed by the Guidong Branch of the China Construction Bank, provides a daily balance report to the Treasury Office of the Guidong Finance Bureau (Table 3.32). The balances of the special accounts at the commercial banks are consolidated monthly. As the balance of the Treasury that is consolidated daily accounts for less than 90 percent of all bank balances - the majority of bank balances therefore being consolidated monthly (Table 3.31) - the score is C.

Table 3.31: Consolidation of bank and cash balances in Guidong (summary)

Extent of consolidation (All, Most, < Most)	Frequency of consolidation (D, W, M)
Most	M

Data source: Guidong Bureau of Finance.

Table 3.32: Consolidation of bank and cash balances in Guidong (by accounts)

Account	Frequency of consolidation	Time	Amount (thousand RMB)	
Treasury	Daily (A)	2019 average	70,541.238	
	Monthly	2019.Jan.	101,450.0	
Special accounts	Monthly	2019..Feb.	117,630.0	
	Monthly	2019.Mar.	107,680.0	
	Monthly	2019.Apr.	110,100.0	
	Monthly	2019.May	106,740.0	
	Monthly	2019.Jun	99,210.0	
	Monthly	2019.Jul.	/	
	Monthly	2019.Aug.	/	
	Monthly	2019.Sep.	58,560.0	
	Monthly	2019.Oct.	/	
	Monthly	2019.Nov.	/	
	Monthly	2019.Dec,	51,550.0	
	Average (B)		94,115.0	
	Percentage of daily consolidated bank balance(A/A+B)			43%

Data source: Guidong Bureau of Finance.

Dimension PI-21.2 Cash forecasting and monitoring

176. The Guidong Tax Bureau conducts mostly forecasts on tax income. However, as most of the GPB expenditures in Guidong are financed by HLG transfers (the percentages being 85, 86, and 74 percent for 2016, 2017, and 2018, respectively), and most of the transfers are not predictable (see HLG-1.4), Guidong has not conducted regular cashflow forecasting and monitoring. The score for cash forecasting and monitoring is D.

Dimension PI-21.3 Information on commitment ceilings

177. The budgetary units can largely make payments within the approved budget, and there are no restrictions like commitment ceilings. Though monthly payment plans should be submitted and approved in advance, the actual expenditures frequently differ from the planned expenditures (according to the application and payment records provided by the Treasury and the Payment Centre of the Finance Bureau). In Guidong, the originally approved budget expenditure accounted for 61, 48, and 91 percent of the actually executed in 2016, 2017, and 2018, respectively for the GPB and GFB.

178. As expenditure ceilings for budgetary units are not effectively applied, the score is D.

Dimension PI-21.4 Significance of in-year budget adjustment

179. In Guidong, many events could trigger significant budget adjustments, such as changes in received tax rebate, general transfers and ear-marked transfers, received on-lent of subnational bonds proceeds from Hunan Province, and transferred-in from other budgets (referring to PI-18.4). Of all the budget adjustments in 2018, only those related to the received on-lent of subnational bonds proceeds from Hunan Province and part of the earmarked transfers were officially approved by the Guidong People's Congress on October 31, 2018. Therefore, significant in-year budget adjustments to budget allocations are frequent, and they are partially transparent. The score is C.

PI-22. Expenditure arrears

180. This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. It contains two dimensions and uses the M1 (WL) method for aggregating dimension scores. The time period assessed for 22.1 are the last three completed FYs (2016-2018), and for 22.2, is 'at time of assessment' (2019). Coverage comprises the budgetary units of the SNG.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-22. Expenditure arrears (M1)		D
22.1. Stock of expenditure arrears	Since Guidong county has not set up a monitoring system for all expenditure arrears, data on the stock of arrears for 2016-2018 are not available.	D*
22.2. Expenditure arrears monitoring	Expenditure arrears monitoring system has been generated for project expenditures but not for recurrent ones.	D

Dimension PI-22.1 Stock of expenditure arrears

181. As expenditure arrears monitoring system was not in place in Guidong (see PI-22.2), data on the stock of arrears for 2016-2018 are not available. This leads to a D* score for this dimension.

Dimension PI-22.2 Expenditure arrears monitoring

182. Guidong County began monitoring expenditure arrears in 2018 as reference for financial arrangements of the next FY. The Economic Construction Office under the Finance Bureau has since handled the reporting of outstanding payments incurred by government investment projects. All responsible entities are asked to report key information related to project payments based on contracts, such as date of starting the project, date of finishing the project or date of audit, completion rate, contract amount, audited amount, paid amount, etc. The reporting has so far been conducted manually once a year, at the end of the FY. However, the monitoring of arrears did not cover other expenditures, including recurrent ones (e.g., expenditures on office supplies, small equipment, etc.).

183. The score is D.

PI-23. Payroll controls

184. This indicator is concerned with the payroll for public servants: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labour and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, under PI-25. This indicator contains four dimensions and uses the M1 (WL) method for aggregating dimension scores. The time period assessed for 23.1, 23.2 and 23.3 is 'at time of assessment' (2019), and for 23.4, it includes the last three completed FYs (2016-2018). Coverage of the assessment includes the Guidong budgetary units and EBUs.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-23. Payroll controls (M1)		C+
23.1. Integration of payroll and personnel records	The approved employee list, personnel database, and payroll are linked to each other through the documents approved and reconciled monthly before payoff, which constitutes an effective assurance for budget control and data consistency.	A
23.2. Management of payroll changes	Necessary changes to personnel records and payrolls are updated in real time. There is no delay in making payroll payments by the Centralized Payment Centre. Retroactive adjustment is rare.	A
23.3. Internal control of payroll	The authority to change personnel records and payrolls is restricted, with separate posts and system privileges, results in an audit trail, and is adequate to ensure full integrity of the data.	A
23.4. Payroll audit	Partial payroll audits were undertaken within the last three completed FYs.	C

Dimension PI-23.1 Integration of payroll and personnel records

185. In Guidong, the payment of wages of personnel hired by various budgetary units is centrally handled by the Centralized Wage Payment Center under the Finance Bureau, while the payroll is generated and maintained through a personnel information management system at the Human Resource and Social Security Bureau, which is the authority in charge of civil servant affairs.

186. According to the Civil Servants Law of China, the recruitment of civil servants by budgetary units must be within the staffing quota and according to the requirements of the positions (see Table 3.33). In case there are vacant positions, a budgetary unit can recruit new staff according to established procedures upon approval of the Organization Department, the Government Employee Staffing Office and the Human Resources and Social Security Bureau.

187. Once the information of new staff is checked and entered into the personnel database at the Human Resources and Social Security Bureau, the wage payment is initiated based on the standards and personal information. The Centralized Wage Payment Center under the Finance Bureau will check and enter the wage into the payment system accordingly. Any change to personal information of staff, such as promotion, leave or change in wage level, can be recorded and traced in the personnel information management system.

188. As personnel records and payroll are reconciled monthly before payoff, budget control and data consistency is therefore ensured. Score A.

Table 3.33: Payroll controls

Function	Y/N	By whom	Frequency (if applicable)
Hiring and Promotion checked against approved staff list	Y	Organization Department, Government Employee Staffing Offices, Human Resource and Social Security Bureau	Once hiring and promotion take place.
Reconciliation of payroll and personnel database	Y	Organization Department, Government Employee Staffing Office, Human Resource and Social Security Bureau, and Centralized Wage Payment Centre under Finance Bureau	Monthly
Documentation maintained for payroll changes	Y	Organization Department, Human Resource and Social Security Bureau, and Centralized Wage Payment Centre under Finance Bureau	Permanent maintenance.
Payroll checked and reviewed for variances from last payroll	Y	Government Employee Staffing Office, Human Resource and Social Security Bureau, and Centralized Wage Payment Centre under Finance Bureau	Once payroll variance occurs.
Updates to personnel records and payroll.	Y	Organization Department, Government Employee Staffing Office, Human Resource and Social Security Bureau, and Centralized Wage Payment Centre under Finance Bureau	Once personnel records and payroll updates take place.
Updates includes validation with approved staff list.	Y	Organization Department, Government Employee Staffing Offices, and Human Resource and Social Security Bureau	Once personnel records and payroll updates take place.
Audit trail of internal controls	Y	Supervision and Inspection Office under Finance Bureau	Every year.
Payroll audits in last three years.	Y	Audit Office and the units in charge of checking ghost employees	The Audit Office conducts the economic responsibility audit and the revenue and expenditure audit every year covering partial units.

Data sources: Guidong Finance Bureau, Guidong Human Resource and Social Security Bureau.

Dimension PI-23.2 Management of payroll changes

189. Upon completion of the necessary approval procedures, changes to the personnel record are manually entered into the personnel information management system together with the supporting documents, and a new payroll will be generated accordingly and be recorded in the payment system of the Centralized Wage Payment Centre, followed by procedures of checking and payoff.

190. Retroactive adjustments are rare and take place only when the promotion of a staff member was not accurately captured, that is, if the approval procedures were not completed within the current month and payment of the increased wage is therefore postponed. In 2019, the amount of retroactively adjusted wage payments accounted for 1.88 percent of total wage expenditure, which is less than three percent. The score thus is A.

Dimension PI-23.3 Internal control of payroll

191. A change to the personnel records (including salary adjustment) in the personnel information management system needs to be approved by the budgetary unit, the Government Employee Staffing Office, and the Human Resources and Social Security Bureau. The payroll is then accordingly generated. The Human Resources and Social Security Bureau implements post separation with regard to the entering and reviewing of personnel records.

192. The Centralized Wage Payment Center under the Finance Bureau handles the wage payments through a wage payment system according to the payroll determined by the Human Resources and Social Security Bureau. It implements A/B post verification to ensure post separation for the review of payrolls, the approval of payment, and the execution of payment. Also, each post is assigned a separate password and USB-Key in the payment system.

193. According to the Internal Control Regulation Regarding Information Management Risks of the Guidong Finance Bureau, the Finance Bureau should pay attention to the risks of system management, ensuring the traceability of operations. Thus, all the operations can be traced in the IT system.

194. In sum, the authority to change personnel records and payrolls is limited, an audit trail is available, and effective internal control ensures data consistency. The score is A.

Dimension PI-23.4 Payroll audit

195. In Guidong, the payroll audit mainly targets 'ghost' employees. In 2017, the Organization Department, Human Resources and Social Security Bureau, the Finance Bureau, the Government Employee Staffing Office, and others carried out a special project to clean up ghost employees, inspecting each budgetary unit. For any budgetary unit identified to have ghost employees, the budget expenditure for the next year was cut accordingly.

196. The Guidong Audit Office does not conduct general payroll audits. Payroll audits are conducted to a certain extent by the internal auditors, together with the revenue and expenditure audits and the economic responsibility audits (some economic responsibility audits of former leaders mentioned findings on payroll issues). However, the Guidong Audit Office audited the Centralized Wage Payment Centre in certain years (for example, in 2018 during the 2016-2018 period) as part of the financial audit of the Finance Bureau. As the objective of the financial audit states, the external auditors should conduct audit on the implementation of payrolls, covering issues such as their timeliness, amount, procedures, ghost employees, network, efficiency and security. In this sense, payroll audits between 2016-2018 were undertaken partially. The score is C.

PI-24. Procurement

197. This indicator examines key aspects of procurement management. It assesses the transparency of the given arrangements, the degree to which open and competitive procedures are emphasized, the quality of monitoring of procurement results, and the access to appeal and redress arrangements. The time period examined is the last completed FY (2018), and the assessment covers budgetary units and EBUs of the county.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-24. Procurement (M2)		D+
24.1. Procurement monitoring	The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.	D*
24.2. Procurement methods	Since the contract data for small contracts are not available, it is not feasible to calculate the total value of contracts awarded through competitive methods.	D*
24.3. Public access to procurement information	One out of six criteria are met.	D
24.4. Procurement complaints management	The procurement complaint handling mechanism meets every criterion.	A

Dimension PI-24.1 Procurement monitoring

198. This dimension examines to what extent the databases or records for contracts are maintained, including data on what has been procured, the value of procurement, and on who has been awarded contracts.

199. In Guidong, depending on the nature of the procurement and the contract value to be procured, procurement is required by law and regulations to be conducted at different venues, either by the procuring entity itself or by the Chenzhou Public Resources Transaction Center (Table 3.34).

Table 3.34: Responsible agencies for procurement

Agency	Chenzhou Public Resources Transaction Center	Optional either by the Center or by the procuring entity	By the procuring entity itself
Procurement following the Tendering and Bidding Law	Works: >= RMB 4 million Goods: >= RMB 2 million Services: >= RMB 1 million	N/A	N/A
Procurement following the Government Procurement Law	Works: >= RMB 4 million Goods: >= RMB 1 million Services: >= RMB 1 million	Works: RMB 0.5-4 million Goods: 0.2-1 RMB million Services: 0.2-1 RMB million	Works: < RMB 0.5 million Goods: < RMB 0.2 million Services: < RMB 0.2 million

200. The responsible agencies for contract data recording and maintenance and consequently for the relevant records are presented in Table 3.35.

Table 3.35: Responsible agencies for procurement contract data recording and maintenance

Contract Value	Works: >= RMB 0.5 million Goods: >= RMB 0.2 million Services: >= RMB 0.2 million	Works: < RMB 0.5 million Goods: < RMB 0.2 million Services: < RMB 0.2 million
Procurement following the Tendering and Bidding Law	Complete record is maintained by Guidong DRB	N/A
Procurement following the Government Procurement Law	Complete record is maintained by the Guidong Government Procurement Administration Office under the Guidong Finance Bureau in a system called the Guidong Government Procurement Electronic Management Platform.	The contract data are not recorded and maintained centrally by any supervision agency or office.

201. As indicated in Table 3.36 and Table 3.37, for contracts with a contract value of less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services, contract data are not recorded and maintained centrally by any supervision agency or office.

202. In addition, for contracts procured following the Tendering and Bidding Law, contract data including data on what has been procured, value of procurement, and who has been awarded contracts, are published on the website of the Hunan Provincial Tendering and Bidding Supervision (<http://www.bidding.hunan.gov.cn>, with a new website effective from December 9, 2019 <http://218.76.24.90/flow>), and the website of the Chenzhou Public Resources Transaction Center (<http://czggzy.czs.gov.cn/>).

203. For contracts (with a contract value of not less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services) procured following the Government Procurement Law, contract data including data on what has been procured, value of procurement, and who has been awarded contracts, are published on the website of Hunan Provincial Government Procurement (<http://www.ccgp-hunan.gov.cn>).

204. Since the contract data for small contracts (with contract value less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services) are not available, and there is no sound document to support the percentage of the aggregate value of these small contracts against the total contract value procured, score D* is assigned to this dimension.

Dimension PI-24.2 Procurement methods

205. This dimension focuses on the extent to which contracts procured are awarded through competitive methods.

206. As mentioned above, only data for contracts with a contract value of not less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services are available. For those contracts, the following tables present the contract value procured in FY 2018 and the percentage of competitive methods applied by value.

Table 3.36: Procurement methods and corresponding value

Procurement method	Total value of procurement (RMB)	Total value of contracts procured through non-competitive method (RMB)
Procurement following the Tendering and Bidding Law	144,300,212	Nil
Procurement following the Government Procurement Law	318,258,212.70	21,156,077

Data source: (1) The tendering and bidding record for works procured in FY 2018 maintained by the Guidong Development and Reform Bureau. (2) The government procurement information statistics maintained by the Government Procurement Administration Office under the Guidong Finance Bureau in Guidong Government Procurement Electronic Management Platform.

Table 3.37: Procurement methods and corresponding value

Total value of procurement (RMB)	Total value of contracts procured through non-competitive method (RMB)	Total value of contracts procured through competitive method (RMB)	Percentage of competitive method by value
(1)	(2)	(3)	(3)/(1)x100%
462,558,424.70	21,156,077	441,402,347.70	95.4

Data source:(1) The tendering and bidding record for works procured in FY 2018 maintained by the Guidong Development and Reform Bureau. (2) The government procurement information statistics maintained by the Government Procurement Administration Office under the Guidong Finance Bureau in Guidong Government Procurement Electronic Management Platform.

207. For procurement following the Tendering and Bidding Law, three procurement methods are applied: (a) open competitive bidding (OCB), (b) invitation competitive bidding (ICB, at least three potential bidders are invited), and (c) non-competitive bidding or direct contracting (DC). Both OCB and ICB are competitive methods.

208. For procurement following the Government Procurement Law, there are five procurement methods: (a) OCB, (b) ICB (at least three potential bidders are invited), (c) competitive negotiation, (d) shopping, (e) single source selection. Except for single source selection, all methods are competitive methods.

209. However, since the contract data for small contracts are not available, it is not feasible to calculate the total value of contracts awarded through competitive methods. Thus, score D* is assigned to this dimension.

Dimension PI-24.3 Public access to procurement information

210. This dimension looks at the extent to which the public has access to procurement information. Procurement information comprises the following:

- (1) The legal and regulatory framework for procurement.
- (2) The government procurement plans.
- (3) Information on bidding opportunities.
- (4) Information on contracts awarded (purpose, contractor, value).
- (5) Data on the resolution of procurement complaints.
- (6) Annual procurement statistics.

211. The findings for each type of information are summarized in Table 3.38.

Table 3.38: Public access to procurement information

Type of procurement information	Findings	Public access
Legal and regulatory framework for procurement	Both the Tendering and Bidding Law and the Government Procurement Law as well as relevant implementation regulations issued by the government at central, provincial, and prefectural levels are publicly available on various websites of the governments.	Yes
Government procurement plans	Government procurement plans are not disclosed publicly.	No
Bidding opportunities	<p>For procurement following the Tendering and Bidding Law, the bidding opportunities are published on the website of the Hunan Provincial Tendering and Bidding Supervision (http://www.bidding.hunan.gov.cn, with the new website http://218.76.24.90/floweffective from Dec. 9, 2019), and the website of the Chenzhou Public Resources Transaction Center (http://czggzy.czs.gov.cn/).</p> <p>For procurement following the Government Procurement Law, the bidding opportunities for contracts with a value of not less than 0.5 million for works, 0.2 million for goods, and 0.2 million for services are published on the website of the Hunan Provincial Government Procurement (http://www.ccgp-hunan.gov.cn). However, for small contracts (with a contract value of less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services), the bidding opportunities are not disclosed to the public.</p>	No (The public has no access to information of small value contracts.)
Contract award (purpose, contractor, value)	<p>For procurement following the Tendering and Bidding Law, contract award information is published on the website of the Hunan Provincial Tendering and Bidding Supervision (http://www.bidding.hunan.gov.cn, with a new website effective from December 9, 2019 http://218.76.24.90/flow), and the website of the Chenzhou Public Resources Transaction Center (http://czggzy.czs.gov.cn/).</p> <p>For procurement following the Government Procurement Law, contract award information is published on the website of the Hunan Provincial Government Procurement (http://www.ccgp-hunan.gov.cn) for contracts with a value of not less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services. However, for small contracts (with a contract value of less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services), the contract award information is not disclosed to the public.</p>	No (The public has no access to information of small value contracts.)
Data on resolution of procurement complaints	<p>For procurement following the Tendering and Bidding Law, information on the resolution of procurement complaints is only issued to the client and the bidder. The information is not disclosed to the public.</p> <p>For procurement following the Government Procurement Law, information on the resolution of procurement complaints is disclosed to the public on the website of Hunan Provincial Government Procurement (http://www.ccgp-hunan.gov.cn).</p>	No (The public has access only to information of procurement following the Government Procurement Law.)
Annual procurement statistics	<p>For procurement following the Tendering and Bidding Law (contract value above the threshold), the Guidong DRB keeps complete data, but the data are not publicly disclosed.</p> <p>For procurement following the Government Procurement Law: Contracts with a value of not less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services: The Guidong Government Procurement Administration Office under the Guidong Finance Bureau maintains complete data (contract value above the threshold) in a system called the Guidong Government Procurement Electronic Management Platform. However, they are not disclosed to the public.</p> <p>For contract values of less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services: The contract data are not recorded and maintained centrally by any supervision agency or office. They are not disclosed to the public.</p>	No

212. Since only one of the six procurement information elements are made available to the public, the score assigned to this dimension is D.

Dimension PI-24.4 Procurement complaints management

213. As shown in Table 3.39, the complaint system meets all six criteria. The score of A is assigned to this dimension.

Table 3.39: Procurement complaints management

Criteria for the reviewing body	Findings	Met/ Not met
Not involved in any capacity in procurement transactions or in the process leading to contract award decisions	<p>Complaint handling mechanism for procurement following the Tendering and Bidding Law There are two tiers to complaint handling. Under the first tier, the bidder can lodge any complaint to the client. The intended contract award recommendation is required to be disclosed for at least three calendar days as standstill period. The complaint regarding the intended contract award recommendation should be submitted within this standstill period. The client is required to respond to the complaint within three calendar days. Under the second layer, the bidder can lodge any complaint to the Guidong DRB within ten calendar days from his/her awareness of the issue.</p> <p>Complaint handling mechanism for procurement following the Government Procurement Law There are also two tiers to complaint handling. Under the first tier, the bidder can lodge any complaint to the client within seven working days from his/her awareness of the issue. The client is required to respond to the complaint within seven working days, according to the Government Procurement Law.</p> <p>Under the second tier, if the bidder is not satisfied with the response from the client or if the client does not respond within the required time, the bidder can lodge any complaint to the Guidong Government Procurement Administration Office under the Guidong Finance Bureau within 15 working days after receiving the response from the client or after the expiry of the required responding time.</p> <p>The criterion for the reviewing body not to be involved in any capacity in procurement transactions or in the process leading to contract award decisions is not met by the first-tier complaint handling mechanism as the entity for complaint handling is the client itself. However, it is met by the second-tier complaint handling mechanism as the entity for complaint handling is an independent party which is not involved in any capacity in procurement transactions or in the process leading to contract award decisions. Collectively, the criterion is rated to be met because eventually, the complainant does have the opportunity to refer the case to an independent party.</p>	Yes
Does not charge fees that prohibit access by concerned parties	No fee is charged to the complainant, neither for procurement following the Tendering and Bidding Law nor for procurement following the Government Procurement Law.	Yes
Follows processes for submission and resolution of complaints that are clearly defined and publicly available	<p>For procurement following the Tendering and Bidding Law, the <i>Hunan Provincial Complaint Handling Procedure and Guidance for Procurement Following the Tendering and Bidding Law</i> issued by the Hunan Provincial DRC on April 29, 2019 clearly defines the procedures and is publicly available.</p> <p>For procurement following the Government Procurement Law, the <i>Complaint Handling Procedure and Guidance for Procurement Following the Government Procurement Law</i> issued by the MOF on December 26, 2017 and effective as of March 1, 2018 and the <i>Complaint Handling Procedure and Guidance for Procurement Following the Government Procurement Law</i> issued by the Hunan Provincial Department of Finance on August 5, 2019 clearly define the procedures, and these official documents are publicly available.</p>	Yes

Criteria for the reviewing body	Findings	Met/ Not met
Exercises the authority to suspend the procurement process	<p>For procurement following the Tendering and Bidding Law, the Guidong DRB exercises the authority to suspend the procurement process.</p> <p>For procurement following the Government Procurement Law, the Government Procurement Administration Office under the Guidong Finance Bureau exercises the authority to suspend the procurement process.</p>	Yes
Issues decisions within the timeframe specified in the rules/regulations	<p>For procurement following the Tendering and Bidding Law, the Guidong DRB is required to determine whether a complaint is valid within three working days. If the complaint is determined valid, within 30 working days, the Guidong DRB must issue the determination of the procurement process.</p> <p>For procurement following the Government Procurement Law, the Guidong Government Procurement Administration Office under the Guidong Finance Bureau is required to issue its decisions within 30 working days.</p>	Yes
Issues binding decisions for each party (without precluding access to an external higher authority)	<p>The decisions made by the Guidong DRB or by the Guidong Government Procurement Administration Office under the Guidong Finance Bureau are binding for both parties. If the complainant is not satisfied with the resolution, the complainant is entitled to request an administrative review by an HLG office or administrative litigation, according to the laws and regulations.</p>	Yes

PI-25. Internal controls on non-salary expenditure

214. This indicator measures the effectiveness of general internal controls for non-salary expenditure. Specific expenditure controls on public service salaries were discussed under PI-23. The present indicator contains three dimensions and uses the M2 (AV) method for aggregating dimension scores. The time period covered by the assessment is 'at time of assessment' (2019), and the coverage includes budgetary units and EBUs of the SNG.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-25. Internal controls on non-salary expenditure (M2)		B
25.1. Segregation of duties	Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage.	A
25.2. Effectiveness of expenditure commitment controls	No effective expenditure commitment control system has been established.	D
25.3. Compliance with payment rules and procedures	All the payments are in line with regular payment procedures, and all exceptions are authorized in advance.	A

Dimension PI-25.1 Segregation of duties

215. The internal control system for non-salary expenditure in Guidong follows the *Internal Control Standards for the Guidong Centralized Payment Center*, the latest version of which was issued in 2018. It requires all units to set up jobs for specific tasks, clearly define the responsibility and authority of each job, and ensure that incompatible jobs such as expenditure application and internal review, payment approval and payment request, operating and accounting are separated from each other.

216. To give an example, according to the flow chart of the Guidong Treasury Centralized Electronic Direct Payment System, the following procedures shall be followed before sending a payment order to the bank:

- (a) Enter the issued budget payment quota into the system (Budget Division at the Finance Bureau).
- (b) Receive the budget payment quota in the system (Budgetary units).
- (c) Send the payment schedule by month to the Treasury Office at the Finance Bureau (Budgetary units).
- (d) Issue the approved payment schedule (Treasury Office at the Finance Bureau).
- (e) Record the approved payment schedule in the payment system, by A post (Budgetary units).
- (f) Check and issue the payment schedule in the payment system, by B post (Budgetary units).
- (g) Enter the direct payment application (Budgetary units).
- (h) Check the direct payment application (Budgetary units).
- (i) Check the direct payment application by A/B post separately (Payment Center at the Finance Bureau).
- (j) Send the approved direct payment order to the bank (Budgetary units).

217. After the payment and clearance transactions are completed in the banking system, the clearance notice is sent to the Treasury Office at the Finance Bureau for accounting and reporting of the payment.

218. In the above-mentioned procedures, incompatible jobs (such as expenditure application and internal review, payment approval and payment request, operating and accounting) are separated from each other, and

all the responsibilities are clearly defined in the flow chart. The Information Office at the Finance Bureau keeps a list of authorized persons at all stages of the payment process, and the well-designed IT system ensures that nobody can override authorized responsibilities.

219. Apart from the control over payment procedures, the Administrative Assets Management Division at the Finance Bureau is responsible for overseeing the registration of all government assets in the budgetary units.

220. The score is A.

Table 3.40: Segregation of duties and commitment controls

Segregation of duties		Commitment controls		
Prescribed throughout the process (Y/N)	Responsibilities C= Clearly laid down M= Clearly laid down for most key steps N= More precise definition needed	In place (Y/N)	Limited to cash availability A= All expenditure M= Most expenditure P= Partial coverage	Limited to approved budget allocations A= All expenditure M= Most expenditure P= Partial coverage
Y	C	N	A	A

Data source: *Internal Control Standards for the Guidong Centralized Payment Center.*

Dimension PI-25.2 Effectiveness of expenditure commitment controls

221. In Guidong, the Payment Center under the Finance Bureau is responsible for making payments on behalf of the budgetary units according to the approved budget quotas and payment schedules. However, the Payment Center is not required to exercise expenditure commitment control, and the contracts regarding budget expenditures might be awarded before the budget quotas are available. As no effective expenditure commitment control system has been established in Guidong County, the score is D.

Dimension PI-25.3 Compliance with payment rules and procedures

222. All payments in Guidong County are handled by the Payment Center in line with established payment procedures. In the internal audit reports of the budgetary units and the audit reports issued by the Audit Office, the assessors have not found any irregular payments made during the assessed period.

223. Therefore, all payments are in line with regular payment procedures. The score is A.

PI-26. Internal audit

224. This indicator assesses the standards and procedures applied in internal audit. The time period covered for 26.1 and 26.2 is 'at time of assessment' (2019), for 26.3 it is the last completed FY (2018), and for 26.4, it includes the audit reports issued for the last three completed FYs (2016-2018). Both budgetary units and EBU of the SNG are covered.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-26. Internal audit (M1)		D+
26.1. Coverage of internal audit	Internal audit is operational for budgetary units representing all of the budget revenues but less than 50% of the budget expenditures.	D
26.2. Nature of audits and standards applied	Only the Guidong Education Bureau has established internal audit function. Its internal audits were entrusted to an accounting firm in 2019 with focus on verifying the adequacy and effectiveness of internal control. The internal audit function has no established quality assurance process but audit activities meet professional standards, including the adoption of a risk-based approach.	B
26.3. Implementation of internal audits and reporting	Guidong Education Bureau prepares an annual audit work plan and a summary report of its annual audit work, which shows the completion rate of the planned internal audit tasks. The 2018 annual audit plan was fully completed.	A
26.4. Response to internal audits	Management of the sampled department proactively responded to the auditors' suggestions included in the audit reports within 12 months after the audit reports were issued.	A

Dimension PI-26.1 Coverage of internal audit

225. The assessment of dimension PI 26.1 takes a sampling approach. 14 biggest budgetary entities are selected for the assessment. Expenditures of the budgetary units, which established an internal audit function in their units, accounted for 21.8 percent of total budget expenditures in FY 2018 (Table 3.41). The revenues collected by Guidong Finance Bureau covered 100 percent of total budget revenues (excluding tax revenue, see PI 20.3), as Guidong Finance Bureau was subject to internal audit (Table 3.42).

226. Therefore, internal audit in Guidong County covered all budget revenues but less than 50 percent of budget expenditures. The score is D.

Table 3.41: Calculation of the internal audit coverage of expenditures

No.	Service Delivery Department	Budget expenditure (thousand RMB)	With internal audit office (Y/N)	Expenditure covered by internal audit (thousand RMB)
1	Education	304,164.0	Y	304,164.0
2	Civil affairs	100,707.4	N	0.0
3	Housing	19,750.0	N	0.0
4	Science and information technology	3,113.3	N	0.0
5	Industry and information technology	13,946.0	N	0.0
6	Commerce	5,774.7	N	0.0

No.	Service Delivery Department	Budget expenditure (thousand RMB)	With internal audit office (Y/N)	Expenditure covered by internal audit (thousand RMB)
7	Human resources and social security	137,516.7	N	0.0
8	Transportation	92,909.4	N	0.0
9	Water resources	14,829.2	N	0.0
10	Agriculture and rural affairs	21,462.0	N	0.0
11	Forestry	47,677.3	N	0.0
12	Culture and tourism	13,111.8	N	0.0
13	Health	227,971.1	N	0.0
14	Natural resources	390,305.0	N	0.0
Total		1,393,237.9(A)		304,164.0 (B)
Percentage				21.8% (=B/A*100%)

Data sources: Guidong Finance Bureau, Guidong Audit Office.

Table 3.42: Calculation of the internal audit coverage of revenues

Departments responsible for revenue collection with an internal audit office	Amount(billion)	Formula
GPB non-tax revenue	0.08	A
GFB revenue	0.5	B
Subtotal	0.58	C=A+B
Finance Bureau (collecting all non-tax revenue)	0.58	D
Internal audit coverage ratio	100%	E=C/D x 100%

Data sources: Guidong Finance Bureau, Guidong Audit Office.

Dimension PI-26.2 Nature of audits and standards applied

227. As shown in Table 3.40, in Guidong, only the Education Department has implemented an internal audit function. It focusses on evaluating the adequacy and effectiveness of internal control.

228. While a quality assurance process has not yet been established, the assessors were told in interviews with internal auditors, and it is evident from sampled audit files, that internal auditors are provided training by the internal audit unit and that they are required to follow the professional standards issued by the China Institute for Internal Audit. Moreover, for 2019, the Guidong Education Bureau entrusted an accounting firm with the internal audits, so audit quality would be guaranteed, and high-risk areas focused on.

229. The score is B.

Dimension PI-26.3 Implementation of internal audits and reporting

230. The Education Bureau prepares an annual internal audit work plan and a summary report of its annual audit work (while all required evidence is maintained in audit files). As shown in Table 3.43, for FY 2018, the rate of internal audit completion at the Education Bureau was 100 percent.

231. The score is A.

Table 3.43: Percentage of completion of internal audit plans

Departments	Number of planned audit for FY 2018 (A)	Number of completed audits in FY 2018 (B)	Completion rate (=B/A*100%)
Education	4	4	100%

Data sources: Guidong Education Bureau.

Dimension PI-26.4 Response to internal audits

232. After receiving the audit reports, management of the Education Bureau requires entities with issues disclosed by the internal auditors to take remedial action. For FYs 2016-2018, all necessary actions were taken, and rectification reports were submitted to the internal auditors within twelve months. The score is A.



PILLAR 6: Accounting and Reporting

233. This pillar measures whether accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

PI-27. Financial data integrity

234. This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores. The assessment covers the budgetary units of the SNG over the preceding FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-27. Financial data integrity (M2)		C+
27.1. Bank account reconciliation	Reconciliation of all active government bank accounts is completed within 5 days after the end of each month.	B
27.2. Suspense accounts	There is no suspense account in Guidong County.	NA
27.3. Advance accounts	There is no advance account in Guidong County.	NA
27.4. Financial data integrity processes	Access and changes to the financial records are restricted and can be traced, but the financial network has not passed the second level computer information system security protection certification, and there is no unit in charge of verifying financial data integrity.	C

Dimension PI-27.1 Bank account reconciliation

235. In addition to the TSA, there are seven other types of special bank accounts in Guidong County, which are (i) the non-tax income remittance account, (ii) the food risk fund account, (iii) the education transfer fund account, (iv) the escrow funds account, (v) the agricultural integration fund account, (vi) the social security accounts and (viii) the non-tax income management account, which actually manages education funding. All these accounts are opened at different commercial banks. They are reconciled once a month within five days after the end of each month. Thus, the score is B.

Dimension PI-27.2 Suspense accounts

236. There is no suspense account in Guidong County.

Dimension PI-27.3 Advance accounts

237. There is no advance account in Guidong County.

Dimension PI-27.4 Financial data integrity processes

238. The Golden Finance Project network system, which is being used by the Guidong Finance Bureau, is

managed by its Financial Information Centre. The head of the Financial Information Centre confirmed that everyone who requests access to the network system needs to download a security access software and the antivirus software and pass a number of software tests. Users who do not pass the software tests cannot access the financial network and will be automatically blocked by the network. So far, all illegal access has been blocked.

239. In addition, computers suffering from virus infection can be detected by the vulnerability scanning system and the antivirus software. The information system can connect with all budgetary units so financial data can be shared, and all operations can be traced. However, the financial network has not passed the second level computer information system security protection certification issued by the Public Security Department, so there is no evidence for audit trail, and there is no unit in charge of verifying financial data integrity in Guidong Finance Bureau. Therefore, the score is C.

PI-28. In-year budget reports

240. This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. The assessment covers the budgetary units of the SNG over the last completed FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-28. In-year budget reports (M1)		B+
28.1. Coverage and comparability of reports	There are monthly reports and analyses on budget execution. Coverage and classification of data allow for direct comparison to the original budget. All revenues and expenditures, including those from transfers to de-concentrated units within the SNG, are included in the in-year budget reports.	A
28.2. Timing of in-year budget reports	There are monthly reports and analyses on budget execution released within ten days of the end of the reported period.	A
28.3. Accuracy of in-year budget reports	The in-year budget report data are largely consistent and useful for the analysis of budget execution. An analysis report is prepared on a monthly basis. Information is captured at all payment stages. The reports, however, were not audited.	B

Dimension PI-28.1 Coverage and comparability of reports

241. The Guidong Finance Bureau prepares monthly reports and analyses on budget execution (see Table 3.44). Coverage and functional classification of data are comparable to the original budget. All revenues and expenditures, including those from transfers to deconcentrated units within the SNG, are included in these reports. The score is A.

Table 3.44: In-year budget reports, FY 2018

Coverage and classification			Timeliness		Accuracy		
Allows direct comparison to original budget (Y/N)	Level of detail A=All budget items P= Partial aggregation M= Main administrative headings E=Main economic headings	Includes transfers to de-concentrated units (Y/N)	Frequency W/M/Q N= >Q'ly	Within: 2/4/8 weeks N= >8weeks	Material concerns (Y/N)	H/Y Analysis prepared (Y/N)	Payment info E=Exp C=Commit
Y	A	Y	M	2	Y	Y	E

Data source: Guidong Finance Bureau.

Dimension PI-28.2 Timing of in-year budget reports

242. In FY 2018, the Guidong Finance Bureau prepared the budget execution report and the budget execution analysis once a month. The tables and reports were released within ten days of the end of the month and were

provided for internal government use. The assessors collected these tables and reports with exact dates of issuance. This meets the criteria for an A score.

Table 3.45: Issue dates of in-year budget reports, FY 2018

Reported month	1	2	3	4	5	6	7	8	9	10	11	12
Issue date	/	/	4.10	5.10	6.10	7.10	8.10	9.10	10.10	11.10	12.10	/

Dimension PI-28.3 Accuracy of in-year budget reports

243. The in-year budget execution reports for FY 2018 remained unaudited. However, referring to dimension 27.4, the report data were largely consistent and useful for the analysis of budget execution. The government adopts a cash-based accounting system, so the in-year budget execution reports included information on all payment stages. This meets the criteria for a B score.

PI-29. Annual financial reports

244. This indicator assesses the extent to which annual financial statements (AFS) are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains the following three dimensions (see the table below) and uses the M1 (WL) method for aggregating dimension scores. The assessment covers the SNG budgetary units over the last completed FY (2018) for dimensions 29.1 and 29.2 and the last three years' financial reports (2016-2018) for dimension 29.3.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-29. Annual financial reports (M1)		D+
29.1. Completeness of annual financial reports	An annual budget execution report is prepared and is comparable with the approved budget. The report includes information on revenues, expenditures, cash balances, and liabilities, but not on financial assets or tangible assets.	C
29.2. Submission of reports for external audit	Budget execution reports for budgetary units are submitted to the County Audit Office within 3 months of the end of the FY. The budget execution reports are prepared in line with the national standards stipulated by MOF. However, the accounting standards adopted are not disclosed in notes or other parts of the financial reports.	A
29.3. Accounting standards		D

Dimension PI-29.1 Completeness of annual financial reports

245. The budget execution report, which is comparable with the approved budget, is prepared annually by the Finance Bureau (Table 3.46). The report contains information on revenue, expenditure, cash balances and liabilities, but no information about financial and tangible assets. Based on the provided evidence, the score for this dimension is C.

Table 3.46: Annual financial reports

Completeness					Date of submission for external audit	
Prepared annually (Y/N)	Comparable with approved budget (Y/N)	Information F=Full P=Partial B=Basic	Cash flow statement (Y/N)	Balance Sheet C=Cash only FO=Financials only F=Full	Date of submission	Within: (3/6/9 months)
Y	Y	P	N	FO	February 28, 2019 (for FY 2018 audit)	3 months

Data source: Audit reports for FY 2016, 2017, 2018; annual financial reports.

Dimension PI-29.2 Submission of reports for external audit

246. The Finance Bureau has not recorded the dates of submission of its annual financial reports to the Audit Office, but the financial report is usually submitted to the Audit Office in March every year. Officials from the Treasury Division also confirmed that the Audit Bureau usually required units to be audited to provide their financial statements by the first day the auditors start their field work. In FY 2018, the audit of financial reports started on February 28, 2019, so it is assumed that the financial report was submitted to the Audit Office no

later than February 28, 2019.

247. The financial reports of Guidong County are assumed to have been submitted to the County Audit Office within three months of the end of the FY. The score is A.

Dimension PI-29.3 Accounting standards

248. The Chinese MOF stipulates accounting standards and a template for financial reports that all SNGs and budgetary units must follow. During the assessed time period (2016-2018), three accounting regulations applied to different types of government entities: the General Budget Accounting Regulation, the Accounting Regulation for GAUs, and the Accounting Regulation for PSUs. While the first regulation is on cash basis, the other two are on modified accrual basis. Each year, only the budget execution report was prepared and submitted to the People's Congress and audited by the County Audit Office. The GAUs and PSUs also prepared financial reports in line with their accounting regulations, and the auditors may also have audited these financial reports during their financial audit, however, no consolidated accrual basis financial reporting was prepared.

249. As of 2015, the MOF initiated a public accounting reform in China and selected county governments were required to prepare accrual basis financial reporting on a pilot basis, but these reports were neither submitted to the People's Congress nor audited by the Audit Office. In 2017, the MOF issued a new government accounting regulation and it is the first time that accrual basis accounting was uniformly adopted in the public sector in China. The new regulation became effective on January 1, 2019. Since the assessed period covers the last three FYs (2016-2018), the budget execution report is regarded as the financial report of the budgetary government.

250. The budget execution reports are prepared in line with the prevailing accounting standards stipulated by the MOF regulations, but the standards adopted are not disclosed in the notes or other parts of the annual report. The score for this dimension is D.



PILLAR 7: External Scrutiny and Audit

251. This pillar assesses whether public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

PI-30. External audit

252. This indicator examines the characteristics of external audit. This indicator is used when the external audit of SNGs is performed by the national Supreme Audit Institution (SAI) or its regional offices. It contains four dimensions and uses the M1 (ML) method for aggregating dimension scores. The assessment covers the Guidong budgetary units and EBUs over the last three completed FYs (2016-2018) for 30.1, 30.2 and 30.3, and for 30.4 'at time of assessment' (2019).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-30. External audit (M1)		D+
30.1. Audit coverage	In the past three FYs, the Guidong Audit Office conducted the annual budget execution audit and the economic responsibility audits for a certain number of budgetary units. However, it did not conduct budget execution audits of 14 sampled departments.	D
30.2. Submission of the audit reports to the subnational elected legislature	During the past three FYs, the Audit Office submitted the audit reports to the legislature within six months after receiving the financial reports.	B
30.3. External audit follow-up	The rectification reports show that in the last three FYs, required follow-up actions were taken by the related entities effectively and timely to respond to the issues disclosed by the auditors.	A
30.4. Independence of the public audit institution in charge of SNGs	The Audit Office operates independently from the executive with respect to procedures for appointment and removal of the Head of the institution, the planning of audit engagements, and the approval and execution of the institution's budget. Although the Audit Office is one of the line bureaus under the leadership of the County Government and uses the executive procedure for budget request submission and execution, the executive does not interfere in the budget approved by the People's Congress for the Audit Office. This independence is assured by law. Moreover, the institution has unrestricted and timely access to records, documentation and information. However, the Audit Office does not operate independently from the executive with respect to arrangements for publicizing reports.	B

Dimension PI-30.1 Audit coverage

253. The Guidong Audit Bureau adopts an approach called '1+N' when carrying out its audit. That means, besides conducting the annual budget execution audit, some special audits are carried out, including government investment audits, the poverty alleviation audits, and medical insurance fund audits. The special audits conducted by the Guidong Audit Office during the FYs 2016-2018 are shown in Table 3.47.

Table 3.47: External audit coverage, FYs 2016-2018

FY	Coverage of Special Audit	Audited budget execution report at county level (Y/N)
2016	The comprehensive agricultural development project	Y
2017	The forest recovery and development project fund	Y
	The medical insurance fund The payment with false invoices audit program	
2018	The poverty alleviation program	Y

Data source: Guidong Audit Office.

254. During FYs 2016-2018, the Guidong Audit Office completed the audit for annual budget execution and other fiscal revenue/expenditure affairs, as well as the economic responsibility audits and financial revenue/expenditure audits for some budgetary units. However, it did not conduct budget execution audits for the 14 sampled departments separately. Therefore, the score for this dimension is D.

Dimension PI-30.2 Submission of the audit reports to the subnational elected legislature

255. The Guidong legislature recorded the dates of submission of the audit reports, which indicate the Audit Office submitted the audit reports to the legislature no later than six months upon receipt of the financial reports in all three of the assessed FYs (see Table 3.48). The score for this dimension is B.

Table 3.48: Submission of audit reports to legislature

FY	Receipt of financial reports	Submission of the audit reports	Days of preparing the audit reports
2016	March 6, 2016	August 22, 2016	169 days
2017	June 5, 2017	August 15, 2017	71 days
2018	June 14, 2018	October 23, 2018	131 days

Data source: Guidong Audit Office, Guidong People's Congress.

Dimension PI-30.3 External audit follow-up

256. In FY 2016, the annual audit report was reviewed at the meeting of the Standing Committee of the Guidong People's Congress on August 29, 2016. The follow-up reports were submitted to the Audit Office on November 13, 2016. The seven issues disclosed in the audit report had been rectified entirely. Moreover, all audit suggestions had been adopted by the related entities. The ratio of follow-up actions being completed or in process was 100 percent.

257. In FY 2017, the annual audit report was reviewed at the meeting of the Standing Committee of the Guidong People's Congress on August 31, 2017 and the rectification report was scrutinized on December 6, 2017. The report stated six issues that had been entirely rectified. Two were partially rectified. All audit recommendations were accepted. The follow-up ratio was 100 percent.

258. Similarly, in FY 2018, the annual audit report was reviewed at the meeting of the Standing Committee of the

Guidong People's Congress on October 31, 2018, and the rectification report was scrutinized on December 18, 2018. Three out of the total eight issues disclosed in the audit report had been rectified, and five issues had been partially rectified. All recommendations were accepted by the auditees. The follow-up ratio was 100 percent.

259. The evidence shows that in the past three FYs, required follow-up actions were taken effectively and timely to respond to the issues disclosed by the auditors. The dimension is rated A.

Dimension PI-30.4 Independence of the public audit institutions in charge of SNGs

260. According to Article 15 of the *Audit Law of the PRC*, the heads of auditing organizations are appointed or dismissed in accordance with statutory procedures. None of them may be dismissed or replaced unless they are found guilty of illegal acts, negligence, or no longer qualified for the position. Meanwhile, Article 13 of the *Regulation on the Implementation of the Audit Law of the PRC* states that higher level audit entities should be consulted on the appointment and removal of the chief or deputy leaders of the auditing organizations of the local governments at all levels (see Table 3.49). Article 15 of the Audit Law states that auditing entities are to independently exercise their power of audit supervision in accordance with the Audit Law and be free from interference of any administrative and social organization or individual.

261. The above-mentioned laws and regulations provide concrete basis for securing the independence of audit entities. In Guidong County, the appointment of the director of the Audit Office is approved by the County People's Congress. The Audit Office can independently carry out its audit and has access to any required data without restriction. The County Audit Office is one of the line bureaus under the leadership of the county government and uses executive procedures for budget request submission and execution. The Audit Law requires that funds for conducting audits must be secured, and the budget of the SAI be approved by the People's Congress. The executives do not interfere in the budget approved by the People's Congress for the SAI. Therefore, the score is B.

Table 3.49: SAI independence

Independence criteria	Extent to which criteria met and materiality (where relevant)
Appointment and removal of head of SAI in charge of SNGs	The appointment or removal of the head of the SAI must be approved by the County People's Congress and a higher-level audit entity should be consulted in advance.
Planning audit engagements	The Audit Office can plan its audit tasks independently and is free from interference of any other entities.
Arrangements for publicizing reports	All audit reports are required to be published on the government website.
Approval of budget	Since the Audit Office is one of the line bureaus under the leadership of the County Government, it needs to prepare its budget in line with the instructions of the County Finance Bureau. Moreover, the Audit Law requires that the funds for conducting audit must be secured and the budget of the SAI be approved by the People's Congress.
Execution of budget	The SAI can execute its budget independently but staff salaries and the recruitment of consultants should follow the related government requirements.
Legal basis for independence	Both the constitution and the Audit Law provide a concrete basis for securing the independence of the SAI.
Unrestricted/timely access to records	The Audit Office is authorized to access data and documents of auditees without restriction.

Data source: Guidong Audit Office.

PI-31. Legislative scrutiny of audit reports

262. This indicator focuses on legislative scrutiny of the audit reports of the SNG, including its institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf. It has four dimensions and uses the M2 (AV) method for aggregating dimension scores. The assessment of this indicator is based on the audit reports submitted to the legislature within the last three FYs (2016-2018), except for dimension 31.4, which refers to FY 2018 only.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-31. Legislative scrutiny of audit reports (M2)		C+
31.1. Timing of audit report scrutiny	Scrutiny of the audit reports was completed by the Standing Committee of the County People's Congress within one month in all three FYs from receipt of the reports.	A
31.2. Hearings on audit findings	An in-depth hearing took place on the main findings of the audit report once every year. Some audited entities which received a qualified or adverse audit opinion or disclaimer in the audit report participated in the hearing.	C
31.3. Recommendations on audit by legislature	The County People's Congress required the audited units to rectify their existing problems and issued recommendations on actions to be implemented at the audit hearing. However, County People's Congress did not follow up the remedial actions until FY 2017. From FY 2017, once receiving the follow-up reports from auditees, a summarized report was prepared by the Audit Office and submitted to the Standing Committee. Following this, an official meeting was organized by the Standing Committee to hear the remedial actions being taken.	C
31.4. Transparency of legislative scrutiny of audit reports	The hearings on the audit report for FY 2018 were not open to the public, and the follow-up report for FY 2018 was not published on the government's website.	D

Dimension PI-31.1 Timing of audit report scrutiny

263. In the past three FYs, the annual audit report was submitted to the Standing Committee of the County People's Congress for first scrutiny in July, August or October. The Standing Committee meeting was held in the same month. At the meeting, the County Finance Bureau usually gives a presentation on the draft budget execution report of the previous year and the first half year of the current year. The County Audit Office also presents its audit results on budget execution of the previous year. The Standing Committee then approves the reports after in-depth discussions. In the three assessed FYs, it took no longer than one month from submission of the audit report to the approval of the report by the Standing Committee (see Table 3.50). Therefore, the score is A.

Table 3.50: Timing of legislative scrutiny of audit reports

Audited AFS for FY	Date of submission of audited financial reports	Date of finalization of legislative scrutiny
2015	August 22, 2016	August 29, 2016
2016	August 15, 2017	August 31, 2017
2017	October 23, 2018	October 31, 2018
2018	July 10, 2019	July 23, 2019

Data source: Guidong Audit Office.

Dimension PI-31.2 Hearings on audit findings

264. The 2016 audit report hearing was held on August 29, 2016. Only two of the four budgetary units concerned attended the hearing, i.e., the Finance Bureau and the Safety Supervision Bureau. The remaining two units, the Key Office and the Government Investment and Financing Construction Management Center, did not participate in the hearing. The participation rate of the audited entities with issues disclosed was 50 percent.

265. The 2017 audit report hearing was held on August 31, 2017. Only the Finance Bureau participated in the hearing. The remaining two units, the Soil and Water Conservation Test Station and the State owned Assets Management Center, did not participate in the hearing. The attendance rate of the audited entities with issues disclosed was 33 percent.

266. Although the audit report for 2018 disclosed a number of problems, only three of the mentioned units attended the hearing, that is, Dongluo Township, Xinfang Township, and the Finance Bureau. The remaining four units, the Real Estate Administration Bureau, the Road Transportation Management Office, the Traffic Police Brigade of Public Security Bureau and the State owned Assets Management Center, did not participate in the hearing. The attendance rate of the audited entities with issues disclosed was 43 percent.

267. In sum, in-depth hearings on audit findings were held annually. The representatives of only some entities with issues disclosed in the audit report participated in the hearing. Therefore, the score is C.

Dimension PI-31.3 Recommendations on audit by legislature

268. While the Standing Committee of the County People's Congress called for its meeting to scrutinize the audit report, those audited units with issues disclosed in the audit report were required to rectify their existing problems. At the audit hearing, the County People's Congress issued recommendations on actions to be implemented. After a period of rectification, a report prepared by the Audit Office summarizing the follow-up reports of the units was presented and discussed at the meeting called for by the County People's Congress.

269. Since FY 2017, the Standing Committee has systematically followed up on the rectification of the issues disclosed in the audit reports via an IT system, which was set up in FY 2017 to help track the remedial actions taken by the concerned units. This was not yet the case in FY 2016. Therefore, the score is C.

Dimension PI-31.4 Transparency of legislative scrutiny of audit reports

270. Although in FY 2018, the Standing Committee held a hearing with the concerned units to follow up on the findings of the audit reports, the hearing was not open to the public, and the follow-up report for FY 2018 was not published on the government's website. The assigned score is D.

4 CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS

4.1 Integrated assessment across the PIs

4.1.1 Budget reliability

271. Guidong generally complies to the prescriptions of the budget process, mandated by the central and provincial governments. However, over the three years covered by this assessment (2016-2018), the Guidong PFM systems failed to produce a credible budget, as the variance in both aggregated and composite expenditure outturns was significantly high (PI-1 and PI-2 are scored D and D+ respectively). The actual expenditure, as a percentage of budget allocation ranged from 109.6 to 206.8 percent, and composite variances in expenditures by administrative classification were between 46.6 and 62.7 percent.

272. However, the context Guidong sets its budget in is important. The weak budget reliability in Guidong depends for the most part on the reliability of information on grants to be received from the HLGs. HLG-1 indicator scored D+ in terms of variation in both total grants (HLG-1.1) and earmarked grants (HLG-1.2). Their disbursement, though a schedule is prescribed in the 2014 Budget Law, was only partially on time (HLG-1.3, score B).

273. On the revenue side, Guidong could meet the challenge of producing accurate total revenue projections in business-as-usual years like 2017, but was not able to prepare for unpredictable changes introduced by the HLGs during FYs 2016 and 2018. The aggregate revenue outturn was 107.9 percent in FY 2017, in FYs 2016 and 2018, it was 89.5 percent and 83.6 percent, respectively. Likewise, the composition variance of revenue was also high, with 48.2, 29.4, and 23.8 percent in 2016, 2017, and 2018, respectively (PI-3, score D).

274. Lack of predictability of grants and revenue policy changes hampered the capacity of local governments to forecast cash or credibly allocate budgets to budgetary units. Weak control of in-year budget allocation (PI-21 scored D+) and expenditure arrears (PI-22 scored D) lowered the predictability of resources and the ability of budgetary units to effectively deliver public services.

4.1.2 Transparency of public finances

275. The budget and accounts classification by function and economic type is unified nation-wide and generally consistent with international practice. Classification by economic type is only available for budget execution and reporting of the GPB, not the GFB, which hence results in a D rating (PI-4). While budget documentation is reasonable, it does not provide macroeconomic assumptions that underpin the projections of revenues and expenditures, or information on financial assets, explanation of budget implications of policy changes, or tax expenditures (PI-5 is rated C). Coverage of government operations outside financial reports is very good (PI-6 is rated A), though the public has limited access to fiscal information (PI-9 is rated D).

276. Only 16.42% of expenditures for service delivery within Guidong County have a framework of PIs relating to the outputs of outcomes, and independent evaluation of the efficiency or effectiveness of service delivery have not been carried out, though information on resources received by frontline service delivery units is well

collected and recorded. PI-8 is hence rated D+.

4.1.3 Management of assets and liabilities

277. The performance of de jure system for asset and liability management is mixed. Public assets, including their use and age, are well recorded, and so are asset disposals – for which clear procedures are in place (PI-12 scored B). The Guidong Finance Bureau has a computerized system to track and update information on explicit debt and explicit contingent liabilities (PI-13.1 scored C). Economic analyses are conducted of all major public investment projects and are reviewed by the Guidong DRB, which is also responsible for selecting the investment projects and making proposals to the County Committee (PI-11.1 and PI-11.2 scored C).

278. However, the costing information of the public investment projects is not included in the budget documents, and the monitoring of total cost and physical progress has not covered all of the major projects (PI-11.3 and PI-11.4 scored D).

279. An additional assessment was carried out for the LGFV. The results are presented in Annex 7. The LGFV produces comprehensive and credible financial reports and receives timely audit. There is strong monitoring over investment projects and a timely updated tracking of its debt. All information is submitted to the government but not disclosed to the public.

4.1.4 Policy-based fiscal strategy and budgeting

280. Although the government prepares five-year development plans and other strategies, the budget was at the time of review framed in a purely annual perspective. Budget preparation is prepared merely on basis of the budget reports of the previous years, which include data on HLG transfers, revenues and expenditures of Guidong. No macroeconomic assumptions are considered. There is no clear linkage of the budget with the development strategy, or explanation about the fiscal implications of policy changes (PI-14 is rated D+).

281. The budget process follows a prescribed annual budget calendar. According to this calendar, the budgetary units are provided four weeks to complete their detailed budget estimates. However, the budgetary units receive notice of the cabinet-approved ceilings only one week before they submit their final budget proposals. PI-17 is rated C+.

282. The annual budget proposal is submitted to the People's Congress, and budget scrutiny by the People's Congress covers both aggregated and detailed information on expenditures and revenues, as well as fiscal policies. In all the last three FYs the legislature approved the annual budget before the start of the FY. In addition, rules on budget adjustments were adhered to in most instances. However, the legislature was provided less than one month to review the budget proposal in two of the last three FYs (PI-18 is rated B+)

4.1.5 Predictability and control in budget execution

283. All taxes are administered and collected by the State Administration of Taxation and transferred to the SNGs according to tax-sharing arrangements. PI-19 is therefore not applicable. All tax revenues are transferred to the Treasury on a daily basis, while non-tax revenues are paid directly into the special accounts under the TSA system. The Treasury Office of the County Finance Bureau keeps good record of revenues from all sources and prepares a monthly consolidated report (PI-20 scored A).

284. Predictability of in-year resource allocation is very low (PI-21 scored D+). The Guidong Finance Bureau obtains a daily balance report from the Treasury, but the balances of special accounts are consolidated only monthly. (The balance of the daily consolidated Treasury accounts for only 43 percent of all the bank balances.) The Finance Bureau does not monitor or forecast cash flows. Moreover, the budget is not reliable, in-year budget adjustment is frequent and only partially transparent. As a result, budgetary units could not properly administer commitments. The incurred expenditure arrears were monitored only after 2018, and data on the stock of expenditure arrears were not made available to the Finance Bureau (PI-22 scored D).

285. Payroll control in the county is reasonable (PI-23 scored C+). It was assured through a shared database and centralized payment system directly from the Treasury to each regular employee of the GAUs and PSUs. The approved employee list, personnel database and payroll are all directly linked through an IT system and updated on a real time basis, which constitutes an effective assurance for budget control, data consistency and automatic monthly reconciliation. There is no delay in payroll payment by the Centralized Payment Center of the Treasury. Retroactive adjustment is rare. However, payroll audits were conducted only by internal auditors together with other revenue and expenditure audits.

286. All procurements of works, goods and services above a certain threshold are processed via the Chenzhou Public Resources Transaction Center, all by competitive method. The DRC keeps record of large contracts, while the Finance Bureau keeps record of medium-sized contracts. There is no recording of small value procurements. Citizens have access to certain basic procurement information. A complaints handling system is in place and meets good practice criteria, but remains to be tested in practice. Data on the resolution of procurement complaints are only partially available to the public (PI-24 scored D+).

287. The internal control system for non-salary expenditure is in place. Segregation of duties is prescribed throughout the whole budget execution process with clearly defined responsibilities for each stage. All payments were processed in line with established payment procedures. All irregular payments received advance authorization by the mayor. However, effective control over expenditure commitments is not in place (PI-25 scored B).

288. The internal audit function is not well developed. Only 21.8 percent of budget expenditures were audited in FY 2018. However, for the only covered budgetary unit, an annual work plan and a summary report for its internal audit work were prepared, the audit plans were fully completed, and the management timely and proactively responded to the auditors' suggestions disclosed in the internal audit report. The internal audit activities meet professional standards, but a quality assurance process has not been established (PI-26 scored D+).

4.1.6 Accounting and reporting

289. Overall financial data integrity is reasonable (PI-27 rated C+). All accounts are regularly reconciled, within 5 days after the end of each month. A rigorous process is in place to protect the integrity of financial data, and only authorized staff have access to the system. All operations can be traced. However, the IT-system does not sufficiently meet system security standards, and no unit is in charge of verifying financial data integrity.

290. The in-year budget reports are comprehensive and timely. The Finance Bureau prepares monthly reports and analyses on budget execution, which cover all revenues and expenditures including de-concentrated units within the county. The coverage and classification of these reports are comparable to the original budget. Monthly reports and analyses on budget execution are released within ten days of the end of the reported

period and provide useful information for analysis. However, the in-year budget reports were not audited (PI-28 scored B+).

291. The annual consolidated financial reports (budget execution reports) were prepared according to prevailing national standards at the time of report preparation. They covered all budgetary units and were comparable with the approved budget. They were submitted to the County Audit Office within three months of the end of the FY. The reports included information on revenues, expenditures, cash balances and liabilities, but no information on financial assets or tangible assets. Moreover, the adopted accounting standards were not disclosed in notes or other parts of the financial reports (PI-29 scored D+).

4.1.7 External scrutiny and audit

292. The external audit system is not well developed. In the FYs 2016 to 2018, the County Audit Office did not conduct budget execution audit for major service delivery departments, though it submitted the annual budget execution audit reports for the whole county to the legislature within six months after receiving the financial reports. In the three assessed FYs, the County Audit Office could independently carry out its audit and had access to the necessary data without restriction. A number of material issues and systemic and control risks were detected and disclosed in the audit reports, and remedial action was taken by the audited units both effectively and timely. Its budget for conducting audit is secured by the Law, but still contingent on the appropriation of the Finance Bureau. The head of the Audit Office, being a government unit, still reports to the Mayor, though there are well prescribed statutory procedures for appointing or dismissing the head of the Audit Office, subject to the review of an upper-level audit agency and approval of the County People's Congress. PI-30 scored D+.

293. FYs 2016 to 2018, the Standing Committee of the County People's Congress provided timely approval (no longer than one month) of the audit reports and called for an in-depth hearing on the main findings of the audit reports once a year. Some audited entities with issues disclosed in the audit reports participated in the hearing. The Standing Committee followed up and conducted hearings on the rectification taken by the auditees. The hearings on the audit report for FY 2018 was not available to the public, and the follow-up report for FY2018 was not published on the government website. PI-31 scored C+.

4.2 Performance changes since a previous assessment

294. This is the first assessment of Guidong County.

4.3 Strengths and weaknesses of the PFM systems

295. The main strengths of PFM in Guidong County are related to in-year budget reporting, public asset management, and internal controls. Main weaknesses are related to budget reliability, transparency, and scrutiny; performance and medium-term orientation of the budget; public investment management; the predictability of in-year resource allocation; the monitoring of expenditure arrears; annual financial reporting; auditing; and public access to fiscal information.

4.3.1 Fiscal discipline

296. The budget fails to impose much fiscal discipline in Guidong. The variation between outturn and budget estimates for aggregate expenditure (PI-1.1) and expenditure composition (PI-2.1) are both rated D, and there

are significant budget adjustments for expenditures within the fiscal year (PI-21.4 is rated C). The uncertainty caused by HLG transfers (HLG-1 is rated D+) certainly contributes much to the SNG's poor estimation of its expenditures. In-year policy change also makes it challenging for the SNG to project its own-source revenue (PI-3 is rated D). In-year resource allocation is frequent and largely unpredictable (PI-21, rated D+), modern cash management is missing (PI-21.2 is rated D), and monitoring for expenditure arrears only started in 2018 for investment project expenditures (PI-22 is rated D).

297. Effective control over expenditures by budgetary units helps to enhance fiscal discipline. No government operations take place outside financial reports (PI-6, rated A). Payroll control is effectively supported by centralized payment arrangements and auto-reconciliation through an IT system (the first three dimensions of PI-23 are rated A). The strong internal control of non-salary expenditures (PI-25, rated B) have ensured strict control over spending during budget execution. Moreover, there is a sound reporting and recording system for debts (PI-13.1, rated C).

298. Major threats to fiscal discipline in Guidong are posed where critical control and monitoring functions lay outside the PFM system. System weaknesses allowing for such threats include the entanglement of government units and the LGFV; the fact that investment financing is delinked from the government budget; that large procurements and contracts are supervised by the BRD, not by the Finance Bureau; that expenditure arrears and small procurements are not monitored; that there is no effective supervision of PCs; and that, while the Finance Bureau monitors financing by the LGFV, there is no fiscal risk assessment or monitoring of the operations of other PCs. In combination, this suggests a lack of institutional assurance for hard budget constraints. Consequently, off-budget borrowing may arise. The lack of public scrutiny of financial assets, liabilities, PCs and investment projects is seen as an additional threat to fiscal discipline.

299. Another issue that undermines the fiscal discipline lies in the weak auditing system. Both the internal audit (PI-26) and external audit (PI-30) are rated D+.

4.3.2 Strategic allocation of resources

300. The main PEFA indicator concerned with medium-term budget strategy, PI-14, was rated D+. There is no evidence that macroeconomic indicators have been considered for budget preparation, there is no medium-term budget strategy, and the fiscal impact of policy changes is not regularly estimated. In addition, costing information of major investment projects is not included in the budget documents (PI-11.3, rated D) and clear rules for prioritizing major investments are missing (PI-11.2, rated D).

301. The budget preparation process was assessed as reasonable (PI-17, rated C+). However, legislative scrutiny of the budget was weak (PI-18, rated D+), and rules for budget adjustments insufficiently adhered to.

302. Budget documentation was considered to be satisfactory, meeting three basic and two additional requirements (PI-5, rated C). However, the budget classification system is not fully in accord with international standards (PI-4, D).

4.3.3 Efficient use of resources for service delivery

303. In Guidong, the PFM systems could better in encouraging the efficient use of resources for service delivery. The budgetary units in Guidong do not regularly publish performance targets (PI-8.1, D), the disclosed information for service delivery performance covered less than 20 percent of total expenditures of service

delivery units (PI-8.2, D), and independent evaluation of the efficiency or effectiveness of service delivery has not been carried out (PI-8.4, D), though information on resources received by frontline service delivery units is well collected and recorded (PI-8.3, A). Moreover, the low budget reliability and predictability of in-year resource allocations (PI-21, D+) may adversely affect the capacity of service delivery units in making efficient use of resources.

304. Required mechanisms are in place to reduce possible leakage of funds, such as the asset management system (PI-12, B) and the internal controls over payroll (PI-23, C+) and non-salary expenditures (PI-25, B). Regarding the procurement management system, data are not available to allow for an evaluation of the procurement monitoring and procurement methods (PI-24.1 and 24.2, both D*).

305. The ratings for oversight arrangements are mixed (D+ for PI-30 and C+ for PI-31). Audit reports were submitted to the People's Congress within six months (PI-30.2, B) and the county People's Congress completed scrutiny of audit reports within one month (PI-31.1, rated A). The required follow-up actions were taken by related entities effectively and timely (PI-30.3, A). However, coverage of external audit is very low (PI-30.1, D), and audit reports and their hearings were not open to the public (PI-31.4, D).

306. In sum, the Guidong PFM system performs at sub-optimal level. However, the local PFM framework is subject to extensive regulation by the central and provincial governments. Progress in the development of local PFM systems is therefore a reflection of the concerted efforts of all tiers of governments. The on-going reforms pushed by the CG and fully embraced by Hunan Province, provide a good opportunity and foundation for the County Government to carry out the necessary PFM reforms.

307. The assessment results are to be interpreted with an important caveat in mind. As Annex 7 shows, the LGFV carries out sizeable quasi-governmental activities while operating outside of the PFM system (Annex 7, PI-6, D). The Guidong Government has basic monitoring obligations over the investment projects the LGFV implements (Annex 7, PI-11.4, C) and their liabilities (Annex 7, PI-13.1, B). A comprehensive assessment for LGFVs is warranted to reveal the impact of the LGFV on the PFM performance of Guidong County.

5 GOVERNMENT PFM REFORMS

5.1 Approach to PFM reforms

308. China has launched ambitious fiscal and taxation reforms since 2014. The revised landmark Budget Law and its associated directives have laid out a solid foundation for a modern fiscal framework. The main motivation is to better serve the transformation of the government functions from boosting growth to delivering quality public goods and services. The major changes that are mandated by the revised Budget Law fall into five areas: 1) making the budget comprehensive and transparent; 2) improving the credibility and medium-term perspective of the budget; 3) allowing provinces to borrow on budget within the regulatory framework; 4) making transfers transparent, fair and pro-equalization; and 5) hardening budget constraints. The recently released Government Investment Decree, if effectively implemented, should enhance the discipline and scrutiny around government investment projects and contain contingent liabilities associated with their financing.

309. While the revised Budget Law came into effect as of January 1, 2015, the Law did not provide for a grace period for transition. It is understandable that it will take time to set up the new budget framework across all SNGs. The Decision of the State Council on Deepening Reform of the Budget Management System (Guofa No. 45, 2014) laid out a comprehensive and detailed action plan. The expected deadline for completing the transformation of the budget system as envisioned in the new Budget Law is year 2020.

5.2 Recent and on-going reform actions

310. China has taken a programmatic approach in propelling its fiscal and taxation reforms forward, and significant progress has been made.

Division of expenditure responsibility

311. The central MOF has developed a guideline and roadmap for delineating inter-governmental expenditure responsibilities. The main principle is that the CG should directly provide public services that affect market integration and those with strong externalities, such as national defense. SNGs should provide functions that mainly benefit their respective jurisdictions, such as municipal transportation and rural roads. Responsibility for functions that have both national and localized benefits should be shared, including several high cost public services, such as basic pensions, compulsory education and basic medical care.

312. The delineation of functionalities between the central and SNGs will be completed by 2020, starting with national defense and state security in 2016, followed by education, medical care, environment protection and transport in 2017-18. This clarification of the division of functions is expected to increase the predictability of the mandates imposed on SNGs and the share of financing borne by the CG. The CG and SNGs finance their respective functionalities and share the finance for the shared functionalities. Functions in which there is a predominant national interest, such as basic old-age insurance, compulsory education, and primary health, would be largely financed by the CG based on nationally unified standards.

Inter-governmental transfer

313. The CG has allocated more budget to general transfer programs and consolidated many earmarked transfer programs that share policy objectives. By 2018, the share of general transfers increased from 56.8 percent in 2015 to 62.7 percent in 2018. The number of earmarked transfer programs was reduced from 220 in 2013 to around 70 in 2018. As the central MOF reclassified dozens of earmarked transfer programs for financing shared expenditure responsibilities as general transfers in 2019, the remaining earmarked programs will fall to less than ten percent of total transfers from the central to SNGs. Meanwhile, the CG is committed to provide advance notification to provinces on no less than 90 percent of general transfers prior to the budget year.

Taxation

314. Business tax has been replaced with VAT in all sectors. Resources tax and environment tax were introduced. Provincial governments were granted power to set the rate of resources tax within the boundary set by the CG. Tax collection is centralized to the State Administration of Taxation as of 2019.

Budget management

315. Cash-based budgeting has been upgraded to modified cash-based budgeting by recognizing arrears and fiscal commitments. Budget performance management is promoted to cover a higher share of government programs. Significant progress has been made in enhancing budget disclosure. The National Platform for Disclosure of Subnational Debt Information is in operation as of 2019. The accrual-based public sector accounting standards have been introduced. The government comprehensive financial report has been piloted in selected ministries and SNGs, and is expected to be rolled out to all SNGs by 2020.

Subnational debt management

316. SNGs have been granted the possibility to issue general obligation bonds and project bonds. The subnational bonds market has expanded quickly. Legacy off-budget debt by LGFVs before 2015 has largely been swapped with SNG bonds and brought to the government's book. China has established a regulatory framework for subnational borrowing along with a set of fiscal rules.

Regulatory framework on PPPs

317. The Chinese Government has made great efforts to facilitate PPPs while also regulating them. A nationwide platform has been developed to showcase the candidate PPP projects. Detailed practical guidelines for value-for-money assessment and fiscal capacity assessment approaches were issued along with other applying guidelines for PPPs in selected industries, such as urban utilities, toll roads, public renting houses, elderly care, and agriculture.

318. In addition to implementing the above fiscal reforms by the CG, Hunan has been closely engaging with the World Bank and pioneered several reforms at provincial level. These include the introduction of a medium-term fiscal strategy anchored to a debt sustainability analysis; capital budgeting that links the government budget and the investment plans via an itemized project list; a monitoring system and regulatory framework for sub-provincial government borrowing; and a citizen budget and platform for subnational debt disclosure. In order to further improve PFM efficiency, Hunan Province is in the process to develop a fully integrated financial

management information system (IFMIS). Phase One is to be launched in 2020 to process the PFM functions for all budgetary units of the provincial government. The IFMIS, once completed, will cover all city, county and township governments in Hunan.

319. Nevertheless, some fiscal reform aspects, particularly in areas of bringing a medium-term perspective and legislative scrutiny to the budget, remain to be tackled.

Medium-term fiscal perspective

320. The 2014 Budget Law effective as of Jan.1, 2015 called for the introduction of a multi-year budget balancing mechanism and the implementation of medium-term fiscal programming. Following the enactment of the Law, the CG immediately experimented with a three-year rolling fiscal plan, and the State Council issued the *Opinions on Implementing Medium-Term Fiscal Programming Management* (Guo Fa, 2015, No. 3) and proposed to adopt medium-term fiscal programming for FY 2015. In the same year, the MOF requested fiscal departments at all local levels to formulate a three-year rolling budget for FYs 2015 to 2017 on a trial basis. Two circulars were issued, one on the implementation of medium-term fiscal programming by local governments (Cai Yu, 2015, No. 38), and the other on the implementation by departments of the CG (Cai Yu, 2015, No. 43). However, these early experiments provided limited successful experience and no detailed operational guidance has been drafted by the MOF to date.

Legislature budget scrutiny

321. With regard to the role of the legislature in budgeting, in March 2018, the General Office of the Chinese Communist Party (CPC) Central Committee issued guiding opinions on budget transparency (Zhongbanfa, No.13, 2016). These require that the current focus of the People's Congress on budget review and supervision be expanded to expenditure budgeting and policy. They also require the government to project the fiscal impacts of proposed policy changes, and for these to be included in the budget documents of the sponsoring government. So far, budget scrutiny of the legislature has been limited to aggregates and major revenue and expenditure items.

5.3 Institutional consideration

322. PFM in China is a long-term endeavour. It requires continued adaptation of all public-sector institutions. The World Bank, in its mid-term review of China's fiscal and taxation reforms included in its 13th five-year-plan, recommended China to apply a results-oriented implementation strategy tailored to China's political, social and economic context. The choice of Chinese policy makers is not whether, but how, to reform the fiscal system - how optimal design characteristics, robust political support, and enhanced organizational capability to implement and adapt envisaged reforms will be forged over time. PFM reform shall moreover take a whole-government approach. This has two implications. Fiscal reform should be viewed not just as a task of the Department of Finance, but rather requires the concerted effort of all government institutions.

Annex 1: Summary of performance indicators

Indicator/dimension	Score	Description of requirements met
SNG pillar: Intergovernmental fiscal relations		
HLG-1. Transfers from an HLG	D+	Scoring Method M2
HLG-1.1 Outturn of transfers from higher-levels of government	D	Actual transfer outturns for 2016, 2017 and 2018 were 204.8%, 253.1% and 109.4% of the original budget, respectively. They were above 116% of the original budget estimate in two of the last three FYs.
HLG-1.2 Earmarked grants outturn	D	The variance in transfer composition of ear-marked grants was 65.5%, 80.5% and 14.0% for FYs 2016-2018, respectively. It was higher than 15% for two of the completed FYs.
HLG-1.3 Timeliness of transfers from higher-levels of government	B	A disbursement timetable is prescribed by law. Over 75 percent of actual transfers were on time in one of the last three years.
HLG-1.4 Predictability of transfers and new expenditure assignments	D	The HLG provides only partial information on transfers for the coming FY, and there is no explanation for changes between the current and the previous year.
HLG-2. Fiscal rules and monitoring of fiscal position	NU	HLG-2 is a pilot indicator. Guidong County government chose not to use this indicator in this assessment.
Pillar I. Budget Reliability		
PI-1. Aggregate expenditure outturn	D	Scoring Method M1
PI-1.1 Aggregate expenditure outturn	D	Aggregate expenditure outturn deviated significantly from the budgeted amounts in the last three FYs, amounting to 165.0%, 206.8% and 109.6% of the approved budget, respectively.
PI-2. Expenditure composition outturn	D+	Scoring Method M1
PI-2.1 Expenditure composition outturn by function	D	Variance in expenditure composition by functional classification was more than 15% for each of the last three years. The variances of the three years are 60.2%, 62.7% and 46.6%, respectively.
PI-2.2 Expenditure composition outturn by economic type	NA	2016-2018, there was no economic classification for governmental funds.
PI-2.3 Expenditure from contingency reserves	A	In the last three FYs, the budget for contingency reserves was arranged but not used. Therefore, actual expenditure charged to a contingency vote was on average less than three percent of the original budget.
PI-3. Revenue outturn	D	Scoring Method M2
PI-3.1 Aggregate revenue outturn	D	In 2016, 2017 and 2018, actual aggregate revenue outturn was 89.5%, 107.9% and 83.6% of budgeted revenue, respectively. The performance is less than required for a C score.
PI-3.2 Revenue composition outturn	D	Composition variance in revenue collection in the last three FYs was 48.2%, 29.4% and 23.8% respectively, all more than 15%.
Pillar II. Transparency of public finances		
PI-4. Budget classification	D	Scoring Method M1
PI-4.1 Budget classification	D	Budget documentation is nationally consistent. The GPB is based on functional and economic classifications, but the GFB is only based on functional classification.
PI-5. Budget documentation	C	Scoring Method M1
PI-5.1 Budget documentation	C	Budget documentation contains three basic elements and two additional elements.

Indicator/dimension	Score	Description of requirements met
PI-6. Central government operations outside financial reports	A	Scoring Method M2
PI-6.1 Expenditure outside financial reports	A	There are three public hospitals with extrabudgetary activities. However, all extrabudgetary expenditures were recorded in the financial reports of the Health Bureau in the last three FYs.
PI-6.2 Revenue outside financial reports	A	There are three public hospitals with extrabudgetary activities. However, all extrabudgetary revenues were recorded in the financial reports of the Health Bureau in the last three FYs.
PI-6.3 Financial reports of extrabudgetary units	A	Financial reports of all extrabudgetary activities, containing full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and supported by a reconciled cash flow statement, are submitted to the SNG annually within one month of the end of the FYs.
PI-7. Transfers to subnational governments	NA	Scoring Method M2
PI-7.1 System for allocating transfers	NA	There are no separate lower-level SNGs, rather deconcentrated units of the county government.
PI-7.2 Timeliness of information on transfers	NA	There are no separate lower-level SNGs, rather deconcentrated units of the county government.
PI-8. Performance information for service delivery	D+	Scoring Method M2
PI-8.1 Performance plans for service delivery	D	16.42% of expenditures of service delivery units have a framework of PIs relating to the outputs or outcomes.
PI-8.2 Performance achieved for service delivery	D	The 14 largest service delivery departments published the performance achieved in FY 2018 on their websites. Information on activities performed covered 18.88% of total expenditures of service delivery units.
PI-8.3 Resources received by service delivery units	A	Information on resources received by frontline service delivery units is collected and recorded for the selected service delivery units, disaggregated by source of funds. A report compiling the information is prepared at least annually.
PI-8.4 Performance evaluation for service delivery	D	Independent evaluations of the efficiency or effectiveness of service delivery were not carried out between 2016 and 2018.
PI-9. Public access to fiscal information	D	Scoring Method M1
PI-9.1 Public access to fiscal information	D	The Guidong Government made available to the public three basic elements within the specified time frame.
PI-9bis. SNG public consultation	NU	This is a pilot indicator. Guidong County government chose not to use this indicator in this assessment.
Pillar III. Management of assets and liabilities		
PI-10. Fiscal risk reporting	C+	Scoring Method M2
PI-10.1 Monitoring of public corporations	C	Nine of the ten largest PCs in Guidong submitted financial reports to the controlling entities within four months after the end of the FY.
PI-10.2 Monitoring of subnational governments	NA	There are no SNGs within Guidong.
PI-10.3 Contingent liabilities and other fiscal risks	NA	There are no state insurance schemes, PPP projects, guarantees or any other contingent liabilities in Guidong.

Indicator/dimension	Score	Description of requirements met
PI-11. Public investment management	D+	Scoring Method M2
PI-11.1 Economic analysis of investment proposals	C	Economic analyses are conducted according to national guidelines to assess all major investment projects, and are reviewed by a third party (DRB); but they are not published.
PI-11.2 Investment project selection	C	The Guidong DRB is responsible for selecting the projects and making proposals to the County Committee. But no clear criteria are provided for project selection.
PI-11.3 Investment project costing	D	Investment project costing information is not included in the budget documents.
PI-11.4 Investment project monitoring	D	The total costs and physical progress of only part of the major investment projects are monitored monthly throughout project duration by the Guidong DRB. Information on the implementation of 'major investment projects' is prepared annually but not published. Standard procedures and rules governing project implementation are available.
PI-12. Public asset management	B	Scoring Method M2
PI-12.1 Financial asset monitoring	C	The Guidong Government maintains records of its holdings in all major categories of financial assets (including cash, term deposits, account receivables, leases, equity). The information is not available to the public.
PI-12.2 Nonfinancial asset monitoring	C	The Guidong Government maintains records of its holdings of fixed assets and collects partial information on their usage and age. The information is mostly not available to the public.
PI-12.3 Transparency of asset disposal	A	Procedures and rules for the transfer or disposal of financial and non-financial assets are established. Information on asset disposal is included in the state-owned assets management report submitted to the People's Congress.
PI-13. Debt management	C+	Scoring Method M2
PI-13.1 Recording and reporting of debt and guarantees	C	Domestic and foreign debt records are complete, accurate, updated monthly, and reconciled annually. Comprehensive management and statistical reports covering debt service, stock, and operations are produced annually.
PI-13.2 Approval of debt and guarantees	A	The Guidong Bureau of Finance is the responsible debt management entity and is authorized to borrow on behalf of the county government and monitor the financing transactions according to the debt management rules. Annual borrowing is approved by the Guidong People's Congress.
PI-13.3 Debt management strategy	D	There is no mid-term DMS indicating the risk indicators such as interest rates, exchange rates, and refinancing alternatives.
Pillar IV. Policy-based fiscal strategy and budgeting		
PI-14. Medium-term budget strategy	D+	Scoring Method M2
PI-14.1 Preparation of the budget	C	Budget preparation is based on information of transfers, revenue and expenditure.
PI-14.2 Fiscal impact of policy proposals	D*	It is not clear whether Guidong prepares estimates of the fiscal impact of policy changes for the budget year.
PI-14.3 Medium-term expenditure and revenue estimates	D	No medium-term expenditure and revenue estimates are prepared.
PI-14.4 Consistency of budget with previous year estimates	NA	No medium-term expenditure and revenue estimates are prepared.

Indicator/dimension	Score	Description of requirements met
PI-15. Fiscal strategy	NU	According to the 2020 Subnational PEFA Framework, the original PI-15 and PI-16 are not used in the Subnational PEFA Assessment. They have been converted to the current PI-14.
PI-16. Medium term perspective in expenditure budgeting	NU	ibid
PI-17. Budget preparation process	C+	Scoring Method M2
PI-17.1 Budget calendar	B	A clear annual budget calendar exists and is adhered to. Four weeks are provided to allow budgetary units to complete their detailed estimates. All budgetary units are able to complete their estimates on time.
PI-17.2 Guidance on budget preparation	B	The expenditure ceilings approved by the cabinet were provided on November 16, 2018, after the distribution of the budget circular to the budgetary units, but before the budgetary units completed their submission on November 21, 2018.
PI-17.3 Budget submission to the legislature	D	Only in one of the last three years, the executive submitted the annual budget proposal to the legislature at least one month before the start of the FY.
PI-18. Legislative scrutiny of budgets	B+	Scoring Method M1
PI-18.1 Scope of budget scrutiny	B	Budget scrutiny by the Guidong People's Congress covers details of expenditure and revenue, and fiscal policies, but not medium-term fiscal forecasts and medium-term priorities.
PI-18.2 Legislative procedures for budget scrutiny	B	A set of Laws and Rules stipulate the legislative procedures for budget scrutiny. The procedures include arrangements for public consultation, as well as internal organizational arrangements, such as the role of standing committees and budget committees in the County People's Congress. The procedures are partly adhered to.
PI-18.3 Timing of budget approval	A	The county legislature approved the annual budget proposal before the start of the FY in all of the last three years.
PI-18.4 Rules for budget adjustment by the executive	B	Clear rules for budget adjustments exist, and they are adhered to in most instances.
Pillar V. Predictability and control in budget execution		
PI-19. Revenue administration	NA	Core taxes - the major direct taxes (corporate income tax and individual income tax) and major indirect tax (VAT) - have been administrated and collected by the State Tax Administration and its subordinate entities at provincial and county level. Governments at county level are not authorized to administrate and collect these core taxes. PI-19 is NA.
PI-20. Accounting for revenue	A	Scoring Method M1
PI-20.1 Information on revenue collections	A	The Treasury Office of the Guidong Finance Bureau obtains revenue data from the departments responsible for collecting fiscal revenue (the Taxation Bureau and the Non-Tax Revenue Administration) and compiles a monthly unified income completion statement which details the monthly completion and cumulative completion for each revenue type.
PI-20.2 Transfer of revenue collections	A	All tax revenues are transferred to the Guidong County Treasury on a daily basis, while non-tax revenues are paid directly into the special accounts under the TSA system.
PI-20.3 Revenue accounts reconciliation	NA	Governments at county level are not authorized to administrate and collect taxes. The duty of tax revenue reconciliation is not applicable to Guidong county.

Indicator/dimension	Score	Description of requirements met
PI-21. Predictability of in_year resource allocation	D+	Scoring Method M2
PI-21.1 Consolidation of cash balances	C	The Guidong Finance Bureau obtains a daily balance report from the Treasury, and the balances of special accounts are consolidated monthly. Most cash balances are therefore consolidated on a monthly basis, the balance of the Treasury that is consolidated daily accounting for 43%.
PI-21.2 Cash forecasting and monitoring	D	Except for monthly forecasting on tax income, Guidong Finance Bureau has not conducted cashflow forecasting and monitoring.
PI-21.3 Information on commitment ceilings	D	Payments can be largely made within the approved budget. Expenditure commitment ceilings are not effectively applied.
PI-21.4 Significance of in-year budget adjustments	C	Significant in-year budget adjustments to budget allocations are frequent, and are partially transparent.
PI-22. Expenditure arrears	D	Scoring Method M1
PI-22.1 Stock of expenditure arrears	D*	SSince Guidong county has not set up a monitoring system for all expenditure arrears, data on the stock of arrears for 2016-2018 are not available.
PI-22.2 Expenditure arrears monitoring	D	Expenditure arrears monitoring system has been generated for project expenditures but not for recurrent ones.
PI-23. Payroll controls	C+	Scoring Method M1
PI-23.1 Integration of payroll and personnel records	A	The approved employee list, personnel database, and payroll are linked to each other through the documents approved and reconciled monthly before payoff, which constitutes an effective assurance for budget control and data consistency.
PI-23.2 Management of payroll changes	A	Necessary changes to personnel records and payrolls are updated in real time. There is no delay in making payroll payments by the Centralized Payment Centre. Retroactive adjustment is rare.
PI-23.3 Internal control of payroll	A	The authority to change personnel records and payrolls is restricted, with separate posts and system privileges, results in an audit trail, and is adequate to ensure full integrity of the data.
PI-23.4 Payroll audit	C	Partial payroll audits were undertaken within the last three completed FYs.
PI-24. Procurement management	D+	Scoring Method M2
PI-24.1 Procurement monitoring	D*	The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.
PI-24.2 Procurement methods	D*	Since the contract data for small contracts are not available, it is not feasible to calculate the total value of contracts awarded through competitive methods.
PI-24.3 Public access to procurement information	D	One out of six criteria are met.
PI-24.4 Procurement complaints management	A	The procurement complaint handling mechanism meets every criterion.
PI-25. Internal controls on nonsalary expenditure	B	Scoring Method M2
PI-25.1 Segregation of duties	A	Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage.
PI-25.2 Effectiveness of expenditure commitment controls	D	No effective expenditure commitment control system has been established.

Indicator/dimension	Score	Description of requirements met
PI-25.3 Compliance with payment controls	A	All the payments are in line with regular payment procedures, and all exceptions are authorized in advance.
PI-26. Internal audit	D+	Scoring Method M1
PI-26.1 Coverage of internal audit	D	Internal audit is operational for budgetary units representing all of the budget revenues but less than 50% of the budget expenditures.
PI-26.2 Nature of audits and standards applied	B	Internal audit activities are focused on verifying the adequacy and effectiveness of internal control. The internal audit function has no established quality assurance process but audit activities meet professional standards, including the adoption of a risk-based approach.
PI-26.3 Implementation of internal audits and reporting	A	The one department with an internal audit unit prepares an annual audit work plan and a summary report of its annual audit work, which shows the completion rate of the planned internal audit tasks. The 2018 annual audit plan was fully completed.
PI-26.4 Response to internal audits	A	Management of the sampled department proactively responded to the auditors' suggestions included in the audit reports within 12 months after the audit reports were issued.
Pillar VI. Accounting, Recording and Reporting		
PI-27. Financial data integrity	C+	Scoring Method M2
PI-27.1 Bank account reconciliation	B	Reconciliation of all active government bank accounts is completed within 5 days after the end of each month.
PI-27.2 Suspense accounts	NA	There is no suspense account in Guidong County.
PI-27.3 Advance accounts	NA	There is no advance account in Guidong County.
PI-27.4 Financial data integrity processes	C	Access and changes to the financial records are restricted and can be traced, but the financial network has not passed the second level computer information system security protection certification, and there is no unit in charge of verifying financial data integrity.
PI-28. In-year budget reports	B+	Scoring Method M1
PI-28.1 Coverage and comparability of reports	A	There are monthly reports and analyses on budget execution. Coverage and classification of data allow for direct comparison to the original budget. All revenues and expenditures, including those from transfers to de-concentrated units within the SNG, are included in the in-year budget reports.
PI-28.2 Timing of in-year budget reports	A	There are monthly reports and analyses on budget execution released within ten days of the end of the reported period.
PI-28.3 Accuracy of in-year budget reports	B	The in-year budget report data are largely consistent and useful for the analysis of budget execution. An analysis report is prepared on a monthly basis. Information is captured at all payment stages. The reports, however, were not audited.
PI-29. Annual financial reports	D+	Scoring Method M1
PI-29.1 Completeness of annual financial reports	C	An annual budget execution report is prepared and is comparable with the approved budget. The report includes information on revenues, expenditures, cash balances, and liabilities, but not on financial assets or tangible assets.
PI-29.2 Submission of reports for external audit	A	Budget execution reports for budgetary units are submitted to the County Audit Office within 3 months of the end of the FY.
PI-29.3 Accounting standards	D	The budget execution reports are prepared in line with the national standards stipulated by MOF. However, the accounting standards adopted are not disclosed in notes or other parts of the financial reports.

Indicator/dimension	Score	Description of requirements met
Pillar VII. External Scrutiny and Audit		
PI-30. External audit	D+	Scoring Method M1
PI-30.1 Audit coverage and standards	D	In the past three FYs, the Guidong Audit Office conducted the annual budget execution audit and the economic responsibility audits for a certain number of budgetary units. However, it did not conduct budget execution audits of any departments.
PI-30.2 Submission of audit reports to the legislature	B	During the past three FYs, the Audit Office submitted the audit reports to the legislature within six months after receiving the financial reports.
PI-30.3 External audit follow-up	A	The rectification reports show that in the last three FYs, required follow-up actions were taken by the related entities effectively and timely to respond to the issues disclosed by the auditors.
PI-30.4 Supreme Audit Institution independence	B	The Audit Office operates independently from the executive with respect to procedures for appointment and removal of the Head of the institution, the planning of audit engagements, and the approval and execution of the institution's budget. Although the Audit Office is one of the line bureaus under the leadership of the County Government and uses the executive procedure for budget request submission and execution, the executive does not interfere in the budget approved by the People's Congress for the Audit Office. This independence is assured by law. Moreover, the institution has unrestricted and timely access to records, documentation and information. However, the Audit Office does not operate independently from the executive with respect to arrangements for publicizing reports.
PI-31. Legislative scrutiny of audit reports	C+	Scoring Method M2
PI-31.1 Timing of audit report scrutiny	A	Scrutiny of the audit reports was completed by the Standing Committee of the County People's Congress within one month in all three FYs from receipt of the reports.
PI-31.2 Hearings on audit findings	C	An in-depth hearing take place on the main findings of the audit report once every year. Some audited entities which received a qualified or adverse audit opinion or disclaimer in the audit report participate in the hearing.
PI-31.3 Recommendations on audit by the legislature	C	Once receiving the follow-up reports from auditees, a summarized report was prepared by the Audit Office and submitted to the Standing Committee in two consecutive years, except for FY 2016. Following this, an official meeting was organized to hear the remedial actions being taken.
PI-31.4 Transparency of legislative scrutiny of audit reports	D	The hearings on the audit report for FY 2018 was not open to the public, and the follow-up report for FY 2018 was not published on the government's website.

Annex 2: Summary of observations on the internal control framework

Internal Control Components and Elements	Summary of Observations
1. Control Environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	The regulation issued by MOF in 2012, which is quite convergent with COSO internal control framework, provides detailed instruction and guidance to all budgetary units on strengthening their internal control. The decree issued by MOF in 2015 requires that all budgetary units should complete the establishment and implementation of internal control by the end of 2016. All the documents issued by MOF regarding public sector internal control develop and promote the personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization.
1.2 Commitment to competence	A set of internal control documents issued by MOF and the establishment of internal audit function in most budgetary units indicates a commitment to competence in implementing internal controls and is evidenced by the scores in PIs 23, 25 and 26.
1.3 The 'tone at the top' (i.e. management's philosophy and operating style)	The budgetary units strictly follow related regulations stipulated by MOF, the anti-corruption activities initiated by top leaders in recent years make the units' management take the internal control very seriously and the internal audit function is strengthened in public sectors.
1.4 Organizational structure	The Ministry of Finance of China is an authorized body which promotes the establishment and development of public internal financial control systems and carries out coordination and harmonization policies and procedures. The "Guiding Opinions on Comprehensively Promoting the Construction of Internal Control in Administrative and Public Service Units" issued by MOF in 2015 requires that all budgetary units to: a) improve internal control system and strengthen internal process control. It requires units whose internal control has not been established or whose internal control system is not sound must complete the establishment and implementation of internal control by the end of 2016; b) strengthen internal power checks and balances, regulate internal power operations; c) establish an internal control reporting system to promote the disclosure of internal control information. The self-evaluation of the internal control of the unit shall be reported as an important component of the departmental final report and financial report; d) strengthen supervision and inspection work, and integrate internal control assessment with staff performance evaluation.
1.5. Human resource policies and practices	A cadre of professional in internal audit and financial control is in place and follows standard public sector policies and practices.
2. Risk Assessment	
2.1 Risk identification	Several PIs are related to the extent to which risks are identified, notably: Economic Analysis of Investment Proposals is rated C in 11.1 – Economic analyses are conducted according to national guidelines to assess all major investment projects, and are reviewed by a third party (DRC); but they are not published. The DMS is rated 'D' in 13.3 – There is no mid-term DMS indicating the risk indicators such as interest rates and refinancing, and foreign currency risks. Macro-fiscal sensitivity analysis is rated 'D' in 14.3– No Medium-term expenditure and revenue estimates conducted. Cash Flow Forecasting and Monitoring is rated 'D' in 21.2 - No evidence shows that the Guidong Finance Bureau has conducted cashflow forecasting and monitoring.
2.2 Risk assessment (significance and likelihood)	See risk identification (2.1 above)

Internal Control Components and Elements	Summary of Observations
2.3 Risk evaluation	Guidong Education Bureau prepares an annual audit work plan and a summary report of its annual audit work, which shows the completion rate of the planned internal audit tasks. The 2018 annual audit plan was fully completed. (Implementation of internal audits and reporting – 26.3 rated ‘A’). Only the Guidong Education Bureau has established internal audit function. Its internal audits were entrusted to an accounting firm in 2019 with focus on verifying the adequacy and effectiveness of internal control. The internal audit function has no established quality assurance process but audit activities meet professional standards, including the adoption of a risk-based approach. (Nature of internal audits and standards applied – 26.2 rated ‘B’).
2.4 Risk appetite assessment	The development and implementation of identification and assessment of risk indicates a positive risk appetite which will grow as these become more mature.
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	MOF’s document requires to strengthen supervision and inspection on internal control and integrate internal control assessment with staff performance evaluation.
3. Control Activities	
3.1 Authorization and approval procedures	Financial data integrity processes are rated ‘C’ in 27.4. Access and changes to the financial records are restricted and can be traced, but the financial network has not passed the second level computer information system security protection certification, and there is no unit in charge of verifying financial data integrity. Recording and reporting of debt and guarantees are rated ‘C’ in 13.1. Domestic and foreign debt records are complete, accurate, updated monthly, and reconciled annually. Comprehensive management and statistical reports covering debt service, stock, and operations are produced annually. Approval of debt and guarantees are rated ‘A’ in 13.2. The Guidong Bureau of Finance is the responsible debt management entity and is authorized to borrow on behalf of the county government and monitor the financing transactions according to the debt management rules. Annual borrowing is approved by the Guidong People’s Congress. Effectiveness of expenditure commitment controls is rated ‘D’ in 25.2. No effective expenditure commitment control system has been established. Integration of payroll and personal records is rated ‘A’ in 23.1. The approved employee list, personnel database, and payroll are linked to each other through the documents approved and reconciled monthly before payoff, which constitutes an effective assurance for budget control and data consistency. Management of payroll changes is rated ‘A’ in 23.2. Necessary changes to personnel records and payrolls are updated in real time. There is no delay in making payroll payments by the Centralized Payment Centre. Retroactive adjustment is rare.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Compliance with payroll payment rules and procedures is rated ‘A’ in 23.3. The authority to change personnel records and payrolls is restricted, with separate posts and system privileges, results in an audit trail, and is adequate to ensure full integrity of the data. Segregation of duties is rated ‘A’ in 25.1. Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage.
3.3 Controls over the access to resources and records	Compliance with payment rules and procedures is rated ‘A’ in 25.3. Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage. Financial data integrity processes are rated ‘C’ in 27.4. Access and changes to the financial records are restricted and can be traced, but the financial network has not passed the second level computer information system security protection certification, and there is no unit in charge of verifying financial data integrity.
3.4 Verifications	Accuracy of in-year budget reports is rated ‘B’ in 28.3. The in-year budget report data are largely consistent and useful for the analysis of budget execution. An analysis report is prepared on a monthly basis. Information is captured at all payment stages. The reports, however, were not audited.

Internal Control Components and Elements	Summary of Observations
3.5 Reconciliations	Banks account reconciliations is rated 'B' in 27.1. Reconciliation of all active government bank accounts is completed within 5 days after the end of each month. Suspense account reconciliations is rated 'NA' in 27.2. There are no suspense accounts.
3.6 Reviews of operating performance	Revenue audit and investigations are rated 'NA' in 19.3 PI-19 is not applicable to China's local governments.
3.7 Reviews of operations, processes and activities	Procurement monitoring is rated 'D*' in 24.1. The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	The supervision complies the decree issued by MOF which is quite convergent with COSO internal control framework. Personnel development through mentoring and training is in place.
4. Information and Communication	
5. Monitoring	
5.1 Ongoing monitoring	<p>The Assessment highlighted a number of areas related to ongoing monitoring activities: Resources received by service delivery units is rated 'A' in 8.3. Information on resources received by frontline service delivery units is collected and recorded for the selected service delivery units, disaggregated by source of funds. A report compiling the information is prepared at least annually. Monitoring of public corporations is rated 'C' in 10.1. Nine of the ten largest PCs in Guidong submitted financial reports to the controlling entities within four months after the end of the FY. Contingent liabilities and other fiscal risks is rated 'B' in 10.3. There are no state insurance schemes, PPP projects and guarantees in Guidong. The debt management system is in place to record the information on contingent liabilities. The data are updated and consolidated monthly but not published.</p> <p>Investment project monitoring is rated 'D' in 11.4. The total costs and physical progress of only part of the major investment projects are monitored monthly throughout project duration by the Guidong DRB. Information on the implementation of 'major investment projects' is prepared annually but not published. Standard procedures and rules governing project implementation are available.</p> <p>Procurement monitoring is rated 'D*' in 24.1. The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.</p> <p>Implementation of internal audits and reporting is rated 'A' in 26.3. The one department with an internal audit unit prepares an annual audit work plan and a summary report of its annual audit work, which shows the completion rate of the planned internal audit tasks. The 2018 annual audit plan was fully completed. .</p>
5.2 Evaluations	Performance evaluation for service delivery is rated 'D' in 8.4. Independent evaluations of the efficiency or effectiveness of service delivery were not carried out between 2016 and 2018. Investment project selection is rated 'C' in 11.2. The Guidong DRB is responsible for selecting the projects and making proposals to the County Committee. But no clear criteria are provided for project selection..
5.3 Management responses	Response to internal audits is rated 'A' in 26.4. Management of the sampled department proactively responded to the auditors' suggestions included in the audit reports within 12 months after the audit reports were issued. External audit follow-up is rated 'A' in 30.3. The rectification reports show that in the last three FYs, required follow-up actions were taken by the related entities effectively and timely to respond to the issues disclosed by the auditors.

Annex 3: Public sector agencies covered by the assessment

Type		Units	
Budgetary units	GAUs	26 major GAUs (1) Education Bureau; (2) Health Bureau; (3) Civil Affairs Bureau; (4) Housing and Urban-Rural Development Bureau; (5) Science, Technology and Industrial Information Bureau; (6) Human Resources and Social Security Bureau; (7) Transportation Bureau; (8) Water Conservation Bureau; (9) Agricultural and Rural Affairs Bureau; (10) Bureau of Culture, Tourism, Radio, Television and Sports; (11) Natural Resources Bureau; (12) Development and Reform Bureau; (13) Finance Bureau; (14) Audit Bureau; (15) Bureau of Veterans Affairs; (16) Emergency Management Bureau; (17) Market Supervision and Administration Bureau; (18) Bureau of Statistics; (19) Bureau of Urban Management and Comprehensive Law Enforcement; (20) Health care security Bureau; (21) Poverty Alleviation and Development Office; (22) Judicial Bureau; (23) Public Security Bureau; (24) Government Administration Office; (25) Standing National People's Congress office; (26) Political consultative conference office.	
		77 others	
	Townships (11)	(1) Qiaotou, (2) Xinfang, (3) Dongluo, (4) Qingshan, (5) Qingquan, (6) Oujiang, (7) Shatian, (8) Zhaiqian, (9) Datang, (10) Pule, (11) Sidu.	
	Five largest in education sector	Guidong No. 1 Middle School	
		Guidong oujiang middle school	
		Guidong vocational education center	
		Guidong No. 2 Middle School	
		Guidong Shatin no.1 perfect primary school	
	PSUs	Five largest in health sector	Guidong People's Hospital
			Guidong hospital of traditional Chinese medicine
Central Hospital of Shatian Town			
Guidong maternal and child health and family planning service center			
Central Hospital of Sidu Town			
284 others			
EBUs		None ¹	
PCs	Five largest PCs	Guidong UDIC	
		Oxygen world mountain goods co. LTD	
		Bamian mountain water industry co. LTD	
		Chengguan grain supply center	
	8 others		
Social Security Funds		Basic old-age insurance fund for government employees	
		Basic old-age insurance fund for enterprise employees	
		Social old-age insurance fund for urban and rural residents	
		Basic medical insurance fund for urban and rural residents	
		Basic medical insurance fund for urban employees	

Note: 1. There are no EBU's in China, some budget units (such as some hospitals and schools) have extrabudgetary revenue and expenditure activities. These units submit financial reports to the *responsible* departments and the Finance Bureau

Annex 4: Evidence for scoring of the indicators

Indicators (PEFA 2016 framework)	Evidence
HLG-1. Transfers from an HLG	<ul style="list-style-type: none"> ▪ Guidong budget documentation for FYs 2016, 2017, 2018 ▪ Release Schedule of HLG Transfer for FYs 2016, 2017, 2018
1. Aggregate expenditure out-turn	<ul style="list-style-type: none"> ▪ Budget documentation and financial reports for FYs 2016,2017,2018
2. Expenditure composition out-turn	<ul style="list-style-type: none"> ▪ Budget documentation and financial reports for FYs 2016,2017,2018
3. Revenue out-turn	<ul style="list-style-type: none"> ▪ Guidong budget documentation and financial reports for FYs 2016,2017,2018
4. Budget classification	<ul style="list-style-type: none"> ▪ Guidong budget documentation for FY 2018
5. Budget documentation	<ul style="list-style-type: none"> ▪ Guidong budget documentation for FY 2019
6. SNG operations outside financial reports	<ul style="list-style-type: none"> ▪ Guidong financial reports for FY 2018 ▪ Financial reports of Guidong Health Bureau for FY 2018 ▪ Financial Report of Guidong Social Security Fund for FY 2018
7. Transfers to SNGs	<ul style="list-style-type: none"> ▪ NA
8. Performance information for service delivery	<ul style="list-style-type: none"> ▪ Performance plans submitted by sampled departments for FYs 2017, 2018, 2019 ▪ Financial reports of service delivery units for FYs 2016, 2017, 2018 collected from the Finance Bureau of Guidong ▪ 8.2: Education: http://www.gdx.gov.cn/20330/24933/24937/content_2942432.html Civil Affairs: http://www.gdx.gov.cn/20330/24933/24936/content_2985667.html Housing and Urban-Rural Development: http://www.gdx.gov.cn/20330/24933/24937/content_2939039.html http://www.gdx.gov.cn/20330/24933/24937/content_2939063.html http://www.gdx.gov.cn/20330/24933/24937/content_2939022.html http://www.gdx.gov.cn/20330/24933/24937/content_2939026.html Science and Information Technology: http://www.gdx.gov.cn/20330/24933/24937/content_2940557.html Industry and Information Technology Commerce Human Resources and Social Security: http://www.gdx.gov.cn/20330/24933/24937/content_2940186.html http://www.gdx.gov.cn/20330/24933/24937/content_2940091.html http://www.gdx.gov.cn/20330/24933/24937/content_2940131.html http://www.gdx.gov.cn/20330/24933/24937/content_2939611.html Transport: http://www.gdx.gov.cn/20330/24933/24935/content_2645507.html http://www.gdx.gov.cn/20330/24933/24935/content_2645527.html http://www.gdx.gov.cn/20330/24933/24935/content_2645493.html Water Resources: http://www.gdx.gov.cn/20330/24933/24937/content_2939126.html http://www.gdx.gov.cn/20330/24933/24937/content_3034938.html http://www.gdx.gov.cn/20330/24933/24937/content_3034940.html http://www.gdx.gov.cn/20330/24933/24937/content_3034937.html Agricultural: http://www.gdx.gov.cn/20330/24933/24935/content_2645539.html

Indicators (PEFA 2016 framework)	Evidence
12. Public asset management	<ul style="list-style-type: none"> ▪ <i>Summary Table of State-Owned Assets of GAUs and PSUs of 2018.</i> ▪ Statistics on basic information (including holding equity, acquisition cost, fair value, profit, total liabilities, etc.) of SOEs, Guidong County. ▪ Asset Register System of Guidong County. ▪ the <i>Implementation rules for the management of state-owned assets</i>(2008) and the <i>Procedures for Disposal of State-owned Assets</i> (2017)
13. Debt management	<ul style="list-style-type: none"> ▪ 2014 Budget Law of the PRC. ▪ <i>Government Debt Management Methods of Guidong Connty.</i> ▪ Government budget documentation and fiscal reports of FYs 2018 and 2019. ▪ Screenshot of the Debt Management IT system.
14. Macroeconomic and fiscal forecasting	<ul style="list-style-type: none"> ▪ the budget report for FY 2016,2017,2018
15. Fiscal strategy	<ul style="list-style-type: none"> ▪ NU
16. Medium term perspective in expenditure budgeting	<ul style="list-style-type: none"> ▪ NU
17. Budget preparation process	<ul style="list-style-type: none"> ▪ Notice of Guidong County Finance Bureau on completing the budget preparation of county departments for FY 2019. ▪ Report on the Budget Execution of 2016 and Budget Proposal 2017, Report on the Budget Execution of 2017 and Budget Proposal 2018, Report on the Budget Execution of 2018 and Budget Proposal 2019.
18. Legislative scrutiny of budgets	<ul style="list-style-type: none"> ▪ The annual budget proposal for FY 2018. ▪ Rules of the Standing Committee of the Guidong County People's Congress ▪ The submission and approval document issued by the County People's Congress of the annual budgets FY 2016, 2017, 2018. ▪ The balance sheet of FY 2018 ▪ Regulations of the Budget Law on budget adjustment
19. Revenue administration	<ul style="list-style-type: none"> ▪ NA
20. Accounting for revenue	<ul style="list-style-type: none"> ▪ 20.1: Monthly financial revenue complementation table of Guidong County for November and December 2019; Treasury account monthly reconciliation statement for July and August 2018, and for July and August 2019; Non-tax payment certificate on December 26 and 27, 2019; tax payment certificate on March 15, 2019. ▪ 20.2: tax payment certificate on March 15, 2019; 2016 Detailed Rules for the Implementation of the Law of the PRC on the Administration of Tax Collection ; Non-tax payment certificate on December 26 and 27, 2019.
21. Predictability of in-year resource allocation	<ul style="list-style-type: none"> ▪ 21.1: Treasury account daily balance statements at the end of each month in 2019; treasury account daily balance statements for July 10 and 11, 2019; special accounts monthly balance statements for FY 2019. ▪ 21.2: The annual budget implementation statement for 2018; monthly tax revenue forecast and completion schedule for July and August, 2018; document on tax forecasting system. ▪ 21.3: Statements of expenditure application and actual expenditure of two budget units for FY 2019. ▪ 21.4: Guidong county budget adjustment proposal for FY 2019; resolution approving the Guidong county budget adjustment proposal for FY 2019. ▪ 2014 Budget Law of the PRC ▪ Interview records with Payment Centre and Economic Construction Division under Guidong Finance Bureau

Indicators (PEFA 2016 framework)	Evidence
22. Expenditure arrears	<ul style="list-style-type: none"> ▪ The project monitoring and fund planning schedule of projects invested by Guidong government for FY 2019 ▪ Statistical tables of projects invested by Star-fire Group for FY 2017 ▪ Annual audit reports of FYs 2016, 2017 and 2018 ▪ Screenshots on annual balance of the treasury centralized payment system
23. Payroll controls	<ul style="list-style-type: none"> ▪ Interview records with Payment Centre under Finance Bureau, Human Resource and Social Security Bureau, and Audit Office ▪ Civil Servant Law of PRC, effective as of Jun 1, 2019 ▪ The workflow of job posting of public institutions of Guidong Human Resource and Social Security Bureau ▪ Procedures of New Staff Entry and Personnel Variances associated with Centralized Wage Payment Centre and Human Resource and Social Security Bureau on Nov. 18, 2013 ▪ Internal Control Regulations of Guidong Treasury Payment Centre on Sep.18, 2018 ▪ Internal Control Regulations of Information Management Risks of Guidong Finance Bureau ▪ The Implementation Plan of the Annual Audit for FY 2018 ▪ The audit evidence form on the wage payment for FY 2018 ▪ The work plan and summary of the implementation of prevention and control of “ghost staff” for FY 2017 on Sep.28, 2017 and Jan.31, 2018 ▪ Screenshots on the operation log of the personnel and wage management system of Human Resource and Social Security Bureau ▪ Screenshots on the operation log of the financial integrated operation system ▪ Screenshots on the authorities and operation log of the centralized wage payment system ▪ The summary sheet of payrolls of budgetary units for FY 2019 ▪ The sampling detailed lists of personnel variances for FY 2019
24. Procurement management	<p>24.1:</p> <ul style="list-style-type: none"> ▪ The tendering and bidding record for works procured in FY 2018 maintained by the Guidong Development and Reform Bureau. ▪ The government procurement information statistics maintained by the Government Procurement Administration Office under the Guidong Finance Bureau in Guidong Government Procurement Electronic Management Platform. <p>24.2:</p> <ul style="list-style-type: none"> ▪ The tendering and bidding record for works procured in FY 2018 maintained by the Guidong Development and Reform Bureau. ▪ The government procurement information statistics maintained by the Government Procurement Administration Office under the Guidong Finance Bureau in Guidong Government Procurement Electronic Management Platform. <p>24.3:</p> <ul style="list-style-type: none"> ▪ Website of Hunan Provincial Tendering and Bidding Supervision (http://www.bidding.hunan.gov.cn, with the new website http://218.76.24.90/flow effective from December 9, 2019). ▪ Website of Chenzhou Public Resources Transaction (http://czggzy.czs.gov.cn/). ▪ Website of Hunan Provincial Government Procurement (http://www.ccgp-hunan.gov.cn/). <p>24.4</p> <ul style="list-style-type: none"> ▪ The Tendering and Bidding Law of the PRC, effective as of January 1, 2000. ▪ The implementing regulation for the Tendering and Bidding Law of the PRC issued by the State Council, effective as of March 2, 2019. ▪ The Government Procurement Law of the PRC, effective as of January 1, 2003. ▪ The implementing regulation for the Government Procurement Law of the PRC issued by the State Council and effective as of March 1, 2015. ▪ The Hunan provincial complaint handling procedure and guidance for procurement following the Tendering and Bidding Law, issued by the Hunan Provincial DRC on April 29, 2019.

Indicators (PEFA 2016 framework)	Evidence
24. Procurement management	<ul style="list-style-type: none"> ▪ The complaint handling procedure and guidance for procurement following the Government Procurement Law, issued by MOF on December 26, 2017 and effective as of March 1, 2018 ▪ Complaint Handling Procedure and Guidance for Procurement Following Government Procurement Law issued by Hunan Provincial Department of Finance on Aug. 5, 2019 ▪ The general complaint record maintained by the Government Procurement Administration Office under Guidong Finance Bureau. ▪ A sample review of complaint resolution of a complaint regarding procurement of consultancy service for the period 2019-2021 for project cost assessment of projects financed by public fund in Guidong
25. Internal controls on non-salary expenditure	<ul style="list-style-type: none"> ▪ Interview records with Payment Centre and Economic Construction Division under Guidong Finance Bureau ▪ Internal Control Regulations of Guidong Treasury Payment Centre on Sep.18, 2018 ▪ Interim Provisions of the Administration of Financial Funds of Guidong County on Sep. 21, 2018 ▪ Annual audit report of FY 2018 ▪ The project monitoring and fund planning schedule of projects invested by Guidong government for FY 2019 ▪ Screenshots on the direct application, operation logs and authorities of the financial integrated operation system ▪ Samples of extra-budgetary funds approved by Guidong government (application from Guidong Yangshantianxia Group) on Dec. 14, 2018; from Oucai Village on Jan. 13, 2019)
26. Internal audit	<ul style="list-style-type: none"> ▪ Provisions of the audit office on the work of internal audit. ▪ The internal audit reports and corresponding audit rectification reports in FYs2016-2018 of the internal audit units under the sampled bureaus. ▪ The internal audit plans and internal audit summaries in FYs 2016-2018 of the internal audit units under the sampled bureaus.
27. Financial data integrity	<ul style="list-style-type: none"> ▪ 27.1: Bank monthly reconciliation records; Internal reconciliation method of finance treasury administration of Guidong county. ▪ 27.4: Risk Prevention and Control Measures of Information System Management of Guidong County Finance Bureau; Network Security Management Regulations of Information System of Guidong County Finance Bureau; screenshots of system log for FY 2019; authority table of financial system.
28. In-year budget reports	<ul style="list-style-type: none"> ▪ 28.1: The annual budget documents for FY 2018; The in-year monthly analyses and reports of budget execution for FY 2018. ▪ 28.2: The in-year monthly analyses and reports of budget execution for FY 2018. ▪ 28.3: The in-year monthly analyses and reports of budget execution for FY 2018.
29. Annual financial reports	<ul style="list-style-type: none"> ▪ 29.1: The budget implementation statement and report of Guidong county for FY 2018. ▪ 29.2: The annual audit report of FY 2018. ▪ 29.3: The budget implementation reports and statements of Guidong county for FY 2016-2018; annual audit reports on budget implementation for FY 2016-2018; government comprehensive financial reports for FY 2016 and 2018
30. External audit	<ul style="list-style-type: none"> ▪ 30.1: ▪ The annual audit reports of FYs 2016, 2017 and 2018. ▪ The reports on annual budget implementation and other financial revenue and expenditure audit work reports of FY 2016, 2017 and 2018.

Indicators (PEFA 2016 framework)	Evidence
30. External audit	<ul style="list-style-type: none"> ▪ 30.2: ▪ The reports on annual budget implementation and other financial revenue and expenditure audit reports of FY 2016, 2017 and 2018. ▪ The reports on annual budget implementation and other financial revenue and expenditure audit work reports of FY 2016, 2017 and 2018. ▪ Records or schedules for the first discussion of the Standing Committee of People's Congress after receiving the audit report of FY 2016, 2017 and 2018. ▪ 30.3: ▪ The reports on annual budget implementation and other financial revenue and expenditure audit work reports of FY 2016, 2017 and 2018. ▪ The rectification reports on the problems pointed out in the audit reports of FY 2016, 2017, 2018. ▪ 30.4: ▪ Audit Law of the People's Republic of China promulgated in 2006.
31. Legislative scrutiny of audit reports	<ul style="list-style-type: none"> ▪ 31.1: ▪ Records or schedules for the first discussion of the Standing Committee of Guidong County People's Congress after receiving the audit report of FY 2016, 2017 and 2018. ▪ The formal documents of deliberation opinions issued by the Standing Committee of Guidong County People's Congress on the audit reports of FY 2016, 2017 and 2018. ▪ 31.2: ▪ The lists of participants of the sessions of the Standing Committee of Guidong County People's Congress which held hearings of the audit reports of FY 2016, 2017 and 2018. ▪ The reports on annual budget implementation and other financial revenue and expenditure audit work reports of FY 2016, 2017 and 2018. ▪ 31.3: ▪ The rectification reports on the problems pointed out in the audit reports of FY 2016, 2017 and 2018, which was reported at the meeting held by the Standing Committee of Guidong County People's Congress. ▪ 31.4 ▪ Guidong did not publish the follow-up report about the audit report hearing of FY 2018, which was held by the Standing Committee of Guidong People's Congress, on the official website.
Annex 7: Fiscal risks of main PCs	<ul style="list-style-type: none"> ▪ Guidong Detailed Rules for the Implementation of Internal Control Management of Investment Project Construction Units ▪ Interview with staff of Guidong UDIC. ▪ The FY 2018 annual audit report of Guidong UDIC. ▪ List of ten major investment projects with information on total capital costs

Annex 5: List of persons interviewed

Name	Position	Institution
Luo Haiyan	Deputy Director	Guidong People's Congress, Finance and Economics Committee
Zhang Yaoxiong	Deputy Director	Guidong Commission Office for Public Sector Reform
Li Min	Director	Guidong Commission Office for Public Sector Reform
Huang Yong	Clerk	Guidong Commission Office for Public Sector Reform
Guo Shangwen	Deputy Director	Guidong Major Construction Project Affairs Center
Luo Aixiong	Deputy Director	Guidong DRC
Guo Yushu	Clerk	Agricultural Economy Division under Guidong DRC
Deng Fuquan	Party Member, Deputy Director	Guidong Human Resources and Social Security Bureau
Li Yonghui	Deputy Director	Guidong Audit Bureau
Luo Chengfu	Director	Administration Division under Guidong Audit Bureau
Zhou Ruixia	Clerk	Guidong Audit Bureau
Luo Xiangsheng	Party Member, Deputy Director	Guidong Education Bureau
Huang Shaoping	Director	Planning and Finance Division under Guidong Education Bureau
Huang Huiqing	Accountant	Guidong Education Bureau
Li Qinquan	Clerk	Guidong Education Bureau
Fang Bo	Party Member, Deputy Director	Guidong Health Bureau
Yuan Liqun	Clerk	Guidong Health Bureau
Guo Yongqiang	Party Secretary, Director	Guidong Transportation Bureau
He Xiwen	Chief Engineer	Guidong Transportation Bureau
Guo Jiancheng	Deputy Director	Guidong Tax Bureau
Li Yinghong	Manager	Guidong Xinghuo Group Company
He Yuanjian	Minister	Engineering Department of Guidong Xinghuo Group Company
Li Tao	Director	Office of Guidong Xinghuo Group Company
Zhu Li	Minister	Financing Department of Guidong Xinghuo Group Company
Luo Weimin	Party Member, Deputy Director	Guidong Finance Bureau
Wang Qinglin	Ex-Director	Non-Tax Revenue Administration Bureau under Guidong Finance Bureau
Deng Yunjun	Director	Investment and Financing Service Center under Guidong Finance Bureau
Huang Xiaomin	Clerk	Investment and Financing Service Center under Guidong Finance Bureau
Guo Jiangnan	Director	Payment Center under Guidong Finance Bureau

Name	Position	Institution
Guo Song	Deputy Director	Budget Division under Guidong Finance Bureau
Huang Xiaorong	Director	Treasury Division under Guidong Finance Bureau
Li Ling	Clerk	Treasury Division under Guidong Finance Bureau
Guo Jianling	Director	Finance and Debt Division under Guidong Finance Bureau
Zhong Yinpeng	Clerk	Finance and Debt Division under Guidong Finance Bureau
Zhu Lixin	Director	Asset Resources Division under Guidong Finance Bureau
Wu Yu	Clerk	Asset Resources Division under Guidong Finance Bureau
Cao Na	Director	PPP Office under Guidong Finance Bureau
Zhu Yawei	Clerk	Fiscal Performance Management Division under Guidong Finance Bureau
Zhu Lixin	Director	Asset Resources Division under Guidong Finance Bureau
Guo Song	Director	Fiscal Performance Management Division under Guidong Finance Bureau
Guo Ruling	Director	Financial Supervision Division under Guidong Finance Bureau
Zeng Xionghui	Chief of former Guidong Tendering and Bidding Supervision and Administration Office (the office was revoked in 2019)	Guidong Development and Reform Bureau
Wu Jing	Deputy Chief	Guidong Government Procurement Administration Office of Guidong Finance Bureau
Guo Yuanjian	Director	Payment Center under Guidong Finance Bureau
Xiao Chunling	Clerk	Treasury Division under Guidong Finance Bureau
Guo Lei	Clerk	Non-tax Division under Guidong Finance Bureau
Wang Qinglin	Director (had been dismissed when interviewed)	Non-Tax Revenue Administration Bureau under Guidong Finance Bureau (had been removed when interviewed)

Annex 6: Calculation of budget outturns for HLG-1, PI-1, PI-2 and PI-3

Table A6.1: Grants from the HLG, FY 2016, Unit: thousand RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Non-earmarked grants						
Income from VAT and excise tax rebate	6,460	6,890				
Income tax rebate income	2,480	2,480				
Other tax rebate income	4,370	7,710				
Institutional adjustment subsidies	10,170	10,170				
Equalization transfer	151,390	197,460				
Transfers for old revolutionary base areas, ethnic areas, border areas and poor areas	27,350	82,180				
Awarding transfer under basic financial support mechanism for counties	65,780	71,990				
Settlement subsidies	9,550	20,160				
Subsidies for budget-level adjustment of enterprises and institutions	1,050	1,050				
Fixed amount subsidies	60,990	59,580				
Other general transfers	590	3,170				
Total non-earmarked grants	340,180	462,840	696,611.9	-233,771.9	233,771.9	33.6%
Earmarked grants						
Tax rebate for refined oil tax and pricing system reform	10,460	10,460	21,419.7	-10,959.7	10,959.7	51.2%
Transfers for Public Security, Prosecution and legal department	5,700	8,420	11,672.3	-3,252.3	3,252.3	27.9%
Transfers for compulsory education	47,440	53,740	97,146.4	-43,406.4	43,406.4	44.7%
Transfers for basic old-age insurance and minimum living allowance	39,370	44,200	80,620.9	-36,420.9	36,420.9	45.2%
Transfers for new cooperative rural medical system	52,800	65,300	108,122.5	-42,822.5	42,822.5	39.6%
Transfer for rural comprehensive reform	7,790	23,400	15,952.2	7,447.8	7,447.8	46.7%
Transfer for key ecological functional areas	51,010	54,220	104,457.0	-50,237.0	50,237.0	48.1%
Rewarding fund for large grain (oil) producing counties			0.0	0.0	0.0	
Sum of rest	73,200	563,320	149,897.1	413,422.9	413,422.9	275.8%
Total Grants	627,950	1,285,900	1,285,900	0	841,741	
Outturn as percentage of budget						204.8%
Composition variance						65.5%

Data Source: The 2016 budget approved by the local People's Congress and 2016 budget execution report

Table A6.2: Grants from the HLG, FY 2017, Unit: thousand RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Non-earmarked grants						
Income from VAT and excise tax rebate	6,890	6,890				
Income tax rebate income	2,480	2,480				
Income from VAT 50:50 sharing rebate		6,610				
Other tax rebate income	10,980	4,370				
Institutional adjustment subsidies	10,170	10,170				
Equalization transfer	181,650	218,770				
Transfers for old revolutionary base areas, ethnic areas, border areas	40,110	8,440				
Awarding transfer under basic financial support mechanism for counties	67,780	79,050				
Settlement subsidies	15,490	14,760				
Subsidies for budget-level adjustment of enterprises and institutions	1,050	1,050				
Fixed amount subsidies	55,050	52,220				
Transfers for poor areas		105,970				
Other general transfers		21,350				
Total non-earmarked grants	391,650	532,130	991,228.7	-459,098.7	459,098.7	46.3%
Earmarked grants						
Tax rebate for refined oil tax and pricing system reform	10,460	10,460	26,473.3	-16,013.3	16,013.3	60.5%
Transfers for Public Security, Prosecution and legal department	5,860	9,430	14,831.1	-5,401.1	5,401.1	36.4%
Transfers for compulsory education	46,330	55,290	117,256.8	-61,966.8	61,966.8	52.8%
Transfers for basic old-age insurance	34,010	35,800	86,076.1	-50,276.1	50,276.1	58.4%
Transfers for urban and rural basic medical insurance		70,530	0.0	70,530.0	70,530.0	
Transfers for new cooperative rural medical system	1,090		2,758.7	-2,758.7	2,758.7	100.0%
Transfer for rural comprehensive reform	26,360	32,720	66,714.6	-33,994.6	33,994.6	51.0%
Rewarding fund for large grain (oil) producing counties			0.0	0.0	0.0	
Transfer for key ecological functional areas	54,220	56,280	137,225.6	-80,945.6	80,945.6	59.0%
Transfer for resource exhausted cities		2,200	0.0	2,200.0	2,200.0	
Sum of rest	127,170	959,580	321,855.1	637,724.9	637,724.9	198.1%
Total revenue	697,150	1,764,420	1,764,420.0	0.0	1,420,909.8	
Overall Outturn as percentage of budget						253.1%
Composition variance						80.5%

Data Source: The 2017 budget approved by the local People's Congress and 2017 budget execution report

Table A6.3: Grants from the HLG, FY 2018, Unit: thousand RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Non-earmarked grants						
Income tax rebate income	2,480	2,480				
VAT rebate income	6,880	6,880				
Income from excise tax rebate	10	10				
Income from VAT and excise tax rebate						
Income from VAT 50:50 sharing rebate	6,610	6,610				
Other tax rebate income	4,370	4,370				
Institutional adjustment subsidies	10,170	10,170				
Equalization transfer	205,360	230,170				
Awarding transfer under basic financial support mechanism for counties	67,310	77,130				
Settlement subsidies	15,490	31,890				
Subsidies for budget-level adjustment of enterprises and institutions	1,050	1,050				
Fixed amount subsidies	51,340	54,070				
Transfers for old revolutionary base areas	8,440	10,140				
Transfers for poor areas	80,000	69,650				
Other general transfers		65,980				
Total non earmarked grants	459,510	570,600	502,763.8	67,836.2	67,836.2	13.5%
Earmarked grants						
Tax rebate for refined oil tax and pricing system reform	10,460	10,460	11,444.6	-984.6	984.6	8.6%
Transfer for resource exhausted cities		3,400	0.0	3,400.0	3,400.0	
Transfers for Public Security, Prosecution and legal department		4,550	0.0	4,550.0	4,550.0	
Transfers for compulsory education	50,000	64,780	54,706.5	10,073.5	10,073.5	18.4%
Transfers for basic old-age insurance	40,000	48,750	43,765.2	4,984.8	4,984.8	11.4%
Transfers for urban and rural basic medical insurance	65,000	74,500	71,118.5	3,381.5	3,381.5	4.8%
Transfer for rural comprehensive reform	20,000	24,080	21,882.6	2,197.4	2,197.4	10.0%
Rewarding fund for large grain (oil) producing counties			0.0	0.0	0.0	
Transfer for key ecological functional areas	54,220	57,120	59,323.7	-2,203.7	2,203.7	3.7%
Sum of rest	558,960	518,340	611,575.1	-93,235.1	93,235.1	15.2%
Total revenue	1,258,150	1,376,580	1,376,580.0	0.0	192,846.8	
Overall Outturn as percentage of budget						109.4%
Composition variance						14.0%

Data Source: The 2018 budget approved by the local People's Congress and 2018 budget execution report

Table A6.4: Expenditures by functions, FY 2016, Unit: thousand RMB

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public service expenditure	224,550	189,840	371,055.3	-181,215.3	181,215.3	48.8%
Public security expenditures	32,400	70,850	53,539.0	17,311.0	17,311.0	32.3%
Defense expenditure			0.0	0.0	0.0	
Expenditures on education	220,440	244,440	364,263.8	-119,823.8	119,823.8	32.9%
Expenditures on science and technology	9,070	15,140	14,987.6	152.4	152.4	1.0%
Cultural Sports and media expenditure	8,690	41,640	14,359.7	27,280.3	27,280.3	190.0%
Social security and employment expenditure	73,110	168,980	120,809.9	48,170.1	48,170.1	39.9%
Health and family planning expenditure	66,200	145,890	109,391.5	36,498.5	36,498.5	33.4%
Energy saving and environmental protection expenditure	19,810	43,850	32,734.8	11,115.2	11,115.2	34.0%
Urban and rural community expenditure	148,700	107,350	245,717.8	-138,367.8	138,367.8	56.3%
Agricultural, forestry and water expenditure	67,760	369,580	111,969.3	257,610.7	257,610.7	230.1%
Transportation expenditure	22,010	48,050	36,370.2	11,679.8	11,679.8	32.1%
Expenditure for resources exploration information	11,810	25,640	19,515.3	6,124.7	6,124.7	31.4%
Business services and other expenditures	6,510	8,010	10,757.4	-2,747.4	2,747.4	25.5%
Financial expenditure			0.0	0.0	0.0	
Expenditure on land, ocean and meteorology	3,130	11,880	5,172.1	6,707.9	6,707.9	129.7%
Housing security expenditure	22,300	94,100	36,849.4	57,250.6	57,250.6	155.4%
Expenditure on stockpiling grain	480	1,290	793.2	496.8	496.8	62.6%
Other general public budget expenditure			0.0	0.0	0.0	
Urban and rural community affairs expenditure			0.0	0.0	0.0	
Expenditure for resources exploration and power information			0.0	0.0	0.0	
Other government fund expenditure	28,560	8,950	47,193.7	-38,243.7	38,243.7	81.0%
Allocated expenditure	965,530	1,595,480	1,595,480.0	0.0	960,795.8	
Interests		11,610				
Contingency	8,190					
Total expenditure	973,720	1,607,090				
Aggregate outturn, as percentage of budget (PI-1)						165.0%
Composition (PI-2) variance						60.2%
Contingency share of budget						0.0%

Data Source: The 2016 budget approved by the local People's Congress and 2016 budget execution report

Table A6.5: Expenditures by functions, FY 2017, Unit: thousand RMB

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public service expenditure	231,760	181,840	490,573.3	-308,733.3	308,733.3	62.93%
Defence Expenditure			0.0	0.0	0.0	
Public security expenditures	45,610	75,850	96,544.0	-20,694.0	20,694.0	21.43%
Expenditures on education	250,040	281,420	529,267.1	-247,847.1	247,847.1	46.83%
Expenditures on science and technology	10,230	20,520	21,654.1	-1,134.1	1,134.1	5.24%
Cultural Sports and media expenditure	10,010	41,190	21,188.5	20,001.5	20,001.5	94.40%
Social security and employment expenditure	83,990	252,400	177,784.1	74,615.9	74,615.9	41.97%
Health and family planning expenditure	66,780	180,480	141,355.2	39,124.8	39,124.8	27.68%
Energy saving and environmental protection expenditure	19,040	45,370	40,302.5	5,067.5	5,067.5	12.57%
Urban and rural community expenditure	151,520	222,270	320,726.9	-98,456.9	98,456.9	30.70%
Agricultural, forestry and water expenditure	75,420	579,920	159,643.8	420,276.2	420,276.2	263.26%
Transportation expenditure	29,170	123,210	61,745.0	61,465.0	61,465.0	99.55%
Expenditure for resources exploration information	12,060	28,550	25,527.8	3,022.2	3,022.2	11.84%
Business services and other expenditures	6,680	16,470	14,139.8	2,330.2	2,330.2	16.48%
Expenditure on land, ocean and meteorology	3,340	35,360	7,069.9	28,290.1	28,290.1	400.15%
Housing security expenditure	23,000	97,850	48,684.8	49,165.2	49,165.2	100.99%
Expenditure on stockpiling grain	480	800	1,016.0	-216.0	216.0	21.26%
Other general public budget expenditure			0.0	0.0	0.0	
Urban and rural community affairs expenditure			0.0	0.0	0.0	
Expenditure for resources exploration and power information			0.0	0.0	0.0	
Other government fund expenditure	40,240	58,900	85,177.2	-26,277.2	26,277.2	0.30850044
Allocated expenditure	1,059,370	2,242,400	2,242,400.0	0.0	1,406,717.4	
Interests	29,910	29,910				
Contingency	9,330					
Total expenditure	1,098,610	2,272,310				
Total expenditure	973,720	1,607,090				
Aggregate outturn, as percentage of budget (PI-1)						206.8%
Composition (PI-2) variance						62.7%
Contingency share of budget						0.0%

Data Source: The 2017 budget approved by the local People's Congress and 2017 budget execution report

Table A6.6: Expenditures by functions, FY 2018, Unit: thousand RMB

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public service expenditure	277,240	157,370	306,414.7	-149,044.7	149,044.7	48.64%
Defence Expenditure			0.0	0.0	0.0	
Public security expenditures	34,700	46,260	38,351.6	7,908.4	7,908.4	20.62%
Expenditures on education	268,020	292,080	296,224.5	-4,144.5	4,144.5	1.40%
Expenditures on science and technology	16,490	37,010	18,225.3	18,784.7	18,784.7	103.07%
Cultural Sports and media expenditure	13,720	42,300	15,163.8	27,136.2	27,136.2	178.95%
Social security and employment expenditure	148,840	232,290	164,502.8	67,787.2	67,787.2	41.21%
Health and family planning expenditure	77,950	162,480	86,152.9	76,327.1	76,327.1	88.59%
Energy saving and environmental protection expenditure	36,700	46,250	40,562.0	5,688.0	5,688.0	14.02%
Urban and rural community expenditure	677,910	514,260	749,248.3	-234,988.3	234,988.3	31.36%
Agricultural, forestry and water expenditure	275,250	582,950	304,215.3	278,734.7	278,734.7	91.62%
Transportation expenditure	76,130	128,230	84,141.4	44,088.6	44,088.6	52.40%
Expenditure for resources exploration information	14,480	20,190	16,003.8	4,186.2	4,186.2	26.16%
Business services and other expenditures	16,840	13,370	18,612.1	-5,242.1	5,242.1	28.17%
Financial expenditure			0.0	0.0	0.0	
Expenditure on land, ocean and meteorology	14,440	28,590	15,959.6	12,630.4	12630.43892	79.14%
Housing security expenditure	119,710	25,910	132,307.4	-106,397.4	106397.4139	80.42%
Expenditure on stockpiling grain	480	1,310	530.5	779.5	779.4882743	146.93%
Other general public budget expenditure			0.0	0.0	0	
Other government fund expenditure	43,560	3,910	48,143.9	-44,233.9	44,233.9	91.88%
Allocated expenditure	2,112,460	2,334,760	2,334,760.0	0.0	1,088,102.1	
interests	32,540	32,010				
Contingency	15,010					
Total expenditure	2,160,010	2,366,770				
Total expenditure	1,098,610	2,272,310				
Total expenditure	973,720	1,607,090				
Aggregate outturn, as percentage of budget (PI-1)						109.6%
Composition (PI-2) variance						46.6%
Contingency share of budget						0.0%

Data Source: The 2018 budget approved by the local People's Congress and 2018 budget execution report

Table A6.7: Revenues, FY 2016, Unit: thousand RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
VAT	17,260	37,650	15,450.0	22,200.0	22,200.0	143.7%
Business tax	43,010	16,240	38,499.7	-22,259.7	22,259.7	57.8%
Corporate income tax	15,580	16,060	13,946.2	2,113.8	2,113.8	15.2%
Corporate income tax refund			0.0	0.0	0.0	
Individual income tax	7,110	4,960	6,364.4	-1,404.4	1,404.4	22.1%
Resource tax	1,600	1,150	1,432.2	-282.2	282.2	19.7%
City maintenance and construction tax	7,030	7,190	6,292.8	897.2	897.2	14.3%
Property tax	2,250	5,530	2,014.0	3,516.0	3,516.0	174.6%
Stamp duty	1,310	1,850	1,172.6	677.4	677.4	57.8%
Urban land use tax	2,050	5,120	1,835.0	3,285.0	3,285.0	179.0%
Land appreciation tax	8,490	4,810	7,599.7	-2,789.7	2,789.7	36.7%
Vehicle and vessel tax	1,430	1,470	1,280.0	190.0	190.0	14.8%
Farmland conversion tax	10,180	16,470	9,112.5	7,357.5	7,357.5	80.7%
Deed tax	4,910	12,700	4,395.1	8,304.9	8,304.9	189.0%
Tobacco taxes			0.0	0.0	0.0	
Other tax revenue						
Social contributions						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
Grants						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units			0.0	0.0	0.0	
Other revenues						
Special Revenue	17,910	15,860	16,031.8	-171.8	171.8	1.1%
Income from administrative fees	21,750	10,940	19,469.1	-8,529.1	8,529.1	43.8%
Fines, penalties and forfeits	13,180	17,350	11,797.9	5,552.1	5,552.1	47.1%
Income from state capital operation			0.0	0.0	0.0	
Income from paid use of state-owned resources (assets)	3,540	10,170	3,168.8	7,001.2	7,001.2	220.9%
Public rental housing income		2,830	0.0	2,830.0	2,830.0	
Other Revenue	540	1,570	483.4	1,086.6	1,086.6	224.8%
Government fund income	122,300	79,900	109,474.8	-29,574.8	29,574.8	27.0%
Total revenue	301,430	269,820	269,820	0	130,023	
Overall variance against budget						89.5%
Composition variance against adjusted budget						48.2%

Data Source: The 2016 budget approved by the local People's Congress and 2016 budget execution report

Table A6.8: Revenues, FY 2017, Unit: thousand RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
VAT	40,350	63,640	43,540.1	20,099.9	20,099.9	46.2%
Business tax changed to VAT	17,640		19,034.6	-19034.60999	19,034.6	100.0%
Corporate income tax	18,150	13,550	19,584.9	-6,034.9	6,034.9	30.8%
Individual income tax	5,600	7,320	6,042.7	1,277.3	1,277.3	21.1%
Resource tax	1,300	1,540	1,402.8	137.2	137.2	9.8%
City maintenance and construction tax	8,120	7,750	8,762.0	-1,012.0	1,012.0	11.5%
Property tax	6,250	4,870	6,744.1	-1,874.1	1,874.1	27.8%
Stamp duty	2,090	2,760	2,255.2	504.8	504.8	22.4%
Urban Land Use tax	5,790	1,530	6,247.8	-4,717.8	4,717.8	75.5%
Land appreciation tax	5,440	13,690	5,870.1	7,819.9	7,819.9	133.2%
Vehicle and Vessel tax	1,660	1,690	1,791.2	-101.2	101.2	5.7%
Farmland conversion tax	18,610	19,570	20,081.3	-511.3	511.3	2.5%
Deed tax	14,350	11,790	15,484.5	-3,694.5	3,694.5	23.9%
Tobacco taxes			0.0	0.0	0.0	
Other tax revenue			0.0	0	0.0	
Other tax revenue						
Social contributions						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
Grants						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units		360	0.0	360.0	360.0	
Other revenues						
Special Revenue	17,920	16,700	19,336.7	-2,636.7	2,636.7	13.6%
Income from administrative fees	12,360	6,600	13,337.2	-6,737.2	6,737.2	50.5%
Fines, penalties and forfeits	19,590	13,000	21,138.8	-8,138.8	8,138.8	38.5%
Income from state capital operation			0.0	0.0	0.0	
Income from paid use of state-owned resources (assets)	11,500	12,940	12,409.2	530.8	530.8	4.3%
Government housing fund revenue	3,200	2,490	3,453.0	-963.0	963.0	27.9%
Other Revenue	1,790	14,100	1,931.5	12,168.0	12,168.0	6,300.0%
Government fund income	137,900	161,360	148,802.3	12,557.7	12,557.7	8.4%
Total revenue	349,610	377,250	377,250	0	110,912.2	
Overall variance against budget						107.9%
Composition variance against adjusted budget						29.4%

Data Source: The 2017 budget approved by the local People's Congress and 2017 budget execution report

Table A6.9: Revenues, FY 2018, Unit: thousand RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
VAT	44,390	68,560	37,108.6	31,451.4	31,451.4	84.8%
Business tax changed to VAT	19,400		16,217.8	-16,217.8	16,217.8	100.0%
Corporate income tax	19,970	18,140	16,694.3	1,445.7	1,445.7	8.7%
Individual income tax	6,160	5,800	5,149.6	650.4	650.4	12.6%
Resource tax	1,430	710	1,195.4	-485.4	485.4	40.6%
City maintenance and construction tax	8,930	8,310	7,465.2	844.8	844.8	11.3%
Property tax	6,880	3,380	5,751.5	-2,371.5	2,371.5	41.2%
Stamp duty	2,300	1,600	1,922.7	-322.7	322.7	16.8%
Urban Land Use tax	6,370	2,750	5,325.1	-2,575.1	2,575.1	48.4%
Land appreciation tax	5,980	25,870	4,999.1	20,870.9	20,870.9	417.5%
Vehicle and Vessel tax	1,830	2,760	1,529.8	1,230.2	1,230.2	80.4%
Farmland conversion tax	20,470	5,120	17,112.3	-11,992.3	11,992.3	70.1%
Deed tax	15,790	20,520	13,199.9	7,320.1	7,320.1	55.5%
Tobacco taxes						
Environmental protection tax		60	0.0	60.0	60.0	
Other tax revenue			0.0	0.0	0.0	
Social contributions						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
Grants						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units		360	0.0	360.0	360.0	
Other revenues						
Special Revenue	17,230	12,180	14,403.7	-2,223.7	2,223.7	15.4%
Income from administrative fees	14,210	4,080	11,879.1	-7,799.1	7,799.1	65.7%
Fines, penalties and forfeits	21,550	29,250	18,015.1	11,234.9	11,234.9	62.4%
Income from state capital operation	0		0.0	0.0	0.0	
Income from paid use of state-owned resources (assets)	14,520	12,870	12,138.3	731.7	731.7	6.0%
Government housing fund revenue	3,510	2,430	2,934.2	-504.0	504.0	17.2%
Other Revenue	1,960	13,730	1,638.5	12,092.0	12,092.0	738.0%
Government fund income	652,800	501,920	545,719.8	-43,799.8	43,799.8	8.0%
Total revenue	885,680	740,400	740,400	0	176,583	
Overall variance against budget						83.6%
Composition variance against adjusted budget						23.8%

Data Source: The 2018 budget approved by the local People's Congress and 2018 budget execution report

Annex 7: Fiscal risks of main public corporations

PCs can bring substantial fiscal risks to the County Government. This PEFA assessment assesses the quality of fiscal risk monitoring associated with PCs under dimension PI-10.1. The assessment under PI-10.1 is anchored to the financial reports of the PCs, whether they are submitted to the government timely, are disclosed to the public, and whether they are audited. However, considering the close relations between PCs and the government, as well as the fact that some PCs used to function as LGFVs through which most off-budget borrowings was taking place, the debt incurred by these LGFVs can also constitute implicit contingent liabilities for the County Government.

This annex complements the PEFA assessment with an analysis of the implicit liability risks posed by PCs by assessing (i) the quality of their financial management, including expenditures and revenues outside the financial reports, (ii) their debt recording and reporting, and (iii) their monitoring of the major investment projects they sponsor. In all three cases, the assessment is based on PEFA dimensions and requirements.

Guidong government confirmed that there was only one LGFV in operation at the time of assessment—Guidong Xinghuo UDIC. All other previous LGFVs in Guidong had either been shut down or been merged into Guidong Xinghuo UDIC by 2018. The public operations of Guidong Xinghuo UDIC were stripped and merged into responsibility units respectively. Guidong Xinghuo UDIC is no longer allowed to borrow to finance public benefit projects, and its borrowings are reported to, and closely monitored by, the Finance Bureau. Table A7.1 provides key information on Guidong Xinghuo UDIC and its subsidiaries.

Table A7.1: Guidong Xinghuo UDIC and its Subsidiaries

Name of PC	Main activities	Shares owned by Guidong Government	Assets (million RMB)	Stock of debt (million RMB)
Guidong Xinghuo UDIC	Urban Infrastructure Construction	100%	4,133.05	1,293.22
Subsidiaries Of Guidong UDIC				
1. Guidong Xinhui Investment and Development co. LTD	Land Development and Management	100%	50.20	0.20
2. Guidong Tourism Development and Investment co. LTD	Tourism Investment	100%	73.12	28.76
3. Guidong UDIC	Urban Infrastructure construction	100%	2,676.61	450.05
4. Guidong Transportation construction Investment co. LTD	Transportation construction Investment	56%	257.00	121.27
5. Guidong Xinggui Property co. LTD	Real Estate Project Development	100%	473.35	431.51
6. Guidong Agricultural Development and Investment co. LTD	Agricultural Investment	100%	1,139.63	908.24
Total			8,802.94	3,233.25

Data source: Guidong Finance Bureau.

PI-6. Operations outside financial reports

This indicator measures the extent to which the revenue and expenditure of PCs are reported outside the government financial report. The bigger the size of PCs' operation, the higher potential risk they present to the government. The indicator contains two dimensions.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-6. PCs operations outside financial reports (M2)		D
6.1 Expenditure outside financial reports	Total gross expenditure of the Guidong UDIC exceeds 10 percent of BG's expenditure.	D
6.2 Revenue outside financial reports	Total gross revenues of the Guidong UDIC exceeds 10 percent of BG's revenues.	D

To make it consistent with cash-based budgeting, the LGFVs' revenues and expenditures in this annex are measured by their cash inflow and cash outflow derived from their business operation. They are compared to total revenues and expenditures of the BG, namely, the sum of revenues and expenditures of the general public budget and government fund budget. The criteria for receiving Score A, B or C is that the ratio of LGFV's revenues (expenditures) to the BG's revenues (expenditures) is less than 1 percent, 5 percent or 10 percent. These numbers should be read with cautious, however. The LGFVs get most of their revenues from the sales of goods and services to the BG. If the internal transactions between the BG and LGFVs are taken into account, the net revenues and expenditures outside of the BG's financial report would be much smaller.

PI-6.1 Expenditure outside financial reports

Total gross expenditure of the Guidong UDIC amounted to RMB249.3 million in 2018, equivalent to 33.67 percent of the BG's total expenditures. Score D.

PI-6.2 Revenue outside financial reports

Total gross revenue of the Guidong UDIC amounted to RMB778.3 million in 2018, equivalent to 32.8 percent of BG's total revenues. Score D.

Table A7.2: Guidong UDICs' operations out of the BG financial report, billion RMB

	Gross amount	As % of Government Budget
Revenues	0.2493	33.67%
Expenditures	0.7783	32.88%

Source: Guidong UDIC's financial report in 2018, and assessor's estimation

PI-11.4 Investment project monitoring

This indicator assesses the extent to which prudent project monitoring and reporting arrangements have been put in place by SOEs for ensuring value for money and fiduciary integrity. The monitoring system should maintain records on both physical and financial progress, including estimates of work in progress, and

produce periodic project-monitoring reports. Monitoring should cover projects from the point of approval and throughout implementation. The system should allow supplier payments to be linked to evidence of physical progress. Such a system should also identify deviations from plans and allow for identification of appropriate actions in response.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
11.4. Investment project monitoring	The investment projects of Guidong Xinghuo UDIC with a total cost less than 2 million RMB are selected by the Guidong Xinghuo UDIC; those with a total cost less than 4 million and more than 2 million RMB are selected by the investment and financing service center, and those with a total cost more than 10 million RMB are selected by the County Government. The rules and procedures are prescribed in the <i>Guidong Detailed Rules for the Implementation of Internal Control Management of Investment Project Construction Units</i> . Guidong Xinghuo UDIC strictly complies with these rules and procedures. The physical progress is monitored monthly and submitted to the Auditing Bureau. However, the information on implementation progress of major investment projects is not published.	C

PI-13.1 Recording and reporting of debt and guarantees

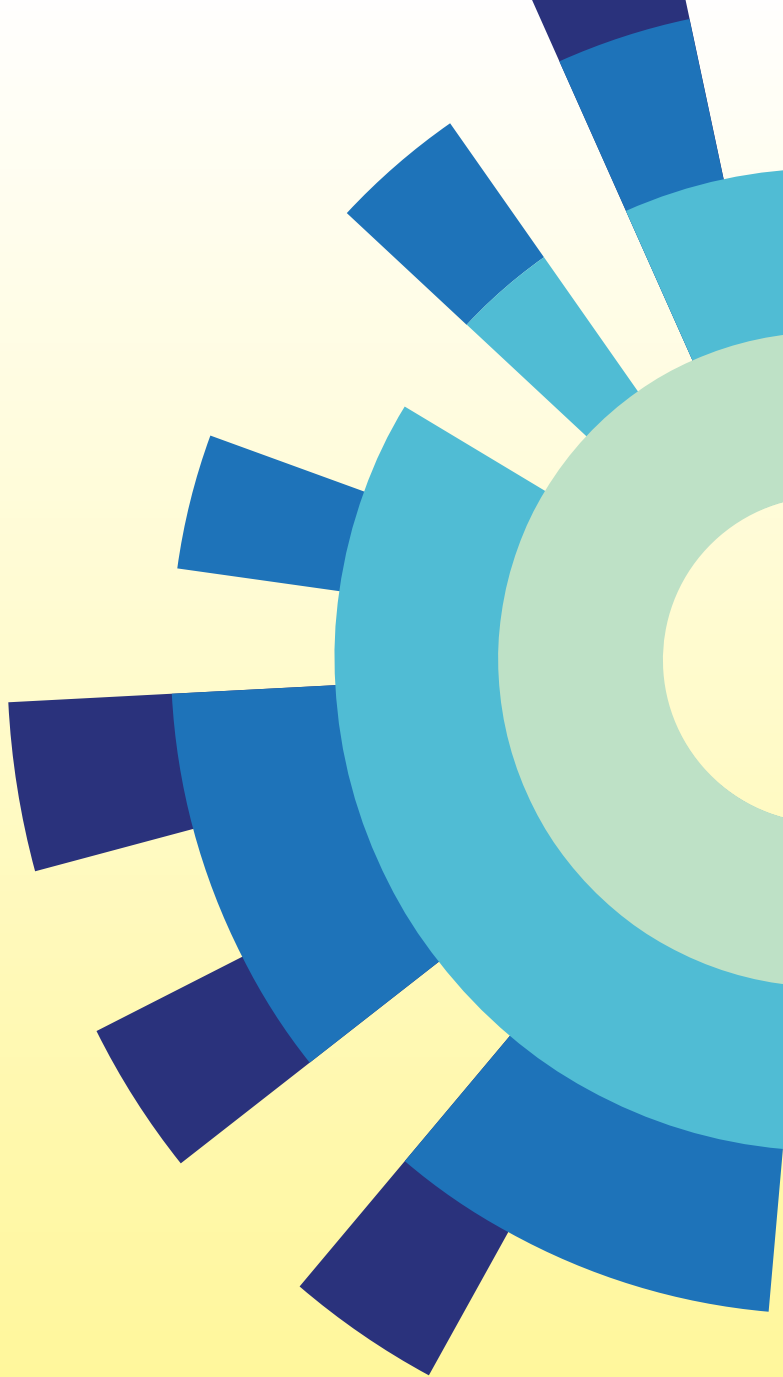
This indicator assesses the recording and reporting of debt and guarantees by the SOEs. It seeks to identify whether satisfactory management practices and records are in place to ensure efficient and effective arrangements.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
13.1. Recording and reporting of debt and guarantees	Debt records are complete, accurate, and updated monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced annually, and submitted to the county.	B

Table A7.3: Recording and reporting of debt and guarantees

PC	Debt records maintained (Y/N)	Frequency of update of records (M/Q/A)	Records are complete and accurate (Y/N)	Frequency of reconciliation M=Monthly Q=Quarterly A=Annually N=Not done (Add whether All; Most: Some; Few)	Statistical reports (covering debt service, stock and operations prepared) M/Q/A/N	Additional information from reconciliation reported (if no statistical report) Y/N	Submission of report to the county (Y/N)
Guidong Xinghuo UDIC	Y	M	Y	M	M	Y	Monthly

Guidong Xinghuo UDIC reports on all its public-benefit investment projects, their financing, borrowing, outstanding debt, amortization and interest payment to the County Finance Bureau through the computerized fiscal risk monitoring system. These data are updated every month.



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