



Hunan Finance  
Department



World Bank Group

**CHINA**

**YOUXIAN COUNTY, HUNAN PROVINCE**

**PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA)**  
**PERFORMANCE ASSESSMENT REPORT**





Hunan Finance  
Department



World Bank Group

**Youxian 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 Youxian City for their cooperation, and the peer reviewers and PEFA Secretariat for their guidance. A substantial number of Youxian City 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 Youxian County comprised Zhao Min (Task Team Leader, WB), Julia Dhimitri (Adviser/ PFM Specialist, PEFA Secretariat), Guillaume Brule (Adviser/ Financial Management Specialist, PEFA Secretariat), Du Li (Co-Lead Consultants, Fudan University), Zhang Ping (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 – Youxian 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
CG	Central Government
CIIA	China Institute of Internal Audit
CNAO	China National Audit Office
CPI	Consumer Price Index
DC	Direct Contracting
DMS	Debt Management Strategy
DOF	Department of Finance
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 HI
HLG	Higher-Level Government
HPFD	Hunan Provincial Finance Department
ICB	Invitation Competitive Bidding
IMF	International Monetary Fund
IFMIS	Integrated Financial Management Information System
LGfV	Local Government Financing Vehicle
MIPO	Major Investment Project Office
MOF	Ministry of Finance
NA	Not Applicable
NPC	National People's Congress
NU	Not Used
OCB	Open Competitive Bidding
OMP	Office of Major Projects
PBOC	People's Bank of China
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
SAIOC	State-Owned Assets Investment and Operation Center
SCOB	State Capital Operating Budget
SNG	Subnational Government
SOE	State-Owned Enterprise
SSB	Social Security Budget
TSA	Treasury Single Account
UDIC	Urban Development Investment Corporation
USD	United States Dollar
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 the county of Youxian, 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 Youxian County can be measured.

The assessment covers the county of Youxian, 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 is no extra-budgetary unit (EBU) in Youxian County, the social security fund is managed separately from the core budget system— that is, the general public budget (GPB) and government fund budget (GFB), and thus is classified as extrabudgetary operation in this assessment. Following China’s legislative classification, state owned enterprises (SOEs) are assessed as public corporations (PCs). China’s laws and regulations prohibit any SOE, including local government financing vehicles (LGFVs), 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 a legislative obligation to bail out any SOE. Considering that they may present potential fiscal risk to the government, Annex 7 provides complementary information on the financial management performance of LGFVs in Youxian. At the time of assessment, there were two LGFVs in Youxian still in the process of transforming into commercial entities.

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

### Impact of PFM systems on the three main budgetary outcomes

Overall, the PFM systems of Youxian perform well in the in-year budget reporting and budget control, public asset management, and legislative scrutiny of audit reports. The main weaknesses pertain to budget reliability and transparency, performance and medium-term orientation of the budget, public investment and procurement management, the monitoring of expenditure arrears, internal audit, and annual financial reporting. The context in which Youxian sets its budget is important. Youxian generally complies to the PFM practices mandated by the central and provincial governments. The improvement in county’s PFM system requires enhanced predictability of information on transfers to be received from higher-level governments (HLGs).

#### *Fiscal discipline*

In Youxian, the budget fails to impose much fiscal discipline. The variation between budget outturn and budget estimates for both aggregate expenditure (PI-1.1) and expenditure composition (PI-2.1) scores D, and there are significant budget adjustments for expenditure with information shortage (PI-21.4, rated D\*). The lack of predictability of HLG transfers (HLG-1 rated D+) and land sales revenues (PI-3 rated C) are the main factors. In-year resource allocation is frequent and unpredictable (PI-21, rated D), and monitoring for expenditure arrears is missing (PI-22.2, rated D). More efforts are needed in cash management, including the consolidation of cash

balances (PI-21.1, scored C) and cash forecasting and monitoring (PI-21.2, scored D).

Effective control over expenditures by budgetary units helps to enhance fiscal discipline. No government operation takes place outside the financial reports (PI-6, rated A). Payroll control is effective and supported with centralized payment arrangements and auto-reconciliation through an IT system (the first three dimensions of PI-23 are rated A). Strong internal control for non-salary expenditure (PI-25, rated B) helps ensure strict control over spending during budget execution. There is a good reporting and recording system for debts (PI-13.1, rated C) and contingent liabilities (PI-10.3, rated B).

Youxian County recognizes the role of enhanced management over SOEs to the success of imposing fiscal discipline. The government debt management system has enhanced the government's monitoring of contingent liabilities. However, there is no evidence that the Youxian Finance Bureau makes use of this information to assess the implications that PC finance may have for fiscal sustainability or impose any discipline on aggregate public investments.

### *Strategic allocation of resources*

The main PEFA indicator concerned with medium-term budget strategy (PI-14) is rated D+. Budget preparation includes estimates of revenue, expenditure, and transfers, but no forecasts are based on macroeconomic indicators or fiscal or sectoral strategies.

The oversight arrangements, including those related to the budget preparation process and legislative scrutiny over the budget, have been assessed as reasonable (PI-17, rated C+ and PI-18, rated C+).

Other indicators that relate to the strategic allocation of resources are satisfactory. Clear rules for the prioritization of major investment projects are in place (PI-11.2, rated B), and budget documentation is considered to meet all basic requirements (PI-5, rated C). However, costing information of major investment projects is not included in the budget documents (PI-11.3, rated D), and budget classification is not in accord with international standards (PI-4, D).

### *Efficient use of resources for service delivery*

Youxian's PFM system does not encourage the efficient use of resources for service delivery. The share of budgetary units which publish performance targets is not high (PI-8.1, rated C). Performance evaluation is not regularly conducted (PI-8.4, rated C).. Moreover, the low budget reliability and predictability of in-year resource allocations (PI-21, rated D) may adversely affect the capacity of service delivery units in making efficient resource use.

Required mechanisms are in place to reduce the possible leakage of funds, such as the asset management system (PI-12, rated B), the internal controls over payroll (PI-23, C+) and non-salary expenditure (PI-25, B). However, as for the procurement management system, there is no monitoring of small value contracts and no information available on the procurement methods applied (both PI-24.1 and PI-24.2 are rated D\*).

Ratings of the oversight arrangements are good (C+ for PI-30 and B for PI-31). Audit coverage is high, and the audit reports are submitted to the People's Congress within six months. Effective and timely follow-up actions are taken by the concerned entities, and the representatives of most budgetary units with issues disclosed by the auditors are required to attend the hearings. However, the hearings on audit reports are not accessible to

the public.

In sum, the Youxian PFM system performs at sub-optimal level, but there is great potential for improvement if the regulatory framework of the CG and Hunan Government allows. The ongoing reforms, promoted 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.

The assessment results are to 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 Youxian Government has basic monitoring obligations over the investment projects that LGFVs implement (Annex 7, PI-11.4, C), and their liabilities (Annex 7, PI-13.1, A). A comprehensive assessment for LGFVs is warranted to reveal the impact of LGFVs on the PFM performance of Youxian 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 in 2019, 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 city government to carry out the needed PFM reforms. PFM in China is a long-term endeavor, requiring the 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	
<b>SNG PILLAR: Intergovernmental fiscal relations</b>							
HLG-1	Transfers from an HLG	M2	D	D*	A	D	D+
HLG-2	Fiscal rules and monitoring of fiscal position	M1					NU
<b>Pillar One: Budget reliability</b>							
PI-1	Aggregate expenditure outturn	M1	D				D
PI-2	Expenditure composition outturn	M1	D	NA	A		D+
PI-3	Revenue outturn	M2	B	D			C
<b>Pillar Two: Transparency of public finances</b>							
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

PFM PERFORMANCE INDICATOR (PI)		SCORING METHOD	DIMENSION RATINGS				OVERALL RATING
			i	ii	iii	iv	
PI-7	Transfers to subnational governments (SNGs)	M2	NA	NA			NA
PI-8	Performance information for service delivery	M2	C	D	A	D	C
PI-9	Public access to fiscal information	M1	D				D
PI-9bis	SNG public consultation	M2					NU
<b>Pillar Three: Management of Assets and Liabilities</b>							
PI-10	Fiscal risk reporting	M2	C	NA	B		C+
PI-11	Public investment management	M2	D	B	D	C	D+
PI-12	Public asset management	M2	C	C	A		B
PI-13	Debt management	M2	C	A	D		C+
<b>Pillar Four: Policy-based fiscal strategy and budgeting</b>							
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	C	C	C+
<b>Pillar Five: Predictability and control in budget execution</b>							
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	D*	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	D	D	D+
<b>Pillar Six: Accounting and reporting</b>							
PI-27	Financial data integrity	M2	B	NA	NA	B	B
PI-28	In-year budget reports	M1	A	A	B		B+
PI-29	Annual financial reports	M1	C	A	D		D+
<b>Pillar Seven: External scrutiny and audit</b>							
PI-30	External audit	M1	C	B	A	B	C+
PI-31	Parliamentary scrutiny of audit reports	M2	A	B	A	D	B





# 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 (PforR) lending operation, to support a reform program for the improvement of PFM in the Province.
2. Against this backdrop, Hunan Province has conducted 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 Youxian 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 (HPFD)	To identify and agree on key responsibilities, approach to assessment, and time line etc. Chair
Alma Kanani, Practice Manager, World Bank	Adviser
Sebastian Eckardt, Lead Economist, World Bank	Adviser

### Oversight Team

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, 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, China MOF), Deng Weiping (Director, HPFD), Lewis Hawke (Lead Public Sector Specialist, EEAG1, WB), Sanjay Vani (Lead Financial Management Specialist, EEAG1, WB), John Litwack (Lead Economist, EA1M2, WB), Christoph Ungerer (Senior Economist, EECM2, WB), IMF Representative, and PEFA Secretariat. Reviewers who provided comments: Liu Shangxi, Deng Weiping, Su Zhili, Lewis Hawke, Sanjay Vani, Christoph Ungerer, and Martin Bowen (PEFA Secretariat). Comments from Deng Weiping represent those of the HPFD and all 8 county governments.
Date of final concept note to PEFA Secretariat:	December 3, 2019

### PEFA assessment report

Date submitted for review:	The first draft was submitted to the WB peer reviewers and PEFA Secretariat on November 4, 2020. The revised version incorporating comments from the peer reviewers of the WB and PEFA Secretariat was submitted to the HPFD and the Youxian 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 Youxian 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, and agricultural service centers. Annex 3 provides a list of the specific public sector agencies covered. Generally, and therefore also in Youxian, there are no EBUs and no financially independent local governments below the county level. The social security fund is managed separately from the core budget system— the general public budget (GPB) and government fund budget (GFB), and thus is classified as an extrabudgetary operation in this assessment. In addition, Youxian has 16 PCs (SOEs). These entities are legally separated from the government and incorporated under corporate law, and as such are not considered to be part of the government for the purpose of this assessment. China’s laws and regulations prohibit any SOE, including LGFVs, 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 legislative obligation to bail out any SOE. Considering that they may present potential fiscal risk to the government, Annex 7 provides complementary information on the financial management performance of LGFVs in Youxian. At the time of assessment, there were two LGFVs that were still in the process of transforming into commercial entities.

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

**Table 1.2: Timing of PEFA assessment in Youxian County**

<b>Training for assessors and local government officials:</b>	December 4-7, 2019
<b>In-country (virtual):</b>	March 2020
<b>Country FY:</b>	January 1 – December 31
<b>Last three FYs covered:</b>	FY 2016, FY 2017, FY 2018
<b>Latest budget submitted to legislature:</b>	FY 2019
<b>Time of assessment (planned cut-off):</b>	December 2019

**7. Sources of information:** The assessment team consulted a wide range of documents from various sources, including from agencies within the SNG, such as the Finance Bureau, the Development and Reform Bureau (DRB), the Audit Office, and the Education Bureau; from local institutions, such as the local People’s Congress or local SOEs; and from HLGs. 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 closely followed the methodology in terms of coverage and application. Those indicators that were not applicable have been scored Not Applicable (NA).

9. A series of PEFA methodology training sessions were held. The first took place in April 2019 in Beijing for officials from the CG and 40 SNGs. A second training session was held in October 2019 in Changsha for officials from the Hunan Provincial Government and its sub-provincial governments. The third training sessions was conducted in December 2019 for officials from all eight counties to be assessed in 2019 and 2020, as well as for local assessors. These sessions were given by a team from the PEFA Secretariat, led by Jens Kromann Kristensen and assisted by 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 government – the CG, 34 provinces and municipalities, 333 prefectures, 2,851 counties, and 39,945 townships.<sup>1</sup>

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 reforms and opening up in the late 1970s, GDP growth has averaged almost ten 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 challenges as it transitions 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 selected 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 (Private consumption deflator, %)	2.0	1.6	2.1
<b>Public finance (% of GDP)</b>			
<b>General public budget (GPB)</b>			
Revenues	22.4	22.0	21.6
Expenditures	25.3	24.8	24.1
Fiscal balance (official)	-2.9	-2.9	-2.6
<b>Government fund budget (GFB)</b>			
Revenues	6.2	7.4	8.2
Expenditures	6.3	7.4	8.9
<b>Debt (% of GDP)</b>	<b>37.0</b>	<b>36.5</b>	<b>36.9</b>

Data source: World Bank.

<sup>1</sup> Source: China Statistics Yearbook, 2018

13. The central province of Hunan is a landlocked province in the interior of China and ranks 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 persist 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 the income 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 is setting the overall policy framework, Hunan's 122 county governments will take the main responsibility 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
<b>GDP (Billion RMB)</b>	3155.1	3390.3	3633.0
<b>GDP per capita (RMB)</b>	46,382	49,558	52,949
<b>Real GDP growth rate (%)</b>	8.00	8.00	7.80
<b>Unemployment rate (%)</b>	4.19	4.02	3.58
<b>Inflation (CPI, %)</b>	1.88	1.43	1.96
<b>Average disposable income of urban residents (RMB)</b>	31,284	33,948	36,698
<b>Average disposable income of rural residents (RMB)</b>	11,930	12,936	14,093
<b>Public finance (% of regional GDP)</b>			
<b>GPB</b>			
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
<b>GFB</b>			
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
<b>SNG debt (% of GDP)</b>	21.6	22.6	24.0

Data source: HPFD.

14. A strong PFM system is indispensable for gearing the economic transformation in China and further developing it to a high-income country. China's fiscal system has successfully supported 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 and an important pillar 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, in the form of a development policy loan and an upcoming PforR operation. Chapter 5 provides a more detailed discussion about China’s PFM reform program.

## 2.2.2 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 on its tax sharing and expenditure assignments with the provinces and municipalities, and each province and municipality decides on its respective tax sharing and expenditure assignments with the cities and counties within its jurisdiction. The intra-budgetary system in most provinces, including Hunan Province, is streamlined into 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 they also directly manage the finances 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 into 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. Youxian takes on 35 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 on the tax-sharing arrangements between the provincial government and the 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, in percent**

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: Youxian 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 on LGFVs borrowing 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.

#### 2.3.3 Main facts and economic indicators of Youxian

22. Main facts and selected economic indicators for Youxian are summarized in Tables 2.4 and 8 below.

**Table 2.4: Summary of main facts of Youxian**

Youxian	Detail
Tier of government	As a county, Youxian is subordinated to Zhuzhou, a prefecture-level city of Hunan Province. With regard to PFM, Youxian 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 Zhuzhou Prefecture, it has direct fiscal relations with Hunan Province at the first tier of the fiscal system.
Population	665,000
Main characteristics	With per capita GDP at USD 8,032, about 41 percent of the population lives in rural areas. The urban-rural income disparity is not significant.
Economy	Main industries include the coal industry, the energy industry, real estate, the cement industry, the ceramics industry, and food processing. Agriculture, manufacturing, and services accounted for 14%, 35%, and 51% of GDP, respectively, in 2018. Major economic challenges for the county include maintaining economic growth and improving public service delivery.
Services provided by the SNG	Youxian provides a wide range of public services to its citizens, including education, health care, infrastructure, transportation etc.

Data source: Youxian Statistics Bureau and Youxian Finance Bureau.

**Table 2.5: Selected economic indicators for Youxian (2016-2018)**

Economic indicators	2016	2017	2018
<b>GDP (billion RMB)</b>	37.0	37.9	34.7
<b>Share of sectors</b>			
Agriculture	14%	13%	14%
Industry	50%	46%	35%
Services	36%	41%	51%
<b>GDP per capita (RMB)</b>	52,855	56,131	52,209
<b>GDP growth rate</b>	8.1%	7.5%	7.4%
<b>Average disposable income of urban residents (RMB)</b>	33,044	35,755	38,488
<b>Average disposable income of rural residents (RMB)</b>	22,183	24,050	26,031

Data source: Youxian Statistics Bureau.

## 2.4 Fiscal and budgetary trends in Youxian

23. For FYs 2016 to 2018, the overall financial situation in Youxian was sound and stable (see Tables 2.6 and 2.7). Compared to most counties in Hunan Province, Youxian relied heavily on transfers from HLGs. The total received transfers were stable, close to 7 percent of GDP. Tax revenues steadily stood at around 2 percent of GDP. Non-tax revenue inched down from 3.8 percent in 2016 to 1.7 percent in 2018 due to the implementation of a national policy to reduce administrative fees and charges. Thanks to the vibrant real estate market, the government's land sales revenues increased from 0.7 percent of GDP in 2016 to 4.1 percent in 2018. The combined overall balance of the GPB and the GFB increased from -0.8 to 0.4 percent of GDP from 2016 to 2018, despite an increase in the expenditures of both GPB and GFB.

**Table 2.6: GPB - Source of funding, Youxian, million RMB**

Source of funding	Million RMB			As percentage of GDP		
	2016	2017	2018	2016	2017	2018
<b>Expenditure</b>	<b>4,673</b>	<b>4,703</b>	<b>4,602</b>	<b>12.6%</b>	<b>12.4%</b>	<b>13.3%</b>
<b>Revenue</b>	<b>1,953</b>	<b>1,986</b>	<b>1,305</b>	<b>5.3%</b>	<b>5.2%</b>	<b>3.8%</b>
Tax	551	682	715	1.5%	1.8%	2.1%
Non-tax	1,402	1,304	590	3.8%	3.4%	1.7%
<b>Transfer from HLGs</b>	<b>2,428</b>	<b>2,525</b>	<b>2,595</b>	<b>6.6%</b>	<b>6.7%</b>	<b>7.5%</b>
Tax rebate	120	117	117	0.3%	0.3%	0.3%
General transfer	1,222	1,327	1,511	3.3%	3.5%	4.4%
Special transfer	1,129	1,115	1,027	3.0%	2.9%	3.0%
(-) Transfer to HLGs	(44)	(35)	(60)	-0.1%	-0.1%	-0.2%
<b>Overall balance</b>	<b>(292)</b>	<b>(192)</b>	<b>(701)</b>	<b>-0.8%</b>	<b>-0.5%</b>	<b>-2.0%</b>
<b>Transfer from GFB and others</b>	<b>3</b>	<b>43</b>	<b>970</b>	<b>0.0%</b>	<b>0.1%</b>	<b>2.8%</b>
<b>Change in cash balance</b>	<b>0</b>	<b>3</b>	<b>42</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.1%</b>
<b>Withdrawal from reserve</b>	<b>107</b>	<b>(101)</b>	<b>(483)</b>	<b>0.3%</b>	<b>-0.3%</b>	<b>-1.4%</b>
<b>Financing</b>	<b>182</b>	<b>246</b>	<b>172</b>	<b>0.5%</b>	<b>0.6%</b>	<b>0.5%</b>
Borrowing	1,241	678	376	3.4%	1.8%	1.1%
Debt amortization	(1,059)	(432)	(204)	-2.9%	-1.1%	-0.6%

Data source: Youxian Finance Bureau.

**Table 2.7: GFB - Source of funding, Youxian, million RMB**

Source of funding	Million RMB			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
<b>Expenditures</b>	<b>301</b>	<b>352</b>	<b>604</b>	<b>0.8%</b>	<b>0.9%</b>	<b>1.7%</b>
ow. Urban and rural community services (land and infrastructure development)	279	291	535	0.8%	0.8%	1.5%
Social security and jobs	4	20	14	0.0%	0.1%	0.0%

Source of funding	Million RMB			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
Interest	0	16	37	0.0%	0.0%	0.1%
<b>Revenues</b>	<b>257</b>	<b>297</b>	<b>1416</b>	<b>0.7%</b>	<b>0.8%</b>	<b>4.1%</b>
ow. Land sales revenues	249	292	1412	0.7%	0.8%	4.1%
<b>Net grants from HLGs</b>	<b>51</b>	<b>59</b>	<b>35</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.1%</b>
<b>Overall balance</b>	<b>6</b>	<b>4</b>	<b>847</b>	<b>0.0%</b>	<b>0.0%</b>	<b>2.4%</b>
<b>Withdrawal from reserves and other sources</b>	<b>40</b>	<b>44</b>	<b>44</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>
<b>Transfer to GPB</b>	<b>3</b>	<b>3</b>	<b>970</b>	<b>0.0%</b>	<b>0.0%</b>	<b>2.8%</b>
<b>Financing</b>	<b>0</b>	<b>0</b>	<b>119</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.3%</b>
Debt	541	490	340	1.5%	1.3%	1.0%
Debt amortization	541	490	221	1.5%	1.3%	0.6%
<b>Carry-over to next year</b>	<b>44</b>	<b>44</b>	<b>40</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>

Data source: Youxian Finance Bureau.

24. The core public services are financed from the GPB. The size of total expenditures of the GPB increased from 12.6 percent in 2016 to 13.3 percent of GDP in 2018 (Table 2.6). The major functions in rank of their share in GPB are subsidies to social security, agriculture, education, health care, urban and rural communities, and public security. Of these, the expenditure on subsidies to social security gained most, its share in GPB non-interest expenditures increasing by six percentage points (Table 2.8). This reflected the government's effort to give a last push to lift the level of social security and employment. The overall deficit of the GPB expanded to 3.3 percent of GDP in 2018. It was financed from the transfer from the GFB surplus (2.8 percent of GDP) and through debt (0.5 percent of GDP).

**Table 2.8: General GPB expenditure by function, Youxian, million RMB**

Expenditures by function	2016	2017	2018	2016	2017	2018
<b>Total GPB Non-Interest Expenditures</b>	<b>4,649</b>	<b>4,627</b>	<b>4,517</b>	<b>Proportion</b>		
Social security and employment	657	866	888	14.1%	18.7%	19.7%
Agriculture, forestry and water conservation	712	814	704	15.3%	17.6%	15.6%
Education	683	625	597	14.7%	13.5%	13.2%
Health care and family planning	542	584	558	11.7%	12.6%	12.4%
Urban and rural communities	712	350	542	15.3%	7.6%	12.0%
General public service	376	431	431	8.1%	9.3%	9.5%
Public security	191	229	165	4.1%	4.9%	3.7%
Science and technology	19	78	133	0.4%	1.7%	2.9%
Housing	130	96	130	2.8%	2.1%	2.9%
Transportation	92	99	102	2.0%	2.1%	2.3%

Data source: Youxian Finance Bureau.

25. Youxian prepared the GPB expenditures by economic classification for the first time in 2018. As shown in Table 2.9, this revealed that the Youxian Government spends most on subsidies, mainly to households and social security funds, which accounted for 37 percent of total expenditure. The second largest component were goods and services, taking a share of 24 percent. Capital expenditures took 20 percent. The spending on labor accounted for 17 percent. Of those, expenditures on PSUs amounted to only 3 percent of total GPB expenditures, equivalent to 0.5 percent of GDP.

**Table 2.9: GPB expenditure by economic classification, Youxian, 2018**

Expenditures by economic classification	Million RMB	Share in total
<b>Total</b>	<b>4,602</b>	<b>100%</b>
<b>Labor</b>	<b>798</b>	<b>17%</b>
GAUs	638	14%
PSUs	160	3%
<b>Goods and services</b>	<b>1,086</b>	<b>24%</b>
GAUs	708	15%
PSUs	379	8%
<b>Interest</b>	<b>85</b>	<b>2%</b>
<b>Subsidies</b>	<b>1,708</b>	<b>37%</b>
Subsidies to firms	109	2%
Subsidies to households	771	17%
Subsidies to social security funds	688	15%
Subsidies to non-profit entities and others	141	3%
<b>Capital Expenditures</b>	<b>924</b>	<b>20%</b>
GAUs	894	19%
PSUs	29	1%
Capital subsidies to firms	2	0%

Data source: Youxian Finance Bureau.

26. Revenues from government funds were ringfenced for specified purposes according to the rules for each fund. Revenues from land sales dominated GFB revenues, accounting for 96-99 percent, and were mainly used for land and infrastructure development. When GFB revenues needed to be used to finance other public services, the latter were transferred to the GPB. These transfers amounted to 2.8 percent of GDP in 2018.

27. Since 2015, Youxian 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, Youxian's total debt amounted to RMB 4.2 billion, equivalent to 12.1 percent of GDP (see Table 2.10).

**Table 2.10: Subnational debt outstanding at end of 2018, Youxian**

Subnational debt	Million RMB	% of GDP
<b>Debt outstanding</b>	<b>4,216</b>	<b>12.1%</b>
General obligation bonds	2,845	8.2%
Project bonds	1,371	4.0%

Data source: Youxian Finance Bureau.

## 2.5 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 the review and approval by the NPC, and audit by the NAO. The Standing Committee of the NPC exercises legislative power, reviews and approves adjustments to the budget and the budget execution report during the closure 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. In addition, county and 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 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 rationale for investment project selection, and the processes for project management, project supervision, and accountability.

## 2.6 Institutional arrangements for PFM

### 2.6.1 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 government. This includes a budget classification code, a chart of accounts, and public sector accounting standards that are common to all SNGs. Each local government authorizes its own financial department to set up a single treasury account system to manage all 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 thousand 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 (eg. the Youxian Urban Development Investment Corporation, Youxian UDIC hereinafter). The governments' budgets financially intertwine 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.

36. The MOF is designated by the State Council to manage budget preparation, execution, and reporting and also holds main responsibility for leading 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 instance, 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 turns budget preparation into a lengthy process, starting with the 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. The Budget is presented in four books, namely, the GPB, GFB, the state capital operating budget (SCOB), and the social security budget (SSB). 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. The SCOB holds the profits surrendered by SOEs, and 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 SSB holds the contributions of firms and individuals to social security funds (SSF), investment earnings of SSF and other revenues, and pays for entitled social security benefits to participants. The financing gap is filled with the transfer from the GPB. PFM performance of the SNG's budgetary units is hence assessed based on the GPB and GFB, 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 cashes 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 nation-wide 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, for debt service funds that changed their nature to fiscal funds due to changes in budget management methods and correspondingly needed to be converted into government debts, local governments shall report such contingent debts to the provincial government for approval. 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 CG 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 to 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. Youxian 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.

## 2.7.2 Subnational institutional arrangements for PFM

42. Table 2.11 presents the structure of Youxian County in terms of its spending units. The county is divided into 13 townships and 4 streets. These 17 spending units are the lowest-level governments. As they actually do not have independent PFM systems, in actual operation, they are the regional budget units of the county and are regarded as regional spending units in this assessment. In total, there are 699 budgetary units, including 127 GAUs, 17 regional spending units and 555 PSUs. 76 of the 699 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 Youxian.

**Table 2.11: Budgetary units of Youxian – Number of entities**

Budgetary units	Primary budgetary units	Secondary budgetary units	All budgetary units
<b>Subtotal</b>	<b>76</b>	<b>623</b>	<b>699</b>
GAUs	49	78	127
Regional spending units <sup>1</sup>	17	0	17
PSUs	10	545	555

<sup>1</sup> Regional spending units include 13 townships and 4 streets.

Data source: Youxian Finance Bureau.



43. As shown in Table 2.12, there are 16 SOEs that are directly controlled by the Youxian County Government or government entities, two of them are financial institutions. All these SOEs are treated as PCs in this assessment. Most SOEs operate on commercial basis. A number of SOEs used to be involved in financing and managing government investment projects and were classified as LGFVs. However, under the recent reform program to restore government budget constraints and contain subnational fiscal risks, the legacy debt of LGFVs has been swapped with the proceeds of SNG bonds and brought to the government's own book. Most ex-LGFVs have been either closed or transformed to commercial SOEs. At the time of this assessment, there were only two LGFVs in Youxian that are still in the process of transformation to commercial entities. An additional assessment has been carried out for these LGFVs, the results of which are presented in Annex 7.

**Table 2.12: Summary of PCs in Youxian**

Type	Managing entity	Number	Assets (thousand RMB)	Liabilities (thousand RMB)	Equity (thousand RMB)
Non-financial	County Government	8	25,777,724.00	15,641,156.10	10,136,567.70
	GAUs	6	388,961.40	270,318.10	118,643.30
Financial	County Government	2	13,722,185.50	12,778,581.20	943,604.30
<b>TOTAL</b>		<b>16</b>	<b>39,888,870.9</b>	<b>28,690,055.4</b>	<b>11,198,815.3</b>

Data source: Youxian Finance Bureau.

44. The parties involved in Youxian's budget process are in line with the generally accepted practice of SNGs in China (see Box 1). The County People's Congress, the People's Government of Youxian, the Finance Bureau, and the County Audit Office share their functions at different stages of the budget process. One unique feature of Youxian 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 plan and implementation progress to the government executives and the Standing Committee of the County People's Congress.

#### **Box 1. Parties involved in the Youxian budget process**

- The Finance Bureau of Youxian. The divisions that are relevant for PFM are:
  - The Budget Division: Prepares the budget.
  - The Treasury Division: Operates the single treasury account and financial management system.
  - Sectoral and Township Divisions: Oversee budget preparation and budget execution of budgetary units.
  - 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.
  - Centralized Wage Payment Center: Supervises and processes wage and salary payments to all staff and employees on the County Government's payroll.
  - Payment Center: Supervises and processes non-salary payments.



- Enterprises State Assets Management Division: Oversees SOE operations.
- Administrative State Assets Management Division: Oversees assets of all GAUs.
- Fiscal Performance Management Division: Oversees the performance evaluation of all budgetary units.
- Government Procurement Supervision Office and Procurement Center: Administrates public procurements above the threshold.
- The Economic and Construction Division: Oversees the budget and budget execution of the Development and Reform, Housing and Construction, Land, Planning, Urban Management, Transportation, Grain, and Environmental Protection Departments.
- The Education, Science, and Arts Division: Oversee the budget and budget execution of the Education, Science, Sports, and Arts Departments.
- The Social Security Division: Oversees the budget and budget execution related to human resources, social security, civil affairs, health, and associated departments.
- The Foreign Economic and Enterprise Division: Oversees the budget and budget execution of the Business, Tourism, Investment Promotion, Technology, and Industry Departments.
- Information Management Center: Responsible for fiscal information construction.
- Accounting Management Division: Responsible for county accounting work.
- The County Development and Reform Commission (DRC): Prepares the development plan for the whole county and reviews and approves all government investment projects.
- The County Urban Development and Investment Management Center It is run by the UDIC, and it prepares the 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: Reviews and approves 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.
- The County Audit Office: Carries out audits of county finance; develops proposals and recommendations on measures to be taken, such as measures for the elimination and prevention of violations; and transfers cases for further inspection when severe violation or clues of criminality are identified. 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 the agreed time frames. The indicator contains four dimensions and uses the M2 (AV) method for aggregating dimension scores. The assessment covers the SNG budgetary units, including the GPB and GFB, and is based on HLG transfers for FYs 2016, 2017, and 2018.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>HLG-1. Transfers from an HLG (M2)</b>		<b>D+</b>
<b>HLG-1.1: Outturn of transfers from an HLG</b>	The outturns for FYs 2016, 2017, and 2018 were 196.88%, 178.24%, and 174.42%, respectively. While the deviation of actual grants from the original budgeted grants steadily declined, it was above 116% in all three FYs.	D
<b>HLG-1.2: Earmarked grants outturn</b>	There is no information of transfer composition in the budget document, although the compositions are provided in the actual budget.	D*
<b>HLG-1.3: Timeliness of transfers from an HLG</b>	A disbursement timetable is prescribed by law and agreed between the HLG and the County Government. More than 75% of actual transfers have been on time in two of the last three years.	A
<b>HLG-1.4: Predictability of transfers</b>	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 FY.	D

46. In China, transfers from HLGs are divided into three categories: tax rebates, general transfers, and special transfers. Tax rebates and some general transfer items can be freely allocated by the local governments, such as equalization transfers. Other general transfer items must be used for 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, while it treated the remaining general transfers and all special transfers (lump sum) as earmarked transfers. Details are provided in Table 3.1 .6.

**Table 3.1: Classification of transfers from the HLG**

Item	Classification in the assessment	Classification in the SNG budget
Income from income tax rebate	Non-earmarked transfers	General transfers
Income from VAT rebate		
Income from excise tax rebate		
Income from 50:50 VAT sharing rebate		
Income from other tax rebate		
Institutional adjustment subsidies		
Equalization transfer		
Awarding 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		
Tax rebates for fuel tax reform	Earmarked transfers	
Transfer 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		
Transfers for rural comprehensive reform		
Rewarding fund for large grain (oil) producing counties		
Transfers for key ecological functional areas		
Special transfers		Special transfers

### Dimension HLG-1.1 Outturn of transfers from the HLG

48. The PEFA spreadsheets in Annex 6 show how transfers from the HLG budgeted by the People's Council compare to the actual transfer outturns in the budget execution reports for FYs 2016, 2017, and 2018 provided by the Finance Department. The deviation of actual grants from the original budgeted grants steadily declined. However, as the outturn was above 116 percent for all the last three FYs (see Table 3.2), the score is D.

**Table 3.2: Outturn of transfers from the HLG**

Aggregate expenditure (million RMB)	2016	2017	2018
Approved budget	1,255.33	1,436.28	1,522.49
Outturn	2,471.47	2,559.98	2,655.51
Outturn as percentage of budget	196.88%	178.24%	174.42%
Composition variance of earmarked grants, percent	NA	NA	NA

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

### Dimension HLG-1.2 Earmarked grants outturn

49. There is no information of transfer composition in the budget document, although the compositions are provided in the budget execution report. In addition, earmarked transfers are presented by programs, not by sectors. Hence, the score is D\*.

### Dimension HLG-1.3 Timeliness of transfers from the HLG

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

51. Youxian uses the integrated fiscal management information system or IFMIS (see Section 5.4) to track HLG transfers. This system generates records for each transfer, including the issuing time of the transfer as well as the receiving time. While the issuing time indicates the time of notification of the transfer, the receiving time indicates the time of disbursement. The documents in the system demonstrate that the percentages of transfers disbursed on time were 59.32, 88.42, and 86.57 percent in the last three FYs, respectively. As more than 75 percent of actual transfers were on time in two of the last three years, the score is A.

### Dimension HLG-1.4 Predictability of transfers

52. In Youxian, 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 usually provides some indicative notification and disburses part of the transfers. Only this portion is included in the budget estimate. In most cases, these transfers are non-earmarked general transfers. (In 2016-2018, earmarked transfers accounted for 73.4, 72.2, and 68.5 percent of all budgeted 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 (Figure 3.1). 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 Youxian**

## **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. China's central MOF has set up a set of fiscal rules for SNGs, but they are not disclosed to the public. The Youxian 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 have been discussed under section 2.4.1. The assessment under this Pillar is based solely on the GPB and GFB.

### PI-1. Aggregate expenditure outturn

57. This performance indicator (PI) measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in the 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 expenditure for FYs 2016, 2017, and 2018.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-1: Aggregate expenditure outturn (M1)</b>		<b>D</b>
<b>PI 1.1 Aggregate expenditure outturn</b>	Aggregate expenditure outturn deviated significantly from the budgeted amounts in the last three FYs. The outturn was 150.50%, 152.10%, and 155.19% of the approved budget, respectively.	<b>D</b>

58. The PEFA spreadsheets in Annex 6 compare the original budgets approved by the local People's Congress to the actual outturns as documented in the budget execution reports for FY 2016, 2017, and 2018. The figures are summarized in the below Table 3.3.

**Table 3.3: Aggregate expenditure outturn**

Aggregate expenditure (million RMB)	2016	2017	2018
Approved budget	3,305.00	3,323.30	3,354.50
Outturn	4,973.99	5,054.90	5,205.70
<b>Outturn as a percentage of budget</b>	<b>150.50%</b>	<b>152.10%</b>	<b>155.19%</b>

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

59. The significant deviation in all three FYs was mainly caused by the weak predictability of HLG transfers. Youxian County is highly dependent on HLG transfers - intergovernmental transfers make up about 50 percent of its total expenditure - and as shown in Table 3.2, the actual transfers amounted to 196.88, 178.24, and 174.42 percent of the transfer amounts in the budget estimates for FY 2016, 2017, and 2018, respectively. Thus, the score is 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 Youxian's budgetary units over the last three completed FYs (2016-2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-2. Expenditure composition outturn (M1)</b>		<b>D+</b>
<b>2.1 Expenditure composition outturn by function</b>	Variance in expenditure composition by functional classification was above 15% in each of the last three FYs. Variance of the three years was 77.95%, 49.15%, and 50.98%, respectively.	D
<b>2.2 Expenditure composition outturn by economic type</b>	There was no economic classification for the GFB in FYs 2016-2018 (referring to PI-4.1).	NA
<b>2.3 Expenditure from contingency reserves</b>	In FYs 2016-2018, actual expenditure charged to a contingency vote was on average 0.60% of the original budget (i.e. less than 3% of the original budget).	A

### Dimension PI 2.1 Expenditure composition outturn by function

61. The spreadsheets in Annex 6 also show the composition variation by functional classification. As there is no economic classification for the GFB, the composition variation by economic classification could not be assessed (NA).

**Table 3.4: Aggregate expenditure outturn**

Variance	2016	2017	2018
Functional classification	77.95%	49.15%	50.98%
Economic classification	NA	NA	NA

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

62. As summarized in Table 3.4, variance was above 15 percent in each of the assessed three FYs. Major variation occurred in urban and rural community expenditure, social security and employment expenditure, agricultural, forestry and water, education, and health and family planning expenditure. Unpredictable mandates from the HLGs and unexpected revenues from land sales also contributed to the variance. The score for this indicator dimension is D.

### Dimension PI-2.2 Expenditure composition outturn by economic type

63. While the GPB contains both functional and economic classifications, in the last three FYs, there was no economic classification for the GFB (Table 3.4). Hence, dimension PI-2.2 was rated NA.

### Dimension PI 2.3 Expenditure from contingency reserves

64. In the last three FYs, the actual expenditure charged to a contingency vote was all about 0.6 percent of the



original budget (Table 3.5). Thus, the average is 0.6 percent or less than 3 percent of the original budget. The score is A.

**Table 3.5: Expenditure from contingency reserves**

Variance	2016	2017	2018
Contingency expenditure share of budget, %	0.61	0.60	0.60

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 budget over 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 the GFB. As SSB revenues are reported separately from the main budget, they are assessed by PI-6 (dimension PI-6.2).

Indicators/ Dimensions	Assessment of performance	2019 Score
<b>PI-3. Revenue outturn (M2)</b>		<b>C</b>
<b>3.1 Aggregate revenue outturn</b>	In FYs 2016 - 2018, the variance in aggregate revenue was 103.63%, 111.09%, and 131.54%, respectively. The actual revenues were between 94% and 112% of budgeted revenues in two of the three FYs.	<b>B</b>
<b>3.2 Revenue composition outturn</b>	Composition variance in revenue collection in the three FYs was 38.82%, 38.77%, and 105.24%, respectively, all more than 15%.	<b>D</b>

#### Dimension PI-3.1 Aggregate revenue outturn

67. The PEFA Framework spreadsheets in Annex 6 show both the original budgets approved by the People's Congress and the actual outturns as documented in the budget execution reports for FYs 2016, 2017, and 2018. The figures on aggregate revenue outturn are summarized in Table 3.6.

**Table 3.6: Aggregate revenue outturn**

Total revenue (million RMB)	2016	2017	2018
Approved budget	2,132.74	2,054.67	2,068.97
Outturn	2,210.11	2,282.51	2,721.62
<b>Variance (as a % of original budget)</b>	<b>103.63%</b>	<b>111.09%</b>	<b>131.54%</b>
<b>Composition variance (%)</b>	<b>38.82%</b>	<b>38.77%</b>	<b>105.24%</b>

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

68. Youxian has a strong capability to project revenues. The variance of tax revenues of GPB is ranged from 91.8 to 117.9 percent (Table 3.7). But the outturn of GFB revenues (mainly land sales revenues) was very volatile since land sales revenues in the budget were always nil in the last three years. The revenue outturn was 8,559, 5,599, and 31,476 percent in 2016, 2017, and 2018 respectively. This also canceled out the variance of non-tax revenues of GPB, especially in 2017 and 2018. As the overall variance was between 94 and 112 percent in two out of three years, the score is B.

**Table 3.7: Aggregate revenue outturn by GPB and GFB**

Total Revenue (million RMB)	2016			2017			2018		
	Tax (GPB)	Non-tax (GPB)	GFB	Tax (GPB)	Non-tax (GPB)	GFB	Tax (GPB)	Non-tax (GPB)	GFB
Approved budget	579.74	1,550.00	3.00	578.37	1,471.00	5.30	779.47	1,285.00	4.50
Outturn	551.04	1,402.31	256.76	681.92	1,303.86	296.73	715.21	590.01	1,416.40
<b>Variance (% of approved budget)</b>	95.0%	90.5%	8,558.7%	117.9%	88.6%	5,598.7%	91.8%	45.9%	31,475.6%

Data source: Youxian Finance Bureau.

### Dimension PI-3.2 Revenue composition outturn

69. For revenue composition, the variance was 38.82, 38.77, and 105.24 percent in the last three FYs, respectively (Table 3.6). Reasons for this variance were similar to those for the variance in aggregate revenue outturn. Deviations were mainly caused by income from paid use of state-owned resources (assets) in the GPB and land sales revenue in the GFB. 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. The assessment under this Pillar is based solely on the GPB and GFB. However, the SSB is used to assess PI-6.3 on SNG operations outside financial reports.

### PI-4. Budget classification

71. This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator. The assessment covers the SNG budgetary units in FY 2018.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-4. Budget classification</b>		<b>D</b>
<b>4.1 Budget classification</b>	Budget documentation is nationally consistent. The GPB is based on functional and economic classification, 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 based on function. This was to develop a more standardized and reasonable classification system to conform better with international practice and be more suitable for China's national conditions.

73. The MOF updates the budget classification code annually. Prior to 2018, only functional classification and economic classification for budgetary units had been issued. The economic classification for the whole government was not issued until 2018. China's budget classification code is largely consistent with the international standard (Table 3.8). Main deviation from the international standard 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 Youxian are based on functional and economic classification. But GFB formulation, execution, and reporting are based on 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)**

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

China (Economic Classification)	IMF (Economic Classification)	China (Functional Classification)	IMF (Functional Classification)
Subsidies to individuals and families	Subsidies	Defense	Defense
Subsidies to enterprises and institutions		Public safety	Public order and safety
Grants	Grants	Education	Education
Donations		Science and technology	
Interest on debt	Interest	Culture, sports, and media	Recreation, culture, and religion
Debt amortization		Social security and employment	Social protection
Capital expenditures	Consumption of fixed capital	Social security fund expenditures	
Other capital expenditures		Health	Health
On-lending of Loans and equity investment		Environmental protection	Environmental protection
Other expenses	Other expense	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 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 legislature (FY 2019).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-5. Budget documentation</b>		<b>C</b>
<b>5.1 Budget documentation</b>	Budget documentation contains three basic elements and no additional element.	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 Standing Committee of the People's Congress for scrutiny and approval. The budget documentation submitted to the People's Congress is comprehensive. It contains comprehensive data on expenditure and revenue estimates and outturns, as well as other fiscal aggregates. It includes three basic elements and no additional elements (Table 3.9). The missing elements include a complete presentation of macroeconomic assumptions and financial assets information, though these are taken into consideration while preparing the budget. Also, no information is included on debt stock or contingent liabilities, and there are no explanation of the budget implications of new policies and no documentation on the quantification of tax expenditures. Elements regarding documentation of deficit financing and medium-term fiscal forecasts are not applicable to the Youxian County Government. Score C.

**Table 3.9: Budget documentation**

Item	Included (Y/N)	Source of evidence and comments
<b>Basic elements</b>		
1	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	Y	Reports on the 2018 budget execution and the 2019 budget.
3	Y	Enacted budget 2019.
4	Y	Enacted budget 2019.

Item	Included (Y/N)	Source of evidence and comments
<b>Additional elements</b>		
5 Deficit financing, describing its anticipated composition.	NA	The local government receives information on the 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. Details of the issued debt information are provided in the budget adjustment report.
6 Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	N	Reports on plans for national economic and social development in 2018 include some, but no detailed macroeconomic information (not including information on inflation, interest rate, etc.).
7 Debt stock, including details at least for the beginning of the current FY presented in accordance with government financial statistics (GFS) or other comparable standard.	N	No information on debt stock is provided in the budget documents.
8 Financial assets, including details at least for the beginning of the current FY presented in accordance with the GFS or other comparable standard.	N	Youxian County started to compile a comprehensive financial statement in 2019. In 2018, asset information was not yet included in the budget documents.
9 Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as PPP contracts, and so on.	N	The 2018 budget execution report and the 2019 budget disclose no information of PPPs or other 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	There are no explanations or estimates of the fiscal implications of policy changes.
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	The quantification of tax expenditures is not available.

## PI-6. SNG operations outside financial reports

77. This indicator measures the extent to which government revenue and expenditure are reported outside financial reports. It contains three dimensions. The assessment of this indicator is based on the information and reports available for FY 2018. It covers the SNG.

78. The Youxian Government does not have any EBUs or significant extrabudgetary activities by budgetary units in the GPB or GFB. PI 6.1 and PI 6.2 covers the GPB or the GFB, and the management of the social security funds is assessed in dimension 6.3. However, a number of LGFVs have been undertaking quasi-governmental activities including infrastructure investment and some public service provision. Although the government has no legislative obligation to bail them out, they still present potential fiscal risks to the government. Since the scoring of this indicator does not reflect the reporting on quasi-governmental activities, the performance of LGFVs is assessed separately in Annex 7 to complement the PEFA assessment.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-6. SNG operations outside financial reports (M2)</b>		<b>A</b>
<b>6.1 Expenditure outside financial reports</b>	All expenditures are included in the budget/financial reports.	A
<b>6.2 Revenue outside financial reports</b>	All revenues are included in the budget/financial reports.	A
<b>6.3 Financial Reports of Extrabudgetary Units</b>	The social insurance fund budget is included in the budget execution report and submitted to the government within three months of the end of the FY.	A

### Dimension PI-6.1 Expenditure outside financial reports

79. In Youxian, there are no extrabudgetary entities that do not use the treasury systems to maintain their accounts. At schools, donors and parents are now using the treasury systems and the special accounts for donations and student fees. Consequently, there are no extrabudgetary activities at the schools in Youxian. For the eleven self-funding units, their self-collected revenues account for 0.96 percent of total government expenditure (Table 3.10). Mostly, they stem from the Youxian Huangfengqiao State-owned Forest Farm and the Youxian Planning Survey and Design Institute. All these revenues and expenditures are recorded in the GPB execution report or the departmental financial report. The assigned score is A.

**Table 3.10: Information of the eleven self-funding units in Youxian, FY 2018**

Unit	Revenue (million RMB)		Self-collected revenue as % of total government expenditure
	Budget appropriation	Self-collected revenues	
Youxian Livestock and Poultry Fine Breeding Farm	0	0	0.00%
Youxian Market Service Center	2.16	0	0.00%
Youxian Science and Technology Association	2.39	0	0.00%
Youxian Public Housing Management Office	0	5.38	0.10%
Youxian Real Estate Management Service Center	0	3.25	0.06%



Unit	Revenue (million RMB)		Self-collected revenue as % of total government expenditure
	Budget appropriation	Self-collected revenues	
Youxian Vocational and Technical Training Center (Youxian Labor Vocational Training School)	0	0.17	0.00%
Youxian Huangfengqiao State-owned Forest Farm	5.2	29.69	0.57%
Youxian Land Resources Surveying and Mapping Team	2.68	0.09	0.00%
Youxian Planning Survey and Design Institute	0	8.99	0.17%
Youxian Notary Office	0	1.57	0.03%
Youxian Workers Club	0	0.68	0.01%
<b>Total</b>	<b>12.43</b>	<b>49.82</b>	<b>0.96%</b>

Data source: Youxian Finance Bureau.

Note: The first three units identified as self-funding units do not self-collect revenues.

## Dimension PI-6.2 Revenue outside financial reports

80. As mentioned above, all revenues are included in the budget execution report or the departmental financial report. Score A.

## Dimension PI-6.3 Financial Reports of EBUs

81. Every year, the Youxian Government presents a financial report on the social security funds to the County People's Congress for approval. For FY 2018, the Bureau of Human Resources and Social Security submitted this report to the County Finance Bureau on January 8, 2019. The report covered revenues, expenditures, and the cash balances. The social security funds hold no financial assets and liabilities but bank deposits. All five social security funds are to be centralized at the Province by 2020. Youxian does not expect any long-term obligations to arise from these funds. Score A.

## PI-7. Transfers to SNGs

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

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

83. In Youxian the townships are treated as deconcentrated expenditure budgetary units of the county for the purpose of financial management. The indicator is NA.

## PI-8. Performance information for service delivery

84. 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.

85. 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. The assessment covers budgetary units of the SNG. Services managed and financed by other tiers of government are included if the SNG 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, PIs are assessed for outputs and outcomes of the last completed FY (2018). Under dimensions PI-8.3 and PI-8.4, the last three completed FYs (2016-2018) are examined.

86. Neither the CG nor Youxian have adopted program budgeting. Although performance evaluation has been generally promoted by the central MOF, evidence shows that Youxian has seldom taken its own initiative to promote the adoption of performance plans, self-evaluation, and linking performance with budgetary expenditures.

87. The assessment for this indicator defined 13 departments as service delivery units: the Education Department, the Science and Industry Department, the Housing and Urban-Rural Development Department, the Civil Affairs Department, the Human Resources and Social Security Department, the Transport 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 administrative units and subordinate budgetary units. For instance, the Education Department comprises the Education Bureau and all public schools.

88. To assess dimension 8.1, assessors collected PIs for all the service delivery programs of the departments to check whether policy or program objectives, planned outputs, outcomes or activities are specified for each program, service or function; and whether the planned outputs and 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 entities (budgetary units). It covers programs and services funded from all funding sources. For dimension 8.3, based on the scale of resources received by the service delivery units, the assessors selected the two largest subnational public service departments with frontline service delivery units – the Education Bureau for Compulsory Education and the Health Bureau for Public Health.

INDICATORS/DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-8. Performance information for service delivery (M2)</b>		<b>C</b>
<b>8.1. Performance plans for service delivery</b>	No information on policy or program objectives is published. 74.22% of the ministries published the activities to be performed under the policies or programs in FY 2019. No framework of performance indicators relating to outputs and outcomes is in place.	<b>C</b>

INDICATORS/DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>8.2. Performance achieved for service delivery</b>	No information is published about the quantity of outputs produced or outcomes achieved. 13.53% of the bureaus publish annual information on their performed activities.	D
<b>8.3. Resources received by service delivery units</b>	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
<b>8.4. Performance evaluation for service delivery</b>	Published third-party evaluations accounted for 0.3% of service delivery expenditure in FY 2018, and there was no published self-evaluation. The unpublished evaluation of the efficiency or effectiveness of service delivery covered 2.56% of total service delivery expenditures in FY 2018.	D

### Dimension PI-8.1 Performance plans for service delivery

89. As of 2019, all budgetary units are required to submit departmental performance plans along with their budget documents. These performance plans take the form of tables containing expenditures sorted by function, departmental function, and responsibility, the annual overall performance plan, outputs to be produced, outcomes planned, and review comments from the Performance Department of the Finance Bureau. However, these tables are not published along with the departmental budgets. The requirements for an A and B score are thus not met (Table 3.11).

90. The other published information source are the departmental annual service delivery plans. For FY 2019, only four departments published service delivery plans on activities to be performed under their policies and programs. The combined share of their budget meeting this requirement accounted for 74.22% of total service delivery expenditure. Moreover, no evidence exists that a framework of performance indicators relating to the outputs or outcomes of the departments is in place. This is lower than the requirements for a C score. Thus, the dimension score is C.

**Table 3.11: Performance plans of the 13 largest service delivery agencies, FY 2019**

Department	Final accounts (million RMB)	Policy or program objectives, key performance indicators, planned outputs/outcomes published		Published information on activities to be performed under policies or programs, or annual service delivery plan		
		Budget meeting requirements (million RMB)	% of service delivery expenditures	Plan on activities (Y/N)	Budget meeting requirements (million RMB)	% of service delivery expenditures
Education	619.17	0	0	Y	619.17	100
Civil Affairs	215.29	0	0	N	0	0
Housing and Urban-Rural Development	43.46	0	0	N	0	0
Science and Industry	25.64	0	0	N	0	0
Human Resources and Social Security	16.38	0	0	N	0	0

Department	Final accounts (million RMB)	Policy or program objectives, key performance indicators, planned outputs/outcomes published		Published information on activities to be performed under policies or programs, or annual service delivery plan		
		Budget meeting requirements (million RMB)	% of service delivery expenditures	Plan on activities (Y/N)	Budget meeting requirements (million RMB)	% of service delivery expenditures
Transport	39.66	0	0	N	0	0
Water Resources	76	0	0	N	0	0
Agricultural	100.79	0	0	N	0	0
Forestry	52.84	0	0	Y	52.84	100
Commerce	11.44	0	0	N	0	0
Culture and Tourism	20.2	0	0	Y	20.2	100
Health	918.86	0	0	Y	918.86	100
Natural Resources Department	30.89	0	0	N	0	0
<b>Total</b>	<b>2170.61</b>	<b>0</b>	<b>0</b>	<b>--</b>	<b>1611.07</b>	<b>74.22</b>

Data source: Youxian Finance Bureau and related budgetary units.

## Dimension PI-8.2 Performance achieved for service delivery

91. In 2018, the Youxian Finance Bureau issued the *Notice on Implementing Performance Evaluations for Public Expenditure in 2018* (11th document) requiring all departments to carry out performance evaluations. The evaluation reports are to contain three parts. Function and responsibility are to be covered in the first part, the budget execution summary in the second part, and the effectiveness of public expenditure in the third. However, the reports are not published. The requirements for an A and B score are therefore not met.

92. Based on the annual service delivery summary traced by the assessors on an official website, three of the 13 service delivery departments published their performance achieved in FY 2018. Since the published reports contained activities do not contain outputs and outcomes or any information about service delivery expenditure, and they cannot meet the requirement of A and B. Therefore, the assessor calculate the rate based on the total expenditure of ministries to but not on the service delivery expenditure. 13.53% of ministry expenditures published annually on activities performed (Table 3.12). The assigned dimension score is D.

**Table 3.12: Actual performance measured by the 13 largest service delivery agencies, FY 2018**

Department	Final accounts (million RMB)	Published information about quantity of output produced or the outcomes achieved		Published information on activities performed / published annual service delivery summary		
		Budget meeting requirements (million RMB)	% of service delivery expenditures	Activities summary (Y/N)	Budget meeting requirements (million RMB)	% of service delivery expenditures
Education	619.17	0	0	N	0	0
Civil Affairs	215.29	0	0	Y	215.29	100

Department	Final accounts (million RMB)	Published information about quantity of output produced or the outcomes achieved		Published information on activities performed / published annual service delivery summary		
		Budget meeting requirements (million RMB)	% of service delivery expenditures	Activities summary (Y/N)	Budget meeting requirements (million RMB)	% of service delivery expenditures
Housing and Urban-Rural Development	43.46	0	0	N	0	0
Science and Industry	25.64	0	0	Y	25.64	100
Human Resources and Social Security	16.38	0	0	N	0	0
Transport	39.66	0	0	N	0	0
Water Resources	76	0	0	N	0	0
Agricultural	100.79	0	0	N	0	0
Forestry	52.84	0	0	Y	52.84	100
Commerce	11.44	0	0	N	0	0
Culture and Tourism	20.2	0	0	N	0	0
Health	918.86	0	0	N	0	0
Natural Resources Department	30.89	0	0	N	0	0
<b>Total</b>	<b>2170.61</b>	<b>0</b>	<b>0</b>	<b>--</b>	<b>293.76</b>	<b>13.53</b>

Data source: Youxian Finance Bureau and related budgetary units.

### Dimension PI-8.3 Resources received by service delivery units

93. 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 respective sector/services as planned. The Youxian Finance Bureau regularly collects and records information on resources received by frontline service delivery units. All resources received by service delivery units are recorded in the service delivery units' budget execution report, 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. The monthly financial reports are submitted to the Youxian Health Bureau.

94. 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 report covering the whole sector is prepared at least annually, or monthly for the Health Bureau.

95. The score for this dimension is A.

### Dimension PI-8.4 Performance evaluation for service delivery

96. No self-evaluation was published by service delivery units for FY 2018, and the published third-party evaluations accounted for only 0.3% of all ministry expenditures. The requirements for an A and B score are therefore not met.

97. While the *Notice on Implementing Performance Evaluations for Public Expenditure in 2018* mentioned in PI-8.2 requires all departments to evaluate themselves, only a few completed valid or qualified self-evaluations of the appropriateness, efficiency, and effectiveness of their programs and services for FY 2018. These evaluations accounted for 2.56% ministry expenditures. The score for this dimension is D.

**Table 3.13: Performance evaluation for service delivery, FY 2018**

Department	Final accounts (million RMB)	Published third-party evaluation	Published self-evaluation	Third-party evaluation or self-evaluation without publication	
		% of service delivery expenditures	% of service delivery expenditures	Budget meeting requirements (million RMB)	% of service delivery expenditures
Education	619.17	0	0	10.46	1.69
Civil Affairs	215.29	0	0	16.12	7.49
Housing and Urban-Rural Development	43.46	0	0	0	0
Science and Industry	25.64	0	0	0	0
Human Resources and Social Security	16.38	0	0	0	0
Transport	39.66	0	0	0	0
Water Resources	76	0	0	15.87	20.88
Agricultural	100.79	0	0	0	0
Forestry	52.84	0	0	13.01	24.62
Commerce	11.44	0	0	0	0
Culture and Tourism	20.2	3.07	0	0	0
Health	918.86	0.64	0	0	0
Natural Resources Department	30.89	0	0	0	0
<b>Total</b>	<b>2170.61</b>	<b>0.3</b>	<b>0</b>	<b>55.46</b>	<b>2.56</b>

Data source: Youxian Finance Bureau.

## PI-9. Public access to fiscal information

98. This indicator assesses the comprehensiveness of fiscal information available to the public based on eight specified elements (five basic and three additional elements) of information to which public access is considered critical. The assessment covers the last completed FY, 2018, and the budgetary units of the SNG.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-9. Public access to fiscal information</b>		<b>D</b>
<b>9.1 Public access to fiscal information</b>	The Youxian Government makes available to the public one basic elements within the specified time frame.	D

99. The transparency of public finances is undermined by the fact that some relevant documents are not made publicly available, such as in-year budget execution reports or other external audit reports. Note that some of the available elements are subject to application for disclosure. Score D.

**Table 3.14: Public access to fiscal information, FY 2018**

Item	Criteria met (Y/N)	Explanation	Source of evidence
<b>Basic elements</b>			
1	N	The budget document for FY 2018 was submitted to the People's Congress on January 10, 2018. It was available to the public on January 29, 2018. (The budget was submitted to the Standing Committee on December 28, 2017, as mentioned in PI-17.3)	Government website: <a href="http://www.hnyx.gov.cn/c5653/20180424/i664901.html">http://www.hnyx.gov.cn/c5653/20180424/i664901.html</a>
2	N	The 2018 Budget Law was approved by the People's Congress on January 12, 2018, and it was publicized on January 29, 2018.	Government website: <a href="http://www.hnyx.gov.cn/c5653/20180424/i664901.html">http://www.hnyx.gov.cn/c5653/20180424/i664901.html</a>
3	N	Youxian prepares monthly budget execution reports which were not made public.	
4	Y	The budget execution report of the previous FY 2017 was publicized on January 29, 2018.	Government website: <a href="http://www.hnyx.gov.cn/c5653/20180424/i664901.html">http://www.hnyx.gov.cn/c5653/20180424/i664901.html</a>
5	N	The 2017 budget execution report was submitted to the County Audit Bureau and the public disclosure is subject to application.	Government website: <a href="http://www.hnyx.gov.cn/c6411/20170511/i505372.html">http://www.hnyx.gov.cn/c6411/20170511/i505372.html</a>



Item	Criteria met (Y/N)	Explanation	Source of evidence
<b>Additional elements</b>			
6	N	Prebudget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the FY.	There was no prebudget statement.
7	N	Other external audit reports. All nonconfidential reports on CG consolidated operations are made available to the public within six months of submission.	Some special audits were carried out (see PI-30.1), but they were not made available to the public.
8	N	Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a "citizens' budget," and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval.	No summary of the budget proposal (citizens' budget) was prepared.

## **PI-9bis. SNG public consultation**

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

101. This is a pilot indicator. Youxian County Government chose not to use this indicator in this assessment.



## PILLAR 3: Management of assets and liabilities

102. 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. The assessment under this Pillar is based solely on the GPB and GFB.

### PI-10: Fiscal risk reporting

103. 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 SNG's own programs and activities, including PPPs. The assessment of this indicator is based on information available for the most recent FY, 2018. For dimension 10.1, it covers the SNG-controlled PCs. For dimension 10.2 it should be the SNG entities that have direct fiscal relations with the SNG. However, in Youxian, there are none. For Dimension 10.3, the explicit contingent liabilities arising from the financing of public investment projects are assessed.

104. LGFVs bear significant fiscal risks for the government as their finance is intertwined with the government budget. By 2018, there were two LGFVs operating in Youxian, the Hunan Province Youzhou Investment Development Group Co., Ltd. and the Hunan Province Youzhou State-Owned Assets Investment Group Co., Ltd.

105. An additional assessment was carried out for these two LGFVs. The results of the assessment are presented in Annex 7.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-10: Fiscal risk reporting (M2)</b>		<b>C+</b>
<b>10.1. Monitoring of PCs</b>	All 10 largest PCs in Youxian submitted financial reports to the Government, and 9 of 10 PCs that submitted their financial reports within 9 months of the end of the FY.	C
<b>10.2. Monitoring of SNGs</b>	There are no lower-SNGs in Youxian.	NA
<b>10.3. Contingent liabilities and other fiscal risks</b>	Guarantees are recorded in the Government Debt Management System. Data are updated and consolidated monthly. But information on contingent liabilities is not published.	B

### Dimension PI-10.1 Monitoring of PCs

106. In FY 2018, there were 16 PCs operating in Youxian. They were administered directly by the County Government (and reporting to the Finance Bureau) or by GAUs other than the Finance Bureau, as shown in Table 3.15.

**Table 3.15: Summary of PCs in Youxian, FY 2018**

Controlling entity	Number	Assets (10 thousand RMB)	Liabilities (10 thousand RMB)	Equity (10 thousand RMB)
County Government	8	2,577,772.40	1,564,115.61	1,013,656.79
GAUs <sup>1</sup>	6	28,166.12	21,169.51	6,996.61
Others	2	1,372,218.55	1,277,858.12	94,360.43
TOTAL	16	3,978,157.07	2,863,143.24	1,115,013.83

Data source: Youxian Finance Bureau.

Note: Here, GAUs include the Youxian Forestry Bureau, the Water Affairs Bureau, and the Commerce Bureau.

107. Though there is an Asset Management Unit under the Finance Bureau, to the day of assessment, it had not gained the authority of overseeing the operation of all PCs. Due to the decentralized administration of PCs, monitoring information was difficult to collect, so the assessors adopted a sampling method. The ten largest PCs were identified in terms of assets held by the government (Table 3.16).

108. All of the ten largest PCs in Youxian submitted their financial reports for FY 2018 to the government within twelve months of the end of the year, and the financial reports of the nine largest PCs were audited within six months of the end of the FY. However, none of the financial reports was published. The Asset Management Unit collects the financial information of all PCs through the SOE management system once a month, but it does not prepare a consolidated report. Financial information of PCs is therefore not disclosed to the public.

109. The score of this dimension is C.

**Table 3.16: Financial reports of ten largest PCs in Youxian, FY 2018**

Ten largest PCs	Held / administered by	Government-held assets (10 thousand RMB)	Percentage of ten largest PCs	Date of audit of the financial report	Date of submitting financial report to government
1. Hunan Youzhou Investment Development Group Co., Ltd.	Finance Bureau	1,249,715.15 (92.54%)	50.02%	2019.4.25	2019.4.25
2. Hunan Youzhou State-Owned Assets Investment Group Co., Ltd.	Finance Bureau	393,219.10 (100%)	15.74%	2019.1.28	2019.2.5
3. Youxian Industry Development Investment Co., Ltd.	Finance Bureau	312,443.55 (100%)	12.51%	2019.2.25	2019.2.25
4. Youxian Market Construction Co., Ltd.	Finance Bureau	254,477.81 (100%)	10.18%	2019.1.28	2019.2.28
5. Youxian Urban Construction and Development Co., Ltd.	Finance Bureau	223,417.65 (100%)	8.94%	2019.4.25	2019.4.25
6. Hunan Jiubujiang Tourism Development Investment Co., Ltd.	Finance Bureau	33,123.54 (100%)	1.33%	2019.4.28	2019.4.30
7. Youxian Xinshi National Grain Reserve Bank	Finance Bureau	6,323.34 (100%)	0.25%	2019.1.11	2019.1.16

Ten largest PCs	Held / administered by	Government-held assets (10 thousand RMB)	Percentage of ten largest PCs	Date of audit of the financial report	Date of submitting financial report to government
8. Youxian Water Supply Company	Finance Bureau	9,620.33 (100%)	0.39%	2019.4.3	2019.1.18
9. Youxian Chengguan National Grain Reserve Bank	Commerce Bureau	8,609.99 (100%)	0.35%	2019.3.9	2019.3.12
10. Youxian Grain Purchase and Sale Company	Commerce Bureau	7,422.48 (100%)	0.29%	N	2019.12
<b>Total</b>		<b>2,498,372,94</b>			

Data source: Finance Bureau.

Note: Government-held assets = total assets\*government ownership (in brackets).

## Dimension PI-10.2 Monitoring of SNGs

110. Within Youxian County, there are 13 townships and 4 streets. The township and street governments are treated as deconcentrated budgetary units in Youxian, so there are no lower-tier SNGs. This dimension is rated NA.

## Dimension PI-10.3 Contingent liabilities and other fiscal risks

111. This dimension assesses the monitoring and reporting of any explicit significant contingent liabilities for which the SNG is responsible. 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.

112. Specifically, 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.

113. There are no state insurance schemes (such as deposit insurance, private pension fund insurance, and crop insurance) operated at county level in China.

114. In 2018, there were two operating PPP projects in Youxian County, and the estimated annual fiscal expenditure during the operation period of the two projects was 0.89% of the GPB expenditure of the same year.

115. According to the new Budget Law as of 2015, SNGs are not authorized to issue loan guarantees. However, in Youxiang, there are still some legacy 'guaranteed debts and other contingent debts' which had been incurred prior to the 2014 Budget Law. Data on 'guaranteed debts and other contingent debts' have been recorded in the Government Debt Management System since 2015.

116. In addition, the MOF established a Fiscal Risk Monitoring System in August 2018 to regulate local government contingent debts. All 'guaranteed debts and other contingent debts' incurred before 2015 but

unpaid until August 2018 in Youxian have also been recorded in this system and have been subject to close monitoring.

117. Last but not least, Youxian County has set up a special Government Debt Management Leading Group responsible for preparing the municipal government debt statement and analyzing the overall situation and changes of government debts, including contingent liabilities, every half year and then providing a debt resolution proposal.

118. Therefore, Youxian has maintained a good government contingent debt record and control, updating and consolidating its contingent liabilities and other financial risks on a monthly basis. Both the Government Debt Management System and the Fiscal Risk Monitoring System are consolidated and updated. But information on contingent liabilities is not published. The score is B.

**Table 3.17: Contingent liabilities and fiscal risk, FY 2018**

Coverage	Data quantified (Y/N)			Included in fiscal report (Y/N)	Date produced	Consolidated report (Y/N)
	Loan guarantees (CG)	State insurance scheme	PPPs			
Budgetary Units	Y	NA	Y	Y	December 31, 2018	Y
Extrabudgetary Units	NA	NA	NA	NA	NA	

Data source: Youxian Finance Bureau.

## PI-11. Public investment management

119. 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. For Youxian, the assessment covers budgetary units, and the investment projects co-funded by the CG if the Youxian government participates in the selection process and is in charge of their implementation. The time period assessed is the last completed FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-11 Public investment management (M2)</b>		<b>D+</b>
<b>11.1 Economic analysis of investment proposals</b>	In FY 2018, no economic analysis was conducted for any major investment project.	D
<b>11.2 Investment project selection</b>	All major investment projects are selected and prioritized by the government executive on the basis of standard criteria for project selection.	B
<b>11.3 Investment project costing</b>	Investment project costing information is not included in the budget documents.	D
<b>11.4 Investment project monitoring</b>	The MIPO monitors total cost and physical progress monthly. Information on the implementation of major investment projects is prepared monthly.	C

### Dimension PI-11.1 Economic analysis of investment proposals

120. No economic analysis was conducted for any of the ten major investment projects approved in FY 2018 (Table 3.18). The score for this dimension is D.

### Dimension PI-11.2 Investment project selection

121. On March 21, 2018, the Youxian County Government issued the *Youxian Major Investment Projects Management Method*. The document is not accessible to the public, however, it contains clear articles on project selection. Priority projects include indemnificatory housing construction projects, key industries and livelihood projects mentioned in the government work report, poverty alleviation projects, and other key projects determined by the County Government. The *Method* also provides procedures for quick and priority approval. Most of the ten largest projects can be classified as priority projects.

122. The DRB establishes an investment reserve pool in line with its medium and long-term economic development plan. Together with the Finance Bureau, it determines the annual total investment ceiling and pre-determines the investment plan and projects list with other functional departments. The investment plan and projects list is submitted to the government executive for discussion and final approval.

123. All major investment projects are consequently prioritized by a central entity on the basis of standard criteria for project selection (Table 3.18). The score is B.

### Dimension PI-11.3 Investment project costing

124. The approval of major investment projects requires the determination of their source of funds and their fiscal capacity, i.e., evaluate whether the financial funds are capable of supporting the project implementation. The Fiscal Investment Evaluation Center takes charge of the assessment of their financial capacity, but it cannot effectively monitor project costs throughout project implementation. There is great uncertainty in the construction of the project, and the actual fund demand may exceed the budget approved by the original finance. The financial department cannot be fully involved in the capital expenditure in the process of project implementation, and cannot understand the actual fund demand in each stage. For major investment projects, general projections were made for total capital costs but not for recurrent costs or an annual breakdown of the costs in FY 2018. However, no costing information of investment projects was included in the budget documents submitted to the legislature (Table 3.18). Therefore, the score for this dimension is D.

**Table 3.18: Investment project costing and monitoring of ten largest investment projects in FY 2018**

Investment project	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 break-down 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)
Highway Safety Life Protection Project	N	N	N	Y	Y	Y	Y	N
Rural Drinking Water Safety Consolidation and Improvement Project	N	N	N	Y	Y	Y	Y	N
Land Development and New Cultivated Land Project	N	N	N	Y	Y	Y	Y	N
Industrial Park Construction for Migrant Workers Returning Hometown	N	N	N	Y	Y	Y	Y	N
Rural Drinking Water Safety Facilities Construction Project	N	N	N	Y	Y	Y	Y	N



Investment project	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 break-down 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)
Supporting Infrastructure Project Outside Public Rental Housing Community	N	N	N	Y	Y	Y	Y	N
Liangjiang Bridge Construction Project	N	N	N	Y	Y	Y	Y	N
17 Small Type II Reservoirs Reinforcement Project	N	N	N	Y	Y	Y	Y	N
Risk Elimination and Reinforcement Project of 19 Small Type II Reservoirs	N	N	N	Y	Y	Y	Y	N
Reconstruction Project of Shantytowns (villages in the city) in the Old Urban Area of Youxian	N	N	N	Y	Y	Y	Y	N

Data source: Youxian DRB.

### Dimension PI-11.4 Investment project monitoring

125. A Major Investment Project Office (MIPO) has been set up at the DRB. Its official task is to coordinate different parties during project implementation, including handling disputes or coordinating fund allocation. As Zhuzhou, the direct HLG of Youxian, launched a campaign that 2018 should be regarded as a crucial year for major investment projects, the MIPO was assigned with investment project monitoring and preparing monthly

reports on cost and physical progress in order to rank the projects. However, none of these reports has been published. Moreover, the Management Platform for Major Investment Projects of Hunan Province records information on total cost and physical progress for each project. However, this information is limited to the intranet. Accordingly, the score for this dimension is C.

## PI-12. Public asset management

126. This indicator assesses the management and monitoring of SNG assets and the transparency of asset disposal. The time period is the last completed FY (2018) while coverage is narrowed by focusing on the budgetary units of the SNG.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-12. Public asset management (M2)</b>		<b>B</b>
<b>12.1. Financial asset monitoring</b>	The Youxian Government maintains records of its holdings in all major categories of financial assets, which are recognized at book value. Information on the aggregate value of financial assets is submitted to the People's Congress annually but not published.	C
<b>12.2. Non-financial asset monitoring</b>	The Youxian Government maintains records of its holdings of fixed assets and collects partial information on their usage and age. The information on non-financial assets is mostly not available to the public.	C
<b>12.3. Transparency of asset disposal</b>	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.	A

### Dimension PI-12.1. Financial asset monitoring

127. Per the *PEFA Assessment Field Guide*, categories of financial assets of county governments 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.

128. According to the *Management Methods for the Annual Reporting of State-Owned Assets held by Government Administrative Units (GAUs) and Public Service Units (PSUs)* published by the MOF in 2017 (Circular Cai Zi, No. 3, 2017), the Youxian Finance Bureau compiled the *Summary Table of State-Owned Assets of GAUs and PSUs in 2018*, in which 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 investments and own no securities. Consequently, the Youxian Government maintains records of its holdings in all categories of financial assets.

129. For FY 2018, the aggregate value of financial assets was reported to the Youxian People's Congress but was not published. Financial assets are recognized at book value.

130. Financial asset monitoring in Youxian receives score C.

**Table 3.19: Financial asset monitoring – check list of record of holdings, FY 2018**

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 Deposits	Y	Y	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)
Leases	Y	Y	N	NA	N
Receivables	Y	NA	Y	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, Youxian County.

## Dimension PI-12.2. Non-financial asset monitoring

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

132. The *Summary Table of State-Owned Assets of GAUs and PSUs in 2018* compiled by the Youxian Finance Bureau 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 their usage and age. Information on the aggregate book value is submitted to the Youxian People's Congress but not published.

133. The Youxian Finance Bureau does not keep the Information on natural resources other than land, but relevant records are maintained at other departments. The records on water resources are kept by the Youxian Water Conservancy Bureau and the Hydrology Bureau. The records on reserves of mineral resources are kept by the Natural Resources Department at provincial level, while the Youxian Natural Resources Bureau keeps the information on the exploitation rights and mining capacity of local mining enterprises. The records on forest resources are also kept by departments at provincial level. Information on natural resources is not disclosed to the public.

134. As the Youxian Government maintains records of its holdings of fixed assets and land, collects partial information on their usage and age, but does not fully make this information available to the public, the score is C.

**Table 3.20: 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

135. Youxian County issued the *Management Method for the Disposal of State-Owned Assets* in 2016, which

covers non-financial assets (including fixed assets, intangible assets, land-use rights, etc.) and financial assets (e.g. equity in SOEs) and establishes procedures and rules for their transfer or disposal.

136. In the *Summary Table of State-Owned Assets of GAUs and PSUs in 2018* prepared by the Youxian Finance Bureau, asset disposal information was reported and included the original and net book value of disposed assets, as well as gains from asset disposal broken down by type of disposal method (scrap, damage, free allocation, transfer etc.) and by type of approval status (the Finance Bureau or other responsible authorities). The Youxian Government also reported to the County People's Congress on the asset disposal in the *2018 Financial Work Report*. But no information on asset disposal is released to the public.

137. The transparency of asset disposal in Youxian meets the criteria for an A score.

**Table 3.21: 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: Youxian Finance Bureau.

## PI-13. Debt management

138. 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. The budgetary units of the SNG were included in the assessment of this indicator. The time period assessed was ‘at time of assessment’ (2019) for PI-13.1, the last completed FY (2018) for PI-13.2, and ‘at time of assessment’ (2019) with reference to the last three completed FYs (2016-2018) for PI-13.3.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-13. Debt management (M2)</b>		<b>C+</b>
<b>13.1. Recording and reporting of debt and guarantees</b>	Debt records are complete, accurate, and updated when transactions are made. They are updated monthly via the debt management system. Reconciliations are performed annually, the relating information being recorded in the system.	C
<b>13.2. Approval of debt and guarantees</b>	The Youxian Finance Bureau is the responsible debt management entity and is authorized to borrow on behalf of the County Government and monitor debt transactions according to the debt management rules. Annual borrowing undergoes approval by the County People’s Congress.	A
<b>13.3. Debt management strategy (DMS)</b>	There is no medium-term DMS including target ranges for indicators such as interest rates, refinancing or foreign currency risks.	D

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

139. According to the Budget Law promulgated in 2014, provincial governments are authorized to issue new bonds within a certain quota and then on-lend these bonds to their counties. The debts incurred by LGFVs and budgetary units prior to 2014 have since then been swapped to bonds. No guarantees are allowed to be issued by SNGs according to the new Budget Law, but there is some stock of ‘guaranteed debts’ which had been incurred prior to 2015 and has been assessed under PI-10.3.

140. In Youxian, all bonds are recorded in 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 and reconciled annually, and submitted to the government executive for approval. Comprehensive management and statistical reports covering debt service, stock, and transactions are produced annually.

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

**Table 3.22: 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	Y

Data source: Youxian Finance Bureau.

## Dimension PI-13.2 Approval of debt and guarantees

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

143. Youxian has published *Detailed Rules for the Implementation of Government Debt Management* 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 and monitor debt transactions.

144. Evidence shows that the Budget Law and the above *Rules* have been strictly adhered to. The borrowing amount of Youxian in 2018 was included in the budget adjustment and approved by the county-level 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 3.23: 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	
Y (Budget Law of the PRC)	Y	N	Y (Debt Office under Finance Bureau)	Y (Debt Division of Finance Bureau)	Y (November 28, 2018)

Data source: Youxian Finance Bureau.

## Dimension PI-13.3 Debt management strategy

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



## PILLAR 4: Policy-based fiscal strategy and budgeting

146. Pillar Four 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. The assessment under this Pillar is based solely on the GPB and GFB.

### PI-14. Medium-term budget strategy

147. 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 of this indicator covered the Youxian budgetary units and the last budget (FY 2019) submitted to the elected local legislature.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-14. Medium-term budget strategy (M2)</b>		<b>D+</b>
<b>14.1. Preparation of the budget</b>	Budget preparation is based on information of transfers, revenue, and expenditure, but the referred data are not submitted to the legislature. There is no evidence budget preparation is built on projections of macroeconomic indicators or fiscal and sectoral strategies. Estimates of revenue and expenditure for the two following FYs are not prepared.	C
<b>14.2. Fiscal impact of policy proposals</b>	There are no estimates of the fiscal impact of proposed changes in revenue and expenditure policy for the FY.	D
<b>14.3. Medium-term expenditure and revenue estimates</b>	No medium-term expenditure and revenue estimates are prepared.	D
<b>14.4. Consistency of budget with previous year estimates</b>	No medium-term expenditure and revenue estimates are prepared.	NA

### Dimension PI-14.1 Preparation of the budget

148. According to a collection of reference documents for budget preparation (such as the budget preparation notice issued by the budget department of the Financial Bureau, and the analysis materials, made by functional department, about the average growth rate of various expenditures in previous years), the budget for the 2019 FY was prepared using the previous FY’s transfers, revenues, and expenditures as reference and considered also the proposals of line agencies for new activities and projects. Revenue forecasts were provided by the revenue collecting units. Costing of recurrent expenditures was projected by line agencies taking into account the change in serviced population.

149. However, budget preparation did not consider some of the key macroeconomic indicators such as the consumer price index (CPI) and interest rates or referred to fiscal and sectoral strategies. Moreover, estimates of revenue and expenditure for the two following FYs were not prepared.



150. Based on the presented evidence, the score for this dimension is C.

### Dimension PI-14.2 Fiscal impact of policy proposals

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

152. In the budget report submitted to the legislature, there are rough revenue and expenditure descriptions for each main item rather than estimates of the fiscal impacts of revenue and expenditure policy changes, such as an increase of public service and investment projects, or changes of macro fiscal policies. The score for this dimension is D.

**Table 3.24: Fiscal impact of policy proposals**

Estimates of fiscal impact of ALL proposed changes prepared		
Budget year	Two following FYs	Submitted to legislature
N	N	NA

Data source: Budget report of 2019.

### Dimension PI-14.3 Medium-term expenditure estimates

153. The annual budget presents estimate of expenditure and revenue by type for the budget year. In the budget document, there are detailed estimates disaggregated by high-level administrative, program, and economic classification, which also identify the service delivery program or the department. But no medium-term expenditure and revenue estimates were conducted in preparing the budget for FY 2019. Based on the provided evidence, the score for this dimension is D.

**Table 3.25: Medium-term expenditure estimates**

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

Data source: Budget report of 2019 and budget estimates 2019.

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

154. 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**

155. According to the *2020 Subnational PEFA Framework*, the original PI-15 and PI-16 are not used (NU) in the subnational PEFA assessment.

## PI-17. Budget preparation process

156. 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
<b>PI-17. Budget preparation process (M2)</b>		<b>C+</b>
<b>17.1 Budget calendar</b>	A clear annual budget calendar exists and is adhered to. It provides budgetary units slightly less than 6 weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.	B
<b>17.2 Guidance on budget preparation</b>	The budget circular covers total budget expenditure for the full FY. The approved expenditure ceilings were provided after the distribution of the budget circular to the budget units, but before the budget units submitted their revised budget.	B
<b>17.3 Budget submission to the legislature</b>	Budget submission to the legislature took place around or after the beginning of the FY for all three FYs.	D

### Dimension PI-17.1 Budget calendar

157. In accordance with a predetermined calendar, budget preparation in Youxian follows a clear annual process, requiring the engagement of all parties in an orderly and timely manner. The government issues two budget circulars. The first circular requires the budgetary units to make and submit their budget proposal to the Finance Bureau by the specified deadline, while the second circular includes the specified expenditure or revenue ceilings and requires the budgetary units to make revisions to their budget proposals according to the ceilings. Subsequently, the government submits the budget plan to the legislature, and when approved, the government notifies the budgetary units about their respective budgets.

#### Box. 2 Budget calendar for the FY 2019 budget

- (1) First up (2018.11.20): Deadline for budgetary units to submit first draft budget to the government.
- (2) First down (2018.12.1): Government approves the expenditure ceilings and sends to budgetary units.
- (3) Second up (2018.12.10): Deadline for budgetary units to submit revised budget proposal to legislature, based on the ceiling.
- (4) Second down (2019.2.17): Legislature approves the budget.

158. The budget calendar is generally adhered to. The date of the FY 2019 budget circular was October 30, 2018. The deadline for submission of the budget drafts was December 10, 2018. This means that the budgetary units were given slightly less than 6 weeks to meaningfully complete their detailed estimates on time. The score is B.

**Table 3.26: 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	2018.10.30	2018.12.10	All units	100	2018.12.1	NA

Data source: Budget preparation notice from the Finance Bureau and related documents.

### Dimension PI-17.2 Guidance on budget preparation

159. Prior to budget preparation, clear guidance is provided on the budget process. This includes information on the expenditure ceilings covering total budget expenditure for the full FY as approved by the Youxian Government. For the 2019 budget, the expenditure ceilings were provided on December 1, 2018, after distribution of the first circular to the budgetary units on October 30, 2018, yet before completion and submission of the revised budgets by the budgetary units on December 10, 2018. The Youxian Finance Bureau had several rounds of discussions with each budget unit about their budget priority before issuing the budget ceiling. The score is B.

### Dimension PI-17.3 Budget submission to the subnational council

160. 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.

161. A score of C requires that the executive has 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 FYs. In Youxian, the submission of the budget to the legislature was around or after the beginning of the FY in the last three completed FYs (Table 3.18). One important reason is that the local People's Congress is mostly held around January. Thus, the score is D.

**Table 3.27: Budget submission to legislature**

FY	Date of submission of budget proposal
2016	2015.12.31
2017	2017.2.22
2018	2017.12.28
2019	2019.1.24

Data source: Budget proposals FY 2016, 2017, 2018, and 2019.

## PI-18. Legislative scrutiny of budgets

162. 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 are the last three completed FYs (2016-2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-18. Legislative scrutiny of budgets (M1)</b>		<b>C+</b>
<b>18.1. Scope of budget scrutiny</b>	Budget scrutiny by the Youxian People's Congress covers details of expenditure, revenue, and fiscal policies, but not medium-term fiscal forecasts and medium-term priorities.	B
<b>18.2. Legislative procedures for budget scrutiny</b>	Procedures for reviewing budget proposals are approved by the Youxian People's Congress in advance of budget hearings and are adhered to. Legislature carries out an array of organizational arrangements, including a technical investigation by a specialized review committee, preliminary budget scrutiny, negotiation of the budget proposals with representatives of the functional departments, and re-submission of the budget proposals. However, no public consultation takes place.	B
<b>18.3. Timing of budget approval</b>	The subnational legislature approved the annual budget within one month of the start of the FY in two of the last three FYs.	C
<b>18.4. Rules for budget adjustments by the executive</b>	The Budget Law sets rules and procedures for in-year budget adjustment by the executive. These rules are adhered to in some instances.	C

### Dimension PI-18.1 Scope of budget scrutiny

163. The legislature in Youxian is the City 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 City People's Congress for scrutiny and approval. The annual budget proposal includes aggregates and details of expenditure and revenue and fiscal policies which would impact fiscal revenues and expenditures in the coming FY, but does not include medium-term fiscal forecasts and medium-term priorities.

164. The scope of budget scrutiny in Youxian meets the criteria for a B score.

**Table 3.28: 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: Liling Finance Bureau.

## Dimension PI-18.2 Legislative procedures for budget scrutiny

165. The budget review procedure of the legislature is stipulated in the 2014 Budget Law and the Supervision Law of the Standing Committee of the People’s Congress at Various Levels of the PRC. In accordance with the provisions of these Laws, prior to the meeting of the County People’s Congress to scrutinize the budget proposal, the Standing Committee of the People’s Congress shall conduct a preliminary scrutiny, and the representatives to the People’s Congress shall 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 County/City 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 Laws also stipulates 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.

166. The subnational legislature’s procedures to review budget proposals are approved by the legislature in advance of the budget hearing. The Standing Committee of the Youxian People’s Congress approved the *Measures for Budget Scrutiny* in 2012. According to the rules, the preliminary scrutiny of budget proposals involves four steps. Evidence shows they are being adhered to:

- (1) First, when the government embarks on budget preparation, the Finance and Economic Committee of the Youxian People’s Congress pays a visit to the Finance Bureau. During the visit, directors of each sector of the Finance Bureau introduce their plan of budget preparation.
- (2) Second, after receiving the draft budget proposal, the Finance and Economic Committee of the Youxian People’s Congress holds a plenary meeting to prepare a preliminary scrutiny report based on the investigation, and the chiefs of all functional departments attend this meeting for consultation.
- (3) Third, the Standing Committee of the Youxian People’s Congress scrutinizes the budget proposal and the preliminary scrutiny report prepared by the Finance and Economic Committee, and then determines several review focuses.
- (4) Fourth, the review report of the Standing Committee of the Youxian People’s Congress is submitted to the government executive, which revises the budget proposal and resubmits it to the annual plenary session of the People’s Congress for approval.

167. However, there is no evidence that arrangements are in place for public consultation of the budget. Based on the analysis and the presented evidence, the score for this dimension is B.

**Table 3.29: 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	Y

Data source: Youxian People’s Congress, Budget Law of the PRC.

## Dimension PI-18.3 Timing of budget approval

168. During the last three completed FYs (2016, 2017, and 2018), the annual budget proposals were approved by the Youxian People’s Congress on January 14, 2016, February 28, 2017, and January 12, 2018, respectively. China’s FY begins on January 1. Therefore, in all the three years, the county legislature approved the annual

budget proposal after the start of the FY, the lag periods being 14 days in 2016, 59 days in 2017, and 12 days in 2018. The timing of budget approval in Youxian meets the criteria for a C score.

**Table 3.30: Timing of budget approval**

Budget for FY	Date of budget approval
2016	January 14, 2016
2017	February 28, 2017
2018	January 12, 2018
2019	February 17, 2019

Data source: Youxian Government website.

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

169. The 2014 Budget Law stipulates the contents and review procedures for budget adjustment. 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.

170. In November 2018, the Youxian People's Congress scrutinized the budget adjustments, covering those transferred-in from other budgets and on-lent bonds. However, many kinds of budget adjustments did not undergo the approval procedures of the legislature.

**Table 3.31: Budget adjustment in Youxian, FY 2018 (million RMB)**

item		GPB (D)	GFB(E)	Total ( D + E )	
Budget adjustments	In accordance with rules	Earmarked transfers	1,027.05	35.66	1,062.71
		Bonds on-lending	172	119	291
		Subtotal (A)	1,199.05	154.66	1,353.71
	Not in accordance with rules	Tax rebate	117.47		117.47
		General transfer	1,155.30		1,155.30
		Carried-over from last year	392.57	44.45	437.02
		Transferred-in from other budgets	970.21	0	970.21
		Other	0	441.06	441.06
	Expenditure in adjusted budget		4,952.45	644.17	5,596.62
	Expenditure in originally approved budget		2360	44.50	2,404.50
Total budget adjustment (B)		2,592.45	599.67	3,192.12	
Actually executed expenditure (C)		4,601.97	603.73	5,205.70	
Actual amount of reallocations in accordance with rules (% of SNG budget) (A/C)		26.0%			
Extent of adherence to rules (A/B)		42.4%			

Data source: Youxian Finance Bureau.

171. While clear rules for budget adjustment exist, they are adhered to only in some instances. The rules for budget adjustments by the executive in Youxian meet the criteria for a C score.

**Table 3.32: Rules for budget adjustments**

Clear rules exist (Y/N)	Rules include strict limits (extent and value)	Actual amount of reallocations in accordance with rules (% of SNG budget)	Extent of adherence to rules (All, most, some)
Y	Y	26.0%	Some

Data source: Youxian Finance Bureau.





## PILLAR 5: Predictability and control in budget execution

172. Pillar Five 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. The assessment under this Pillar is based solely on the GPB and GFB.

### PI-19. Rights and obligations for revenue measures

173. 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.

174. 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 revenues of the SNG. Inclusion of the many small revenue-generating taxes would overly complicate the assessment process.

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

176. In 2018, there was another reform which combined the two tax bureaus. After merging the local and the state tax bureaus, the collection of core taxes - the major direct taxes (corporate income tax and individual income tax) and indirect tax (VAT) - have been administrated 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. In the case of Youxian, the tax sharing percentage in FY 2018 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 for the City Government.

177. The indicator PI-19 is NA to China's SNGs.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-19. Revenue administration (M2)</b>		NA
<b>19.1. Rights and obligations for revenue measures</b>		NA
<b>19.2. Revenue risk management</b>		NA
<b>19.3. Revenue audit and investigation</b>		NA
<b>19.4. Revenue arrears monitoring</b>		NA

## PI-20. Accounting for revenue

178. 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. The assessment of this indicator comprises the SNG budgetary units 'at time of assessment' (2019).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-20. Accounting for revenue (M1)</b>		<b>A</b>
<b>20.1. Information on revenue collections</b>	The Youxian Government obtains revenue data at least monthly from the collecting units. The information is consolidated into a report, broken down by revenue type.	A
<b>20.2. Transfer of revenue collections</b>	All tax revenues collected are transferred directly to the TSA on a daily basis. Units collecting non-tax revenue transfer almost all the collections daily to a special account under the TSA system.	A
<b>20.3. Revenue accounts reconciliation</b>	Governments at county level are not authorized to administrate and collect taxes. The duty of tax revenue reconciliation is NA.	NA

### Dimension PI-20.1 Information on revenue collections

179. Fiscal revenues in Youxian include tax revenues and non-tax revenues (other than transfers from HLGs). At present, the Youxian Tax Bureau is responsible for collecting tax revenues (RMB 106.38 million, 26.09 percent of total revenue) and a small part of the non-tax revenues (RMB 3.75 million, 0.92 percent of total revenue), while the Youxian Finance Bureau is responsible for collecting most of the non-tax revenues (RMB 297.68 million, 72.99 percent of total revenue, 98.76 percent of non-tax revenue).

180. The Treasury Office at the Finance Bureau obtains revenue data from the units responsible for collecting tax and non-tax revenues and compiles reports monthly (broken down by revenue type) which are generated by an online management system. The PEFA assessors have randomly reviewed the revenue monthly report of December 2019. The online management system can also count and present the tax and non-tax data of any specific day. Based on the supporting evidence, the score of this dimension is A.

### Dimension PI-20.2 Transfer of revenue collections

181. According to the *Detailed Rules for the Implementation of the Tax Collection and Administration Law of the PRC*, the tax bureaus at various levels are required to transfer their tax revenues to the Treasury in a timely manner.

182. The Youxian Tax Bureau strictly abides by this rule, and all the tax revenues and non-tax revenues collected are directly and simultaneously paid into the Youxian Treasury. The tax payment certificates checked by the PEFA assessors showed that the date of tax payment was identical with the date of transferal of the tax revenue to the Treasury.

183. As for non-tax revenues, any of them will be directly paid into the corresponding special accounts, which

are a part of the Treasury Single Account (TSA) system. The special accounts are only transitional accounts, through which revenue is collected and then regularly transferred to the local Treasury. Non-tax revenues are first paid into the special accounts and transferred to the local Treasury once a month.

184. Based on the provided evidence, the score for this dimension is A.

**Table 3.33: Accounting for revenue**

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	Revenue type (Y/N)	Consolidated report (Y/N) – prepared by IFMIS	Frequency	To Treasury Account	Frequency	Within
<b>Revenue collected by budgetary units</b>									
Youxian Tax Bureau	Tax (106.38)	26.09	Y	Y	Y	Daily	Treasury Account	Daily	
Youxian Tax Bureau	Non-tax (3.75)	0.92	Y	Y	Y	Daily	Special Financial Accounts	Daily	
Youxian Finance Bureau	Non-tax (297.68)	72.99	Y	Y		Daily	Special Financial Accounts	Daily	
Sub-total	407.81	100							
<b>Revenues collected by EBUs: none</b>									

Data source: Youxian Tax Bureau, Youxian Finance Bureau.

Note: The revenue data are for December 2019.

### Dimension PI-20.3 Revenue account reconciliation

185. As indicated under PI-19, local governments in China currently do not have the authority for tax collection and administration. As the Youxian Government does not levy core taxes, this dimension is NA.

## PI-21. Predictability of in-year resource allocation

186. 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
<b>PI-21. Predictability of in-year resource allocation (M2)</b>		<b>D</b>
<b>21.1. Consolidation of cash balances</b>	The bank account balances of the Treasury accounts are consolidated daily, while the bank account balances of special accounts are consolidated monthly.	C
<b>21.2. Cash forecasting and monitoring</b>	The Youxian Finance Bureau does not conduct comprehensive cash flow forecasting and monitoring.	D
<b>21.3. Information on commitment ceilings</b>	Budgetary units are not provided reliable information on commitment ceilings.	D
<b>21.4. Significance of in-year budget adjustments</b>	Significant budget adjustments happen, but details for each budget adjustment are not available.	D*

### Dimension PI-21.1 Consolidation of cash balances

187. The TSA system set up in Youxian in 2008 covers all accounts of the budgetary units except of the township hospitals, and it involves a number of bank accounts. The Treasury account is opened at the Youxian branch of the People's Bank of China (PBOC); the social security fund accounts are managed by three commercial banks; the non-tax special accounts are managed by eight commercial banks; and the other seven special accounts are managed by four commercial banks.

188. The Youxian Treasury provides daily balance reports to the Treasury Office of the Youxian Finance Bureau. As the special accounts are not automatically connected with the financial system of the Youxian Finance Bureau, their balances are submitted to the Finance Bureau at the end of the month. The Youxian Finance Bureau does not consolidate and summarize the balances of the Treasury and the special accounts of commercial banks on a daily basis, but carries out paper reconciliation at the end of the month. Therefore, all cash balances are consolidated on a monthly basis, the score is C.

**Table 3.34: Consolidation of bank and cash balances in Youxian (summary)**

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

Data source: Youxian Finance Bureau.

**Table 3.35: Consolidation of bank and cash balances in Youxian (by accounts)**

Account	Frequency of consolidation	Time	Amount (thousand RMB)
Treasury	Daily (A)	2019 average	23,828.00
Special accounts	Monthly	2019.5.31	128,625.00
	Monthly	2019.6.30	113,769 .00
	Average (B)		121,197.00
Percentage of daily consolidated bank balance(A/(A+B))			16.3%
Percentage of monthly consolidated bank balance(A/(A+B))			100%

Data source: Youxian Finance Bureau.

### Dimension PI-21.2 Cash forecasting and monitoring

189. In Youxian, a significant portion of GPB expenditures are financed by the HLG transfers (the percentages were 52.89, 75.21, and 57.70 percent in 2016, 2017 and 2018, respectively), and these transfers are not predictable (referring to HLG-1.4). Consequently, Youxian has not conducted comprehensive cash flow forecasting and monitoring. The score for this dimension is D.

### Dimension PI-21.3 Information on commitment ceilings

190. Budgetary units are permitted to make payments within the approved budget. Though monthly payment plans should be submitted and approved in advance, according to the payment records provided by the Payment Center under the Finance Bureau, the actual expenditures frequently differ from the planned expenditures. In 2016, 2017, and 2018, respectively, the originally approved budget expenditures for the GPB accounted for 52.3, 69, and 74.5 percent of actually executed expenditure. Therefore, the commitment of the budget unit cannot be considered reliable.

191. Commitment ceilings are therefore not effectively applied and unreliable. The score is D.

### Dimension PI-21.4 Significance of in-year budget adjustment

192. Youxian conducted significant budget adjustments by Youxian Government in 2018 (see PI-18.4). However, information on the process for each budget adjustment is not available. The score is D\*.

## PI-22. Expenditure arrears

193. 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 SNG budgetary units.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-22. Expenditure arrears (M1)</b>		<b>D</b>
<b>22.1. Stock of expenditure arrears</b>	Since Youxian County has not set up a monitoring system for expenditure arrears, data on the stock of arrears are not available.	D*
<b>22.2. Expenditure arrears monitoring</b>	There is no monitoring system for expenditure arrears in Youxian County.	D

### Dimension PI-22.1 Stock of expenditure arrears

194. According to the 2014 Budget Law, the expenditures of all budgetary units must be based on the approved budgets. However, in the process of government procurement, expenditure arrears may be caused by a delayed payment of budget units. Between FY 2016 and 2018, the County Government did not systematically register and monitor such payment arrears and therefore holds no data on the amount of expenditure arrears. Based on this, the score is D\*.

### Dimension PI-22.2 Expenditure arrears monitoring

195. As mentioned above, the County does not systematically register and monitor payment arrears. The score is D.

## PI-23. Payroll controls

196. This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, 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 includes the last three completed FYs (2016-2018). Coverage of the assessment includes the Youxian budgetary units.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-23. Payroll controls (M1)</b>		<b>C+</b>
<b>23.1. Integration of payroll and personnel records</b>	The approved employee list, personnel database and payroll are directly interlinked through an IT system and updated on real time basis, effectively ensuring budget control, data consistency, and monthly reconciliation.	A
<b>23.2. Management of payroll changes</b>	Necessary changes to personnel records and payrolls are updated in real time. There is no delay in payroll payments by the centralized payment center. Retroactive adjustments are rare.	A
<b>23.3. Internal control of payroll</b>	A complete internal control system is in place for changes to the payroll. The e-financial management system assigns unique passwords and identification numbers to each approver to ensure the approval process can be traced, and the integrity of data is warranted.	A
<b>23.4. Payroll audit</b>	A special review team to identify and prevent the occurrence of 'ghost employees' inspects all budgetary units once a year. But no special payroll audits are conducted by external auditors; only partial payroll audits are conducted by internal auditors together with the economic responsibility audit.	C

Data sources: Youxian County Government, Finance Bureau, and related budgetary units.

### Dimension PI-23.1 Integration of payroll and personnel records

197. In Youxian County, the payroll control system for civil servants is handled by three departments. The Salary Section of the Human Resources and Social Security Bureau is responsible for the generation and review of the payroll, the Personnel Management Section of the Human Resources and Social Security Bureau is responsible for the collection and review of personnel information, and the Centralized Wage Payment Center of the Finance Bureau is responsible for arranging the monthly salary payments.

198. 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 position. In case there are vacant positions, a budgetary unit can recruit new staff according to established procedures upon approval of its superior department and the Human Resources and Social Security Bureau.

199. The County Commission Office for Public Sector Reform of Youxian County formulates an annual recruitment plan, and the Human Resources and Social Security Bureau manages the whole recruitment process and results. All recruitment plans, methods, processes, results, and other information will be published

on the website of the Youxian County Government portal and the Zhuzhou human resources network.

200. Once the information of new staff (educational background, position, reward and punishment, etc.) is entered into the personnel database at the Human Resources and Social Security Bureau (Baifeite personnel salary network management information system), the system of the Wage Payment Center at the Finance Bureau (centralized salary payment system of the electronic financial management platform) prepares the payroll according to the personnel records. Any change to the personal information of the staff, such as promotion, leave, change in wage level, etc., will be recorded and traced in the IT system. As personnel records and payroll are directly linked to each other through the IT system, budget control and data consistency are ensured. Score A.

**Table 3.36: Payroll controls**

Function	Y/N	By whom	Frequency (if applicable)
Hiring and promotion checked against approved staff list	Y	Superior department in charge and the Human Resources and Social Security Bureau	Once hiring and promotion take place
Reconciliation of payroll and personnel database	Y	Human Resources and Social Security Bureau	Monthly
Documentation maintained for payroll changes	Y	Wage Payment Centre, Finance Bureau	Monthly
Payroll checked and reviewed for variances from last payroll	Y	Wage Payment Centre, Finance Bureau	Monthly
Updates to personnel records and payroll	Y	Wage Payment Centre of the Finance Bureau, the County Commission Office for Public Sector Reform of Youxian	Monthly
Updates include validation with approved staff list	Y	The County Commission Office for Public Sector Reform of Youxian	Once personnel records and payroll updates take place
Audit trail of internal controls	N	NA	NA
Payroll audits in last three years	N	NA	NA

Data sources: Youxian County Finance Bureau, Human Resources and Social Security Bureau.

### Dimension PI-23.2 Management of payroll changes

201. If the personnel record changes, the personnel department of the budget unit of the changed personnel will issue a certificate to the Human Resources and Social Security Bureau. After the approval, the Wage Payment Centre of the Finance Bureau will change the salary information in the centralized payment system of the electronic financial management software. The Wage Payment Centre of the Finance Bureau will check and update the salary information monthly to ensure the accuracy of the next month's salary.

202. Retroactive adjustments are rare and take place only when the promotion of a staff member is not accurately captured, that is, if the approval procedures are not completed within the current month, and the payment of the increased wage is therefore postponed. In 2019, the amount of retroactively adjusted wage payments accounted for 1.81 percent of total wage expenditure, which was less than three percent. The score is A.



**Dimension PI-23.3 Internal control of payroll**

203. There is a perfect internal control system for salary change, and each responsible department follows a strict process. There are four steps to payroll change. First, the budgetary units apply for changes through the IT system. Second, the applications for change of personnel information are reviewed and approved by the Personnel Management Section of the Human Resources and Social Security Bureau. Next, the wage change information is checked by the Wage and Welfare Section of the Human Resources and Social Security Bureau; and finally, after verification, the approved payroll change is arranged by the Wage Payment Center. It implements post separation with regard to the review of payrolls, the approval of payment, and the execution of payment.

204. Each approval is permanently marked in the system (approval history and authorized person details) to ensure that the approval process can be traced. The IT system assigns a unique password and identification number to each approver to ensure that the authority to change personnel records and payrolls is limited. Hence, there is effective internal control to ensure data consistency. The score is A.

**Dimension PI-23.4 Payroll audit**

205. In Youxian County, there is no internal and external audit specifically for payroll. Payroll audits are conducted only to a certain extent by the internal auditors together with the economic responsibility audit (and only some economic responsibility audits for former leaders mentioned findings on payroll issues).

206. However, Youxian County has established a special inspection and supervision system and a special review team to identify and prevent the occurrence of 'ghost employees'. The team assigned with this task inspects all budgetary units once a year. The score is C.

## PI-24. Procurement

207. This indicator examines key aspects of procurement management. It assesses the transparency of the given arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The time period examined is the last completed FY, and the assessment covers the Youxian budgetary units.

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

### Dimension PI-24.1 Procurement monitoring

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

209. In Youxian, 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 Zhuzhou Public Resources Transaction Center (Table 3.37).

**Table 3.37: Responsible agencies for procurement**

Agency	Zhuzhou 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	Works: RMB 0.3-4 million	Works < RMB 0.3 million
Procurement following the Government Procurement Law	Goods >= RMB 1 million Services >= RMB 1 million	Goods: RMB 0.2-1 million Services: RMB 0.2-1 million	Goods < RMB 0.2 million Services < RMB 0.2 million

210. The responsible agencies for contract data recording and maintenance, and consequently for the relevant records, are presented in Table 3.38.

**Table 3.38: Responsible agencies for procurement contract data recording and maintenance**

Contract Value	Works >= RMB 0.3 million Goods >= RMB 0.2 million Services >= RMB 0.2 million	Works < RMB 0.3 million Goods < RMB 0.2 million Services < RMB 0.2 million
Procurement following the Tendering and Bidding Law	<p>Works &gt;=4 million, Goods &gt;=2 million, Services &gt;=1 million: Complete records are maintained by the Important Projects Administration Office under the Youxian DRB.</p> <p>Works: RMB 0.3-4 million: Complete records are maintained by the Public Resources Transaction Administration Office under the Youxian DRB.</p>	Contract data are not recorded and maintained centrally by any supervision agency or office.
Procurement following the Government Procurement Law	Complete records are maintained by the Government Procurement Administration Office under the Youxian Finance Bureau in a system called Local Government Procurement Information Statistics Management System. This system is replaced by a new system called the Financial Integration Information System of Hunan, which came into operation on November 1, 2019.	Contract data are not recorded and maintained centrally by any supervision agency or office.

211. As indicated in Tables 3.38 and 3.39, for contracts with a contract value less than RMB 0.3 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.

212. In addition, for contracts with a contract value of not less than RMB 4 million for works, RMB 2 million for goods, and RMB 1 million for services which are 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 Zhuzhou Public Resources Transaction Center (<http://ggzy.zhuzhou.gov.cn/>).

213. For contracts (with a contract value of not less than 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 the Hunan Provincial Government Procurement (<http://www.ccgp-hunan.gov.cn>). In addition, for contracts with a contract value of not less than 1 million for goods, and 1 million for services, contract data are also published on the website of the Zhuzhou Public Resources Transaction Center (<http://ggzy.zhuzhou.gov.cn/>).

214. Since contract data for small contracts (with a contract value of less than RMB 0.3 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

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

216. As mentioned above, only data for contracts with a contract value not less than RMB 0.3 million for works, RMB 0.1 million for goods, and RMB 0.1 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 3.39: 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	299,184,295.44	0
Procurement following the Government Procurement Law	224,366,016.00	0

Data source: (a) The tendering and bidding record for works, goods and services procured in FY 2018 maintained by Important Projects Administration Office under Youxian Development and Reform Bureau. (b) The tendering and bidding record for works, goods and services procured in FY 2018 maintained by Public Resources Transaction Administration Office under Youxian Development and Reform Bureau. (c) The government procurement information statistics maintained by the Government Procurement Administration Office under Youxian Finance Bureau.

**Table 3.40: 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%
523,550,311.44	0	523,550,311.44	100

Data source: (a) The tendering and bidding record for works, goods and services procured in FY 2018 maintained by Important Projects Administration Office under Youxian Development and Reform Bureau. (b) The tendering and bidding record for works, goods and services procured in FY 2018 maintained by Public Resources Transaction Administration Office under Youxian Development and Reform Bureau. (c) The government procurement information statistics maintained by the Government Procurement Administration Office under Youxian Finance Bureau.

217. For procurement following the Tendering and Bidding Law, there are three procurement methods: (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.

218. 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, and (e) single source selection. Except for single source selection, all methods are competitive methods.

219. However, since contract data for small contracts (with a contract value of less than RMB 0.3 million for works, RMB 0.1 million for goods, and RMB 0.1 million for services) 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

220. 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) 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.

221. The findings for each type of information are summarized in Table 3.41.

**Table 3.41: 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 government.	Yes
Government procurement plans	Government procurement plans are not disclosed publicly.	No
Bidding opportunities	<p>For procurement following the Tendering and Bidding Law:</p> <p>Works <math>\geq</math> RMB 4 million, goods <math>\geq</math> RMB 2 million, services <math>\geq</math> RMB 1 million: The bidding opportunities are published on the website of the Hunan Provincial Tendering and Bidding Supervision (<a href="http://www.bidding.hunan.gov.cn">http://www.bidding.hunan.gov.cn</a>, with the new website at <a href="http://218.76.24.90/flow">http://218.76.24.90/flow</a> effective from December 9, 2019) and the website of the Zhuzhou Public Resources Transaction Center (<a href="http://ggzy.zhuzhou.gov.cn/">http://ggzy.zhuzhou.gov.cn/</a>).</p> <p>Works: RMB 0.3-4 million: The bidding opportunities are disclosed in a WeChat group which includes most companies active in the county. They are not disclosed to the public.</p> <p>Works <math>&lt;</math> RMB 0.3 million: The bidding opportunities are not published and disclosed to the public.</p> <p>For procurement following the Government Procurement Law:</p> <p>Goods <math>\geq</math> RMB 0.1 million and services <math>\geq</math> RMB 0.1 million: The bidding opportunities are published on the website of the Hunan Provincial Government Procurement (<a href="http://www.ccgp-hunan.gov.cn/page/notice">http://www.ccgp-hunan.gov.cn/page/notice</a>).</p> <p>Goods <math>&lt;</math> RMB 0.1 million and services <math>&lt;</math> RMB 0.1 million: The bidding opportunities are not published and disclosed to the public.</p>	No (The public has no access to information on small value contracts.)
Contract award (purpose, contractor, value)	<p>For procurement following the Tendering and Bidding Law:</p> <p>Works <math>\geq</math> RMB 4 million, goods <math>\geq</math> RMB 2 million, services <math>\geq</math> RMB 1 million: The contract award information is published on the website of the Hunan Provincial Tendering and Bidding Supervision (<a href="http://www.bidding.hunan.gov.cn">http://www.bidding.hunan.gov.cn</a>, with a new website at <a href="http://218.76.24.90/flow">http://218.76.24.90/flow</a> effective from December 9, 2019) and the website of the Zhuzhou Public Resources Transaction Center (<a href="http://ggzy.zhuzhou.gov.cn/">http://ggzy.zhuzhou.gov.cn/</a>).</p>	No (The public has no access to information on small value contracts.)

Type of procurement information	Findings	Public access
Contract award (purpose, contractor, value)	<p>Works: RMB 0.3-4 million: The contract award information is published in a WeChat group which includes most companies active in the county. The information is not published and disclosed to the public.</p> <p>Works &lt;= RMB 0.3 million: The contract award information is not published and disclosed to the public.</p> <p>For procurement following the Government Procurement Law:</p> <p>Goods &gt;= RMB 0.1 million and services &gt;= RMB 0.1 million: The contract award information is published on the website of the Hunan Provincial Government Procurement (<a href="http://www.ccgp-hunan.gov.cn/page/notice">http://www.ccgp-hunan.gov.cn/page/notice</a>).</p> <p>Goods &lt; RMB 0.1 million and services &lt; RMB 0.1 million: The contract award information is not published and disclosed to the public.</p>	No (The public has no access to information on 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 the Hunan Provincial Government Procurement (<a href="http://www.ccgp-hunan.gov.cn/">http://www.ccgp-hunan.gov.cn/</a>).</p>	No (The public has access only to information on procurement following the Government Procurement Law.)
Annual procurement statistics	<p>For procurement following the Tendering and Bidding Law:</p> <p>Works &gt;= RMB 4 million, goods &gt;= RMB 2 million, and services &gt;= RMB 1 million: Complete records are maintained by the Important Projects Administration Office under the Youxian DRB. However, the data are not published and disclosed to the public.</p> <p>Works: RMB 0.3-4 million: Complete records are maintained by the Public Resources Transaction Administration Office under the Youxian DRB. However, the data are not published or disclosed to the public.</p> <p>Works &lt; RMB 0.3 million: Contract data are not recorded and maintained centrally by any supervision agency or office. They are not published and disclosed to the public.</p> <p>For procurement following the Government Procurement Law:</p> <p>Goods &gt;= RMB 0.1 million, services: &gt;= RMB 0.1 million: Complete records are maintained by the Government Procurement Administration Office under the Youxian Finance Bureau in a system called Local Government Procurement Information Statistics Management System. This system has been replaced by a new system called the Financial Integration Information System of Hunan which came into operation on November 1, 2019. However, the data are only accessible to the HPFD, the Zhuzhou Prefectural Finance Bureau, and the Youxian Finance Bureau. They are not published or disclosed to the public.</p> <p>Goods &lt; RMB 0.1 million, services: &lt; RMB 0.1 million: The contract data are not recorded and maintained centrally by any supervision agency or office. They are not published or disclosed to the public.</p>	No

222. 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

223. As shown in Table 3.42, the complaint handling system meets all six criteria. The score of A is assigned to this dimension.

**Table 3.42: 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><b>Complaint handling for procurement following the Tendering and Bidding Law</b></p> <p>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 then required to respond to the complaint within three calendar days.</p> <p>Under the second tier, the bidder can lodge any complaint to the Youxian DRB or a higher level bureau of the client’s sector (housing and building, transport, water, environment protection, agriculture, etc.) in Zhuzhou Prefecture within ten calendar days from his/her awareness of the issue.</p>	
	<p><b>Complaint handling for procurement following the Government Procurement Law</b></p> <p>There are also two tiers of 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 Youxian Government Procurement Administration Office of the Youxian Finance Bureau within 15 working days after receiving the response from the client or after expiry of the required responding time.</p>	Yes
	<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 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>	
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

Criteria for the reviewing body	Findings	Met/ Not met
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 define the procedures and are 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 HPFD on August 5, 2019 clearly define the procedures, and these official documents are publicly available.</p>	Yes
Exercises the authority to suspend the procurement process	<p>For procurement following the Tendering and Bidding Law, the Youxian DRB or a higher-level bureau of the client's sector (housing and building, transport, water, environment protection, agriculture, etc.) in Zhuzhou Prefecture exercises the authority to suspend the procurement process.</p> <p>For procurement following the Government Procurement Law, the Government Procurement Administration Office of the Youxian 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 Youxian DRB or higher-level bureau of the client's sector (housing and building, transport, water, environment protection, agriculture, etc.) in Zhuzhou Prefecture is required to determine whether a complaint is valid within three working days. If the complaint is determined valid, within 30 working days, the Youxian DRB or a higher-level bureau of the client's sector in Zhuzhou Prefecture must issue the determination of the procurement process.</p> <p>For procurement following the Government Procurement Law, the Youxian Government Procurement Administration Office at the Youxian Finance Bureau is required to issue decisions within 30 working days.</p>	Yes
Issues binding decisions for each party (without precluding access to an external higher authority)	The decisions made by the Youxian DRB or a higher-level bureau of the client's sector (housing and building, transport, water, environment protection, agriculture, etc.) in Zhuzhou Prefecture, or by the Youxian Government Procurement Administration Office at the Youxian 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.	Yes



## PI-25. Internal controls on non-salary expenditure

224. This indicator measures the effectiveness of general internal controls for non-salary expenditures. 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 is SNG budgetary units.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-25. Internal controls on non-salary expenditure (M2)</b>		<b>B</b>
<b>25.1. Segregation of duties</b>	Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage.	A
<b>25.2. Effectiveness of expenditure commitment controls</b>	Some expenditures take place outside the control. Cash-based accounting is still widely used, and some payables are not recorded by the budget units.	D
<b>25.3. Compliance with payment rules and procedures</b>	Compliance with payment rules and procedures is very high (more than 90%), and all exceptions are authorized in advance.	A

### Dimension PI-25.1 Segregation of duties

225. According to the *2020 Subnational PEFA Framework*, the main incompatible responsibilities to be segregated are authorization, recording, custody of assets, and reconciliation or audit. Based on the evidence of payment rules and payment approval records, appropriate segregation of duties is prescribed throughout the expenditure process, and responsibilities are clearly laid down. All these responsibilities are taken charge of by full time staff.

226. Segregation of duties in the payment procedure is as follows:

- An authorized staff of the budgetary unit enters a payment request after completing its internal verification process.
- The Treasury Payment Center conducts a preliminary review.
- The Treasury Payment Center conducts a second verification.
- A staff of the Payment Center scrutinizes the direct payment voucher.
- An accountant of the Payment Center confirms the payment and prints the direct payment voucher to the PBOC.
- Another accountant of the Payment Center checks the payment information with the PBOC.

227. Any unauthorized access to the payment approval system is denied. If the original and qualified staff leave their position occasionally, which may impede the execution of a task, a temporary replacement personnel needs to fill out a registration form and submit it to the director of the Payment Center for approval before taking on any responsibility. Passwords for accessing the system are changed regularly. Regular rotation is adopted in the Center.

228. Segregation of duties in the process of recording payments is as follows:

- A staff at the Treasury Payment Center responsible for preliminary verification sorts out the data for authorized disbursement and annually fills in all payment documents.
- An accountant at the Center is responsible for recording transactions, managing vouchers, preparing the

required financial reports, and filing financial documents.

- The chief of the Payment Center collects all payment records and is responsible for data analysis.

229. For reconciliation, the Treasury Payment Center:

- Checks with each budgetary unit on a monthly basis on the disbursements from the Payment Bureau and the payment application initiators.
- Checks the TSA record once a month.
- Checks with the commercial banks on a daily basis.
- Randomly selects two units each month to review their accounts, checks the accounts against the centralized treasury payment record, and accordingly prepares a reconciliation form.
- Recruits a third party for reconciliation in line with the internal control regulations. Ten bank accounts are selected for the verification by a third party each month. Reconciliation forms are prepared as well.

230. Based on the supporting evidence, the score for this dimension is A.

**Table 3.43: 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	Y	A	A

Data source: Youxian Finance Bureau.

### Dimension PI-25.2 Effectiveness of expenditure commitment controls

231. The internal control regulations for the single treasury account require that budget execution is carried out within the approved budget and project investment estimate. However, the following weaknesses on expenditure commitment controls have been noted:

- Small value procurements are not paid and recorded by the Payment Centre. Instead, expenditures are disbursed from daily recurrent funds allocated to each unit.
- In the assessed period, cash-based accounting was still used in Youxian's financial management system, and some payables were not recorded by the budgetary units. The payables were normally caused by those investment projects that were approved by the government, but for which in-year budget adjustment led to budget shortage or the required funds were arranged for in the budget of the following year. Though payables existed, they were neither recorded in the bookkeeping nor budget execution report as the government is required to implement a balanced budget.

232. Based on the evidence, the score for this dimension is D.

### Dimension PI-25.3 Compliance with payment rules and procedures

233. In most cases, actual expenditures remained within the approved budget allocations and did not

exceed the committed amount or projected available cash resources. However, the internal audit reports of the budgetary units and the audit reports issued by the Audit Bureau have disclosed a few violations. They amounted to 3.41 percent of total budget expenditure in FY 2018.

234. All exceptional disbursements excluded in the budget plan are paid by the budget reserve fund and are authorized in advance. The internal control regulations for the single treasury account require that all irregular or unexpected expenditures are decided on by the government executive and are integrated into the regular expenditures either by increasing the budget or using the budget reserve. Payment requests are reviewed and approved by the chief of the Payment Center.

235. The score for this dimension is A.

## PI-26. Internal audit

236. This indicator assesses the standards and procedures applied in internal audit. The time period covered for 26.1 and 26.2 was at 'time of assessment' (2019), for 26.3 the last completed FY (2018), and for 26.4, the audit reports of the last three completed FYs (2016-2018) were examined. The SNG budgetary units were assessed.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-26. Internal audit (M1)</b>		<b>D+</b>
<b>26.1. Coverage of internal audit</b>	Internal audit is operational for budget units representing 30.96% of total budgeted expenditure.	D
<b>26.2. Nature of audits and standards applied</b>	Internal audit activities focus on internal control and risk audit. The internal audit work is guided by the <i>Internal Audit Standards</i> . However, internal audit quality assurance is not established in Youxian.	B
<b>26.3. Implementation of internal audits and reporting</b>	In 2018, the budget units of Youxian that carried out internal audit did not prepare internal audit work plans.	D
<b>26.4. Response to internal audits</b>	During 2016 to 2018, management of audited budget units did not respond to audit recommendations.	D

### Dimension PI-26.1 Coverage of internal audit

237. The assessment of this dimension takes a sampling approach. The biggest service delivery units covered in the assessment of PI-8.1 are selected. In Hunan Province, the *Internal Audit Measures* issued by the Provincial Government (Decree No.255, 2011) requires local governments and their administrative institutions to establish an internal audit function and conduct internal audit.

238. In Youxian, only the Education Bureau has set up a special internal audit section, which has specialized internal auditors and is responsible for the internal audit of the Bureau and its affiliated units. The internal audit of most other units is undertaken by their financial section or the discipline inspection section of their respective departments.

239. However, at the time of assessment, only the Education Bureau and the Forestry Bureau had formulated an internal audit work plan and carried out internal audit work. As can be seen from Table 3.13 under PI-8.1, the annual budget expenditure of Education Bureau and Forestry Bureau (619.17 and 52.84 respectively) accounts for 30.96% of the total budget expenditure (2170.61) of all budget units. Hence, the score is D.

### Dimension PI-26.2 Nature of audits and standards applied

240. The internal audit practices of Youxian are guided by the *Internal Audit Standards*, the *Code of Professional Ethics for Internal Auditors*, and the *Internal Audit Quality Evaluation*, all issued by the China Institute of Internal Audit (CIIA).

241. In Youxian, the Education Bureau and the Forestry Bureau were implementing their internal audit

at the time of the PEFA assessment. The internal audit included financial revenue and expenditure audit, accountability audit, and internal control and risk audit. Though the internal audit of the Forestry Bureau was carried out by its finance section, like the Education Bureau, it focused on evaluations of the adequacy and effectiveness of internal controls.

242. Considering that incompatible jobs must be separated, an internal audit quality assurance process has not been established in Youxian County. The score is B.

### **Dimension PI-26.3 Implementation of internal audits and reporting**

243. For FY 2018, the budget units of Youxian County that carried out internal audit did not prepare internal audit work plans. The score is D.

### **Dimension PI-26.4 Response to internal audits**

244. For FYs 2016 to 2018, all budget units that implemented internal audit were required to rectify the problems raised in the audit report, but there is no evidence showing that audited units responded to audit recommendations. The situation of rectification is not known. The score is D.



## PILLAR 6: Accounting and reporting

245. Pillar Six 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. The assessment under this Pillar is based solely on the GPB and GFB.

### PI-27. Financial data integrity

246. 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 precedent FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-27. Financial data integrity (M2)</b>		<b>B</b>
<b>27.1. Bank account reconciliation</b>	Reconciliation of all bank accounts is completed within 15 days after the end of each month.	B
<b>27.2. Suspense accounts</b>	There are no suspense accounts in Youxian County.	NA
<b>27.3. Advance accounts</b>	There are no advance accounts in Youxian County.	NA
<b>27.4. Financial data integrity processes</b>	Access and changes to the financial data information system are restricted, must be authorized in advance, and are secured by a U-shield and password. Both result in an audit trail. The system is managed by the Information Center at the Finance Bureau, which passed the organized safety and quality test. But there is no unit in charge of verifying financial data integrity.	B

#### Dimension PI-27.1 Bank account reconciliation

247. Youxian County's TSA system involves accounts in eight commercial banks and the PBOC. The Treasury Centralized Payment Centre of the Finance Bureau reconciles the balance with the PBOC on a daily basis. The Treasury Section of the Finance Bureau reconciles the balance and details of the special accounts with the related commercial banks monthly, within 15 days after the end of each month. Thus, the score is B.

#### Dimension PI-27.2 Suspense accounts

248. Youxian County has no advance accounts. All expenditures are paid based on the request of the budgetary units and the required supporting documents. Contract payment is made in accordance with the certified progress and payment terms stipulated in the contract. This dimension is also NA.

#### Dimension PI-27.3 Advance accounts

249. There are no advance accounts in Youxian County.

### **Dimension PI-27.4 Financial data integrity processes**

250. Youxian County manages its public finances through three information systems: the non-tax revenue system, the rural finance system, and the XinDazhong financial system. All three systems undergo safety risk assessments (no evidence to justify whether it is regular). In December 2018, the Youxian financial information system passed the security evaluation of the Huazhong Evaluation Center.

251. The County Finance Bureau has established sound internal control and risk management procedures for all three information systems to ensure the security and reliability of financial data. Efficient measures regarding the authorization of data access have been put in place, and only authorized staff can deal with routine operations including login, data entry, payment, data modification, and data access. These systems are managed by the Information Center at the Finance Bureau, which passed the organized safety and quality test. All of these provide a strong evidence of audit trail. But there is no unit in charge of verifying financial data integrity. Thus, the score is B.

## PI-28. In-year budget reports

252. 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 for monitoring of budget performance and, if necessary, timely use of corrective measures. The assessment of this indicator covers the SNG budget units over the last completed FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-28. In-year budget reports (M1)</b>		<b>B+</b>
<b>28.1. Coverage and comparability of reports</b>	Monthly budget execution and quarterly analysis reports are prepared. All revenues and expenditures including those for deconcentrated SNG units are included in the in-year budget reports. Coverage and classification of data are comparable with the original budget.	A
<b>28.2. Timing of in-year budget reports</b>	Budget execution reports are prepared monthly, and all of them are published on the website of the Finance Bureau within two weeks of the end of the reported month.	A
<b>28.3. Accuracy of in-year budget reports</b>	There are no concerns regarding data accuracy. Data are reliable and useful for the analysis of budget execution which is prepared quarterly. However, information on expenditure is covered at payment and not at commitment stage.	B

### Dimension PI-28.1 Coverage and comparability of reports

253. Monthly budget execution and quarterly analysis reports are prepared. All revenues and expenditures including those for deconcentrated SNG units are included in the in-year budget reports. Coverage and functional classification of data are comparable with the original budget. 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 deconcentrated 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 information E=Expenditure C=Commitment
Y	A	Y	M	2	N	Y	E

Data source: In-year budget reports from the intranet of the Youxian Finance Bureau.

### Dimension PI-28.2 Timing of in-year budget reports

254. Monthly budget execution reports are issued by the County Finance Bureau, all within two weeks of the



end of each month (Table 3.45). The score is A.

**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	2.2	3.4	4.2	5.3	6.4	7.2	8.2	9.3	10.8	11.1	12.3	2019.1.3

Data source: In-year budget reports from the intranet of the Youxian Finance Bureau.

### Dimension PI-28.3 Accuracy of in-year budget reports

255. In 2018, besides the monthly budget execution reports, Youxian prepared also quarterly, semi-annual, and annual budget execution reports, including a narrative on the execution trends of main programs and policies. The data in these reports were reliable, there were no concerns regarding data accuracy, and data were useful for the analysis of budget execution. Analysis reports of budget execution based on functional classification were prepared quarterly.

256. However, different from the annual budget execution report, the in-year budget reports remained unaudited, and information on expenditure was covered at payment rather than at commitment stage (required for an A score). Thus, the score is B.

## PI-29. Annual financial reports

257. This indicator assesses the extent to which annual financial statements 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 three dimensions and uses the M1 (WL) method for aggregating dimension scores. The assessment covers the SNG budget units over the last completed FY (2018) for dimensions 29.1 and 29.2, and the last three FYs' financial reports (2016-2018) for dimension 29.3.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-29. Annual financial reports (M1)</b>		<b>D+</b>
<b>29.1. Completeness of annual financial reports</b>	Annual budget execution reports are prepared and are comparable with the approved budget. The reports include information on revenue, expenditure, and cash balances, but do not provide any information on financial and tangible assets.	C
<b>29.2. Submission of reports for external audit</b>	The 2018 budget execution report was submitted to the Audit Bureau within 3 months of the end of the FY.	A
<b>29.3. Accounting standards</b>	The budget execution reports for FY 2016-2018 were prepared in line with the national standards stipulated by the MOF. However, the accounting standards adopted were not disclosed in notes or other parts of the financial reports.	D

### Dimension PI-29.1 Completeness of annual financial reports

258. The 2018 Government Accounting Regulation requires that accrual-based financial reports are prepared by all budget units. Before that, the budget execution report was prepared by the Finance Bureau and submitted to the People's Congress for review and approval. The reports are to contain the following information in accordance with Article 97 of the Budget Law:

- Budget revenue.
- Information on the implementation of expenditure policy, key expenditures, and the use and performance of funds for major investment projects.
- The use of carry over funds.
- The balance of funds.
- Budget adjustment and implementation.
- Disbursement of transfer payments.
- Size, structure, usage, and repayment of debt borrowed.
- Size and use of the working capital of the budget.
- The use of reserve funds.
- Revenue exceeding the budget plan, the size and use of adjusted funds.
- Execution of the budget approved by the People's Congress.

259. In FY 2018, the annual budget execution report was prepared and comparable with the approved budget. The report included information on revenue, expenditure, and cash balances but did not contain information on financial and tangible assets. 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	B	Y	C	February 15, 2019	3

Data source: 2018 Budgetary Execution Report.

### Dimension PI-29.2 Submission of reports for external audit

260. The 2018 budget execution report was submitted to the County Audit Bureau on February 15, 2019, which meets the requirement for score A.

### Dimension PI-29.3 Accounting standards

261. The budgetary units prepare their financial reports in line with the related regulations stipulated by the MOF. For 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.

262. In the assessed FYs 2016 to 2018, only the budget execution report was prepared, submitted to the People's Congress, and audited by the County Audit Bureau each year. The GAUs and PSUs also prepared financial reports in line with the applying accounting regulations, and the auditors may have audited these financial reports during their financial audit, however, no consolidated accrual basis financial report was prepared. In 2017, the MOF issued a new government accounting regulation and it was the first time that real accrual basis accounting was adopted in the public sector in China. The new regulation became effective on January 1, 2019.

263. The budget execution reports of FYs 2016-2018 were prepared in line with the standards and regulations stipulated by the MOF, however, the adopted accounting standards were 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

264. Pillar Seven assesses whether public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive. The assessment under this Pillar is based solely on the GPB and GFB.

### PI-30. External audit

265. 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 Youxian budgetary units 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).

266. The first dimension of this indicator is centered on the operations of the SAI: the coverage of the audits and how the SAI conducts its operations. Dimension 30.2 examines the process and procedures once the SAI audits are completed. Dimension 30.3 assesses how audited entities respond to recommendations made in the audit reports. The fourth dimension assesses the independence of the SAI.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-30. External audit (M1)</b>		<b>C+</b>
<b>30.1. Audit coverage</b>	In FYs 2016-2018, for budget units carried out external audit, the expenditure of budget units accounted for 64.97% of total expenditures.	C
<b>30.2. Submission of audit reports to the legislature</b>	In FYs 2016-2018, the audit reports on budget execution were submitted to the City People's Congress within 6 months upon receipt of the financial reports.	B
<b>30.3. External audit follow-up</b>	The rectification reports show that in FYs 2016-2018, required follow-up action on the issues disclosed by auditors was taken by the concerned entities effectively and timely.	A
<b>30.4. SAI independence</b>	The Audit Law and related regulations provide concrete basis to secure the independence of the SAI. Although the Audit Office is one of the line bureaus under the leadership of the County Government and uses executives to assist with the procedure for budget request submission and execution, the executives do not interfere in the budget approved by the People's Congress for the SAI.	B

### Dimension PI-30.1 Audit coverage

267. The Audit Bureau of Youxian is the main external audit institution. Its audit includes: the audit of budget implementation at the county level; the audit of budget implementation, financial revenue, and expenditure of the budget units; as well as special audits. The Audit Bureau formulates an annual audit work plan and conducts the audits in accordance with the Audit Law of the PRC. The audit procedures adopted include: formulating an audit implementation plan; conducting the audits; submitting the audit reports for comments;

completing the audit reports; submitting them to the Standing Committee of the County People's Congress before the specified date; and publishing them for the public.

268. The applied audit standards are in accordance with the requirements of the Audit Law and the National Audit Standards of the PRC. The audit quality is supervised by the Audit Bureau of Hunan Province in accordance with the regulations of Hunan Province on audit supervision. At the same time, audit quality is also supervised by the Standing Committee of the People's Congress.

269. Tables 3.47 and 64 provide a summary of the external audit coverage in Youxian County in 2016-2018. The budget funds audited by the Youxian Audit Bureau accounted for 64.97 percent of the total approved budget (Table 3.47). The audit covered public funds, state assets, and state-owned resources. In addition, some special audits were carried out including debt risk audits, SOE audits, tax revenue and medical insurance audits (Table 3.48). The score is C.

**Table 3.47: External audit coverage (budget units), FYs 2016-2018**

Budget units	Audit of financial reports (Y/N)			Expenditure in 2018 (in 10 thousand RMB)	Expenditure covered by at least one audit (%)
	2016	2017	2018		
Education Bureau	N	N	N	61917.84	28.53
Health Commission Bureau	N	N	Y	91885.88	42.33
Natural Resource Bureau	N	N	N	3088.82	1.42
Bureau of Housing	N	Y	N	4345.9	2.00
Transport Bureau	N	N	Y	3965.76	1.83
Agricultural Bureau	N	Y	N	10079.05	4.64
Water Resources Bureau	Y	N	N	7600.45	3.50
Civil Affairs Bureau	Y	N	N	21528.71	9.92
Culture and Tourism Administration	N	N	N	2020.07	0.93
Forestry Administration	N	N	N	5283.71	2.43
Bureau of Science, Industry and Information Technology	N	N	N	2563.6	1.18
Human Resources and Social Security Bureau	N	N	Y	1638.03	0.75
Commerce Bureau	N	N	N	1143.62	0.53
<b>Total</b>				<b>(141043.78) 217061.44</b>	<b>64.97</b>

Data source: Youxian Audit Bureau.

**Table 3.48: External audit coverage (special audit), FYs 2016-2018**

FY	Coverage of Special Audit	Publishing of audit report (Y/N)
2016	<ul style="list-style-type: none"> <li>● Economic Responsibility Audits.</li> <li>● Tax revenue.</li> <li>● Special funds related to rural renovation.</li> <li>● SOEs.</li> <li>● Project cost settlement.</li> </ul>	Y

FY	Coverage of Special Audit	Publishing of audit report (Y/N)
2017	<ul style="list-style-type: none"> <li>● County major engineering project.</li> <li>● Economic Responsibility Audits.</li> <li>● Basic medical insurance funds related to new rural medical cooperative.</li> <li>● Tax revenue.</li> <li>● SOEs.</li> </ul>	Y
2018	<ul style="list-style-type: none"> <li>● Tax revenue.</li> <li>● Economic Responsibility Audits.</li> <li>● Investment control of government construction projects.</li> <li>● Accurately Targeted Poverty Alleviation Program.</li> <li>● Follow up audit of urban affordable housing project.</li> <li>● SOEs.</li> <li>● Local government debt risk.</li> </ul>	Y

Data source: Youxian Audit Bureau.

### Dimension PI-30.2 Submission of audit reports to the legislature

270. In the last three completed FYs, the County Audit Bureau did not record the date of submission of the audit reports to the legislature. However, as the Audit Bureau tends to submit the reports before the meeting of the Youxian People's Congress, the assessment team assumed the first day of the Congress meeting as submission date. This means, the Audit Bureau submitted the audit reports to the legislature within six months upon receipt of the budget execution reports in all the assessed three FYs (Table 3.49). Therefore, the score is B.

**Table 3.49: Timing of submission of audit reports to legislature**

FY	Date of receipt of the budget execution reports by the SAI	Date of submission of the audited financial reports	Days of preparing the audit reports	Effective and timely follow-up by the executive or the audited entity (Y/N)
2016	April 10,2016	May 24, 2016	44	Y
2017	February 27,2017	July 10, 2017	133	Y
2018	May 9,2018	June 28, 2018	50	Y

Data source: Youxian Audit Bureau.

### Dimension PI-30.3 External audit follow-up

271. The audit reports issued by the County Audit Bureau to the budget units required the units to take action following the auditors' recommendations and submit rectification reports to the Audit Bureau.

272. For FY 2016, the follow-up reports were submitted to the Audit Office on October 20, 2017. Of the eleven issues disclosed in the audit report, nine had been rectified and others had been partially rectified or were in the process of being rectified. Moreover, all audit suggestions had been adopted by the related entities. The overall rectification rate was 81.81 percent.

273. For FY 2017, the rectification was reviewed on October 19, 2018, and of the twelve issues stated in the

audit report, eight had been completely rectified while others had been partially rectified or were in the process of being rectified. All audit recommendations had been accepted. The overall rectification rate was 75 percent.

274. For FY 2018, the audit rectification report was disclosed on November 21, 2019, and the relevant entities took remedial measures to solve the twelve problems disclosed in the audit report. Ten had been completely rectified and others had been partially rectified or were in the process of being rectified. All suggestions had been accepted by the auditees. The overall rectification rate was 83.33 percent.

275. Therefore, in the last three completed FYs, the required follow-up action on the issues disclosed by the auditors was taken effectively and timely by the budget units involved, and the follow-up reports were submitted as required. The score is A.

#### Dimension PI-30.4 SAI independence

276. China's laws and regulations provide a concrete basis for securing the independence of audit entities. According to Article 15 of the Audit Law, the heads of auditing organizations shall be appointed or dismissed in accordance with statutory procedures. None of them may be dismissed or replaced unless they are found guilty of illegal acts, negligent of duties, or no longer qualified for the position. According to Article 13 of the Regulation on the Implementation of the Audit Law, a higher level audit entity 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. According to Article 15 of the Audit Law, auditing entities shall independently exercise their power of audit supervision in accordance with the Law and be free from interference of any administrative and social organization or individual.

277. The above-mentioned laws and regulations provide a concrete basis to secure the independence of audit entities. In Youxian, the appointment of director of the Audit Bureau is approved by the People's Congress. A higher-level audit office - the Provincial Audit Office - is consulted prior to the appointment. The Audit Bureau can independently carry out its audit and has unrestricted access to the data and documents of the auditees. The city audit office is one of the line bureaus under the leadership of the city government and uses the executive procedure for budget request submission and execution, but 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 3.50: SAI Independence – requirements**

Independence criteria	Extent to which criteria met and materiality (where relevant)
Appointment and removal of the head of SAI	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 must be consulted in advance.
Planning audit engagements	The Audit Bureau can plan its audit tasks independently and is free from interference from any other entity.
Arrangements for publicizing reports	All audit reports are required to be published on the government website.
Approval of budget	The Audit Law requires the funds for conducting audit to be secured and the budget of the SAI to be approved by the People's Congress. The Audit Office is one of the line bureaus under the leadership of the County Government and uses of executive procedure for budget request submission and execution, but the executives do not interfere in the budget approved by the People's Congress for the SAI.

Independence criteria	Extent to which criteria met and materiality (where relevant)
Execution of budget	The independence of budget execution of the Audit Bureau is secured by the Audit Law..
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 Bureau has unrestricted access to the data and documents of auditees.

Data source: Youxian Audit Bureau.



## PI-31. Legislative scrutiny of audit reports

278. 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 last three completed FYs (2016-2018) and covers the SNG budgetary units.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-31. Legislative scrutiny of audit reports (M2)</b>		<b>B</b>
<b>31.1. Timing of audit report scrutiny</b>	The time period between the issuance of the audit report and its scrutiny by the People's Congress was less than three months for all FYs 2016-2018.	A
<b>31.2. Hearings on audit findings</b>	Besides the directors of the Finance Bureau and the Audit Bureau, representatives from most of the audited entities are required to attend the hearing.	B
<b>31.3. Recommendations on audit by the legislature</b>	The subnational legislature issues recommendations on actions to be implemented by the executive and systematically follows up on their implementation.	A
<b>31.4. Transparency of legislative scrutiny of audit reports</b>	The scrutiny process is carried out only between the members of the Standing Committee and several chiefs from the governmental departments. Access is not provided to the general public.	D

### Dimension PI-31.1 Timing of audit report scrutiny

279. Since the People's Congress does not maintain records on the receipt of audit reports, the assessor team used the date of issuance of the audit reports as submission date. Nonetheless, the time period for the scrutiny of the audit reports by the legislature was less than three months (Table 3.51). The score is A.

**Table 3.51: Timing of legislative scrutiny of audit reports**

Audited AFS for FY	Date of issuance of audited financial report	Date of finalization of legislative scrutiny
2015	May 25, 2016	June 30, 2016
2016	June 26, 2017	June 28, 2017
2017	June 6, 2018	June 13, 2018
2018	June 18, 2019	July 17, 2019

Data source: Youxian Audit Bureau.

### Dimension PI-31.2 Hearings on audit findings

280. After completing its scrutiny of the annual audit report, the County People's Congress calls for a hearing on the audit findings. Besides the heads of the Finance Bureau and the Audit Bureau, representatives from the Development and Reform Bureau, the Education Bureau, the Human Resources and Social Security Bureau, the Environmental Protection Bureau, the Housing and Urban Rural Development Bureau, the Health and Family

Planning Bureau, the Real Estate Bureau, the Highway and Transportation Bureau and the major state-owned enterprises, which constitute the most of the audited entities, are required to attend the hearing. The score for this dimension is B.

**Table 3.52: Hearings on audit findings and issuance of recommendations**

Audited AFS for FY	Hearings on audit reports that received a qualified or adverse opinion or disclaimer (Y/N)	Hearings conducted – entities with qualified audit A = All M = Most F = Few N=None	Legislature issues recommendations (Y/N)	Recommendations followed-up S= Follow-up systematically F= Follow-up
2016	Y	M	Y	S
2017	Y	M	Y	S
2018	Y	M	Y	S

Data source: Youxian People’s Congress, county-level Audit Bureau.

### Dimension PI-31.3 Recommendations on audit by legislature

281. The Standing Committee of the People’s Congress not only scrutinizes the audit report on budget execution, but also the Audit Bureau’s recommended actions for the concerned budget units. After receiving the rectification reports from the auditees, a summarized report is prepared by the Audit Bureau and presented and discussed at a meeting organized by the Standing Committee of the People’s Congress. In all of the past three FYs, the Standing Committee issued recommendations on actions to be implemented by the executive to rectify the issues disclosed in the audit reports and systematically followed up on their implementation (Tables 3.53 and 3.54). Based on the supporting evidence, the score for this dimension is A.

**Table 3.53: Date of recommendations and reviewing recommendations issued by legislature**

Audited AFS for FY	Date of giving recommendations	Date of review of recommendations
2015	June 30, 2016	October 31, 2016
2016	June 28, 2017	October 20, 2017
2017	June 13, 2018	October 19, 2018
2018	July 17, 2019	November 21, 2019

Data source: Youxian People’s Congress, county-level Audit Bureau.

### Dimension PI-31.4 Transparency of legislative scrutiny of audit reports

282. Although the Standing Committee systematically followed up on the rectification of the issues disclosed in the audit reports in the past three FYs, the hearings were not accessible to the public, and the follow-up reports were not published on the government website (Table 3.54). The score is D.

**Table 3.54: Transparency of legislative scrutiny of audit reports**

Audited AFS for FY	Committee reports			Public hearings conducted A= All except limited circumstances F= Yes, with a few exceptions N=No
	Published (Y/N)	Provided to the full chamber of legislature (Y/N)	Debated in the full chamber of legislature (Y/N)	
2018/19	N	N	N	N
2017/18	N	N	N	N
2016/17	N	N	N	N

Data source: Youxian People's Congress, county-level Audit Bureau.



## 4 CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS

### 4.1 Integrated assessment across the PIs

#### 4.1.1 Budget reliability

283. Youxian generally complies with the prescriptions of the budget process as mandated by the CG and the provincial governments. However, over the three years covered by this assessment (2016-2018), the Youxian PFM system failed to produce a credible budget, as the variance in both aggregated and composite expenditure outturn was high (PI-1 and PI-2 scored D and D+). Expenditure outturns, as a percentage of budget allocation were consistently at around 150 percent, and composite expenditure variance by functional classification ranged from 51 to 78 percent.

284. The low predictability of, and yet a high degree of dependence on, HLG transfers (more than a half of Youxian's total expenditure) was one of the main factors contributing to the high variance in budget expenditure. The indicator HLG-1 scored D+ given the high variation in total grants and targeted grants. The disbursement of transfers, in compliance with the schedule prescribed in the 2014 Budget Law, was mostly on time (HLG-1.3, score A). While variance of HLG transfers is high, it has improved over the years. Other factors determining budget reliability are the omission of estimates of self-revenues of hospitals in the budget plan and the high volatility of land sales revenues.

285. Youxian has a very strong capacity in projecting tax and non-tax revenues of the GPB. The outturn of GPB revenue deviations were much smaller than those of GFB revenue in the three assessed years. But the volatile land revenues brought the total revenue outturn from 103.6 percent of the approved budget in 2016 to 111.1 percent in 2017 and 131.5 percent in 2018. The composition variance of revenue was also high at 38.8, 38.8, and 105.2 percent for 2016-2018, respectively (PI-3, score C).

286. The lack of predictability of grants and revenue hampered the Government's capacity 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) further lowered the predictability of resources and the ability of budgetary units to effectively deliver public services.

#### 4.1.2 Transparency of public finances

287. The budget and accounts classification by function and economic type has been unified nation-wide and is 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 for PI-4. While budget documentation is reasonable, it does not provide macroeconomic assumptions that underpin the projections of revenues and expenditures, information on financial assets, or tax expenditures (PI-5 is rated C). The coverage of government operations outside financial reports is very good (PI-6, score A), but the public has limited access to fiscal information (PI-9 is rated D).

288. Only some service delivery units in Youxian prepare performance plans, and a few of them publish annual information on their performed activities, but and none of them release information on their performance

achievement to the public. Coverage of third party performance evaluations is low. PI-8 is hence rated C.

#### 4.1.3 Management of assets and liabilities

289. The de jure system for asset and liability management is good. Public assets are well recorded, including their usage and age, as well as disposal – for which clear procedures are in place (PI-12 scored B). Most PCs publicize their financial reports and submit financial reports to the government authority in charge. The Finance Bureau uses a computerized system to track and update information on explicit debt and explicit contingent liabilities (PI-10 scored C+, and PI-13 scored C+). With regard to major public investment projects, the government executive is responsible for selecting and prioritizing major investment projects, but no clearly defined standard criteria are applied during project selection. Moreover, no economic analyses are conducted for major investment projects. The MIPO is responsible for the monthly monitoring of their total cost and physical progress, and Information on their implementation is prepared monthly (PI-11 scored D+).

290. An additional assessment has been carried out for Youxian's two LGFVs. The results are presented in Annex 7. The LGFVs prepare comprehensive and credible financial reports and receive timely audits. There is strong monitoring over investment projects and a timely updated tracking of debt. All information is submitted to the government but not disclosed to the public.

#### 4.1.4 Policy-based fiscal strategy and budgeting

291. 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. There is no evidence that budget preparation is informed by projections of key macroeconomic and demographic indicators, or by development strategies. The budget report contains no information of the estimated fiscal impact of changes in revenue and expenditure policy for the budget year, and there is no medium-term budget. PI-14 is rated D+.

292. The budget process follows a prescribed national process. There is a clear annual budget calendar requiring the orderly and timely engagement from all involved parties. The budget calendar provides budget units with slightly less than six weeks to complete their detailed estimates, and the expenditure ceilings are provided to the budget units nine days before they submit their final budget proposal. PI-17 is rated C+.

293. The annual budget proposal is submitted to the People's Congress. But the legislature was provided less than half a month to review the budget proposal in all of the last three FYs. The legislature did not approve the annual budget until the start of the last three FYs. Budget scrutiny by the People's Congress covers both the aggregated and detailed information on expenditures and revenues. PI-18 is rated C+.

294. There are significant budget adjustments by the executive during the year. This is inevitable and required by Budget Law, as local governments do not receive full information on the expected allocation of grants and their debt quota from the HLGs before the FY. However, even excluding this factor, details for each budget adjustment are not available (PI-21.4, D\*).

#### 4.1.5 Predictability and control in budget execution

295. All taxes that are administered and collected by the State Administration of Taxation are transferred to the SNGs according to the agreed tax-sharing arrangements. PI-19 is therefore NA. Revenues collected by the Youxian Tax Bureau are transferred directly into the Treasury accounts on the day received. Units collecting

non-tax revenues transfer almost all collections daily to the corresponding special account in the Treasury (PI-20 scored A).

296. Predictability of in-year resource allocation is low (PI-21 scored D). Cash management in Youxian is dissatisfying, including the consolidation of cash balances (score C) and cash forecasting and monitoring (score D). In the assessed period, the bank account balances of the Treasury accounts were consolidated daily, and the bank accounts balances of the special accounts were consolidated monthly. The Youxian Finance Bureau did not conduct comprehensive cash flow forecasting and monitoring. Payment can be made within the approved budget. But there are large differences between the originally approved budget expenditure and the actually executed expenditure. Therefore, the expenditure ceiling for the budgetary units are largely unpredictable. Also, there is no monitoring system for expenditure arrears in Youxian County. PI-22 scored D.

297. Payroll control in Youxian is satisfactory (PI-23 scored C+). The approved employee list, personnel database, and payroll are directly linked to each other through an IT system and updated on a real time basis, which effectively ensures budget control, data consistency, and monthly reconciliation. There is no delay in payroll payments by the Centralized Payment Center of the Treasury. Retroactive adjustment is rare. But the external auditors do not conduct special payroll audits, only partial payroll audits are conducted by internal auditors together with the economic responsibility audit.

298. In Youxian, depending on the nature of procurement and the contract value to be procured, procurement is required by law and the applying regulations to be conducted at different venues, either by the procuring entity itself or by the Zhuzhou Public Resources Transaction Center. 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. The DRC keeps records of large contracts, and the Finance Bureau keeps records 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, while it remains to be tested in practice. Data on the resolution of procurement complaints are only partially available to the public (PI-24 scored D+).

299. For non-salary expenditure, Youxian has an effective internal control system in place (PI-25 scored B). Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined at each level. The control over expenditure commitments is generally effective, while not covering payables by budgetary units. Compliance with payment rules and procedures is very high (more than 90 percent), and all exceptional disbursements are authorized in advance.

300. The internal audit function needs to be further developed (PI-26 scored D+). During the assessed time, internal audit was operational for budget units representing 30.96 percent of total budgeted expenditures. Internal audit activities focus on internal control and risk audit, and all internal audit work is guided by the *Internal Audit Standards*. However, quality assurance of internal audit has not been established. Moreover, budget units do not prepare internal audit work plans, and management of audited budget units does not respond to audit recommendations.

#### 4.1.6 Accounting and reporting

301. Financial data integrity is comparably good (PI-27 rated B). Reconciliation of all bank accounts is completed within 15 days of the end of each month. A rigorous process is in place to protect the integrity of financial data, supported with an IT-system that meets the highest security standards. Only authorized staff

have access to the system, and an audit trail of system operations is in place.

302. The in-year budget reports are comprehensive and timely. The Finance Bureau prepares monthly reports and quarterly analyses for budget execution that cover all revenues and expenditures, including those of de-concentrated units within the County. The coverage and classification of these reports are comparable with the original budget. All monthly reports of budget execution are published on the website of the Finance Bureau within two weeks of the end of each month and provide useful information for analysis. However, information on expenditure is covered at payment stage, not at commitment stage. PI-28 scored B+.

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

#### **4.1.7 External scrutiny and audit**

304. An external audit system is in place. The County Audit Office independently carries out its audit and has unrestricted access to the required data. The budget funds audited by the Youxian County Audit Bureau accounted for 64.97 percent of the total approved budget in the past three years. In the assessed period, many material issues along with systemic and control risks were detected and disclosed in the audit report, and timely and effective remedial action was taken by the audited units. However, the audit budget is secured by law, but still up to the appropriation of the Finance Bureau. Also, 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 office, subject to the review of an upper-level audit agency and approval of the County People's Congress. PI-30 scored C+.

305. The auditor submits the audit reports to the legislature within six months after receiving the financial reports from the budget units. The Standing Committee of the County People's Congress provides timely approval (no more than three months) of the audit report and calls for an in-depth hearing on the main findings of the audit report once a year. The majority of the audited entities with issues being disclosed in the audit report participate in the hearing. The Standing Committee follows up and conducts hearings on the rectification taken by the auditees. In the assessed period, hearings on audit reports were not accessible to the public. PI-31 scored B.

## **4.2 Strengths and weaknesses of the PFM systems**

306. The main strengths of PFM in Youxian County are related to in-year budget reporting and budget control, public asset management, and legislative scrutiny of audit reports. Its main weaknesses are related to budget reliability and transparency, performance and medium-term orientation of the budget, public investment and procurement management, the monitoring of expenditure arrears, internal audit, and annual financial reporting.

### **4.2.1 Fiscal discipline**

307. In Youxian, the budget fails to impose much fiscal discipline. The variation between budget outturn and



budget estimates for both aggregate expenditure (PI-1.1) and expenditure composition (PI-2.1) scores D, and there are significant budget adjustments for expenditure with information shortage (PI-21.4, rated D\*). The lack of predictability of HLG transfers (HLG-1 rated D+) and land sales revenues (PI-3 rated C) are the main factors. In-year resource allocation is frequent and unpredictable (PI-21, rated D), and monitoring for expenditure arrears is missing (PI-22.2, rated D). More efforts are needed in cash management, including the consolidation of cash balances (PI-21.1, scored C) and cash forecasting and monitoring (PI-21.2, scored D).

308. Effective control over expenditures by budgetary units helps to enhance fiscal discipline. No government operation takes place outside the financial reports (PI-6, rated A). Payroll control is effective and supported with centralized payment arrangements and auto-reconciliation through an IT system (the first three dimensions of PI-23 are rated A). Strong internal control for non-salary expenditure (PI-25, rated B) helps ensure strict control over spending during budget execution. There is a good reporting and recording system for debts (PI-13.1, rated C) and contingent liabilities (PI-10.3, rated B).

309. Youxian County recognizes the role of enhanced management over SOEs to the success of imposing fiscal discipline. The government debt management system has enhanced the government's monitoring of contingent liabilities. However, there is no evidence that the Youxian Finance Bureau makes use of this information to assess the implications that PC finance may have for fiscal sustainability or impose any discipline on aggregate public investments.

#### 4.2.2 Strategic allocation of resources

310. The main PEFA indicator concerned with policy-based budgeting (PI-14) is rated D+. Budget preparation includes estimates of revenue, expenditure, and transfers, but no forecasts are based on macroeconomic indicators or fiscal or sectoral strategies.

311. The oversight arrangements, including those related to the budget preparation process and legislative scrutiny over the budget, have been assessed as reasonable (PI-17, rated C+ and PI-18, rated C+).

312. Other indicators that relate to the strategic allocation of resources are satisfactory. Clear rules for the prioritization of major investment projects are in place (PI-11.2, rated B), and budget documentation is considered to meet all basic requirements (PI-5, rated C). However, costing information of major investment projects is not included in the budget documents (PI-11.3, rated D), and budget classification is not in accord with international standards (PI-4, D).

#### 4.2.3 Efficient use of resources for service delivery

313. Youxian's PFM system does not provide adequate monitoring of the efficient use of resources for service delivery. The share of budgetary units which publish performance targets is not high (PI-8.1, rated C). Performance evaluation is not regularly conducted (PI-8.4, rated D). Moreover, the low budget reliability and predictability of in-year resource allocations (PI-21, rated D) may adversely affect the capacity of service delivery units in making efficient resource use.

314. Required mechanisms are in place to reduce the possible leakage of funds, such as the asset management system (PI-12, rated B), the internal controls over payroll (PI-23, C+) and non-salary expenditure (PI-25, B). However, as for the procurement management system, there is no monitoring of small value contracts and no information available on the procurement methods applied (both PI-24.1 and PI-24.2 are rated D\*).

315. Ratings of the oversight arrangements are good (C+ for PI-30 and B for PI-31). Audit coverage is high, and the audit reports are submitted to the People's Congress within six months. Effective and timely follow-up actions are taken by the concerned entities, and the representatives of most budgetary units with issues disclosed by the auditors are required to attend the hearings. However, the hearings on audit reports are not accessible to the public.

316. In sum, the Youxian PFM system performs at sub-optimal level, but there is great potential for improvement if the regulatory framework of the CG and Hunan Government allows. The ongoing reforms, promoted 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.

317. The assessment results are to 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 Youxian Government has basic monitoring obligations over the investment projects that LGFVs implement (Annex 7, PI-11.4, C), and their liabilities (Annex 7, PI-13.1, A). A comprehensive assessment for LGFVs is warranted to reveal the impact of LGFVs on the PFM performance of Youxian County.

### **4.3 Performance changes since a previous assessment**

318. This is the first assessment of Youxian County.

## 5 GOVERNMENT PFM REFORMS

### 5.1 Approach to PFM reforms

319. 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 government functions from boosting growth, to 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.

320. While the revised Budget Law came into effect as of January 1, 2015, the Law did not provide 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 Budget Management System Reform (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 FY 2020.

### 5.2 Recent and ongoing reform actions

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

#### *Division of expenditure responsibility*

322. 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.

323. The delineation of functionalities between the CG and the SNGs will be completed by 2020, starting with national defense and state security in 2016, followed by education, medical care, environmental 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 their shared functionalities. Functions in which there is a predominant national interest, such as basic old-age insurance, compulsory education, and primary health care, would be largely financed by the CG based on nationally unified standards.

### *Inter-governmental transfer*

324. 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 10 percent of total transfer from the CG to the 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*

325. Business tax has been replaced with VAT in all sectors. Resources tax and environment tax have been introduced. Provincial governments have been 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*

326. 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. 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*

327. SNGs have been granted permission 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 on 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*

328. 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 were issued along with other guidelines applying to PPPs in selected industries, such as urban utilities, toll roads, public housing, elderly care, and agriculture.

329. In addition to implementing the above fiscal reforms by the CG, Hunan Province has been closely engaged with the World Bank and pioneered several reforms at provincial level. These include the introduction of a medium-term fiscal strategy that is anchored to a debt sustainability analysis; capital budgeting that links the government budget and the investment plans with an itemized project list; a monitoring and regulatory framework for sub-provincial government borrowing; and a citizens' budget and platform for subnational debt disclosure. In order to further improve the PFM efficiency, Hunan Province is in the process of developing a fully integrated financial management information system (IFMIS). Phase One is planned to be launched in

2020 and will process PFM functions for all budgetary units of the Provincial Government. The IFMIS, once completed, will cover all city, county and township governments in Hunan.

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

### *Medium-term fiscal perspective*

331. The 2014 Budget Law 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 launched the testing of a three-year rolling fiscal plan. The State Council issued the Opinions on Implementing the Medium-Term Fiscal Programming Management (Guo Fa No. 3, 2015) and proposed to adopt medium-term fiscal programming in FY 2015. In the same year, the MOF requested the fiscal departments at all local levels to formulate a 3-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 No. 38, 2015), and the other on the implementation by departments of the CG (Cai Yu No. 43, 2015). However, these early experiments proved to be of limited success, and no detailed operational guidelines have been drafted by the MOF to date.

### *Legislative budget scrutiny*

332. With regard to the role of the legislature in budgeting, in March 2018, the General Office of the Chinese Communist Party 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 the aggregates and major revenue and expenditure items.

## **5.3 Institutional consideration**

333. PFM in China is a long-term endeavor. 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 the government's 13th five-year plan, recommended China to take a result-oriented implementation strategy tailored to China's political, social and economic context. The choice for 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 must take a whole-government approach. The implication is that fiscal reform should be viewed not just as a task of the DOF, but rather requires the concerted effort of all government institutions.

## Annex 1. Performance indicator summary

Indicator/dimension	Score	Description of requirements met
<b>SNG pillar: Intergovernmental fiscal relations</b>		
<b>HLG-1. Transfers from an HLG</b>	<b>D+</b>	<b>Scoring Method M2</b>
HLG-1.1 Outturn of transfers from higher-levels of government	D	The outturns for FYs 2016, 2017, and 2018 were 196.88%, 178.24%, and 174.42%, respectively. While the deviation of actual grants from the original budgeted grants steadily declined, it was above 116% in all three FYs.
HLG-1.2 Earmarked grants outturn	D*	There is no information of transfer composition in the budget document, although the compositions are provided in the actual budget.
HLG-1.3 Timeliness of transfers from higher-levels of government	A	A disbursement timetable is prescribed by law and agreed between the HLG and the County Government. More than 75% of actual transfers have been on time in two 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 FY.
<b>HLG-2. Fiscal rules and monitoring of fiscal position</b>	<b>NU</b>	<b>HLG-2 is a pilot indicator. China's central MOF has set up a set of fiscal rules for SNGs, but they are not disclosed to the public. The Youxian County Government chose not to use this indicator in this assessment.</b>
<b>Pillar I. Budget Reliability</b>		
<b>PI-1. Aggregate expenditure outturn</b>	<b>D</b>	<b>Scoring Method M1</b>
PI- 1.1 Aggregate expenditure outturn	D	Aggregate expenditure outturn deviated significantly from the budgeted amounts in the last three FYs. The outturn was 150.50%, 152.10%, and 155.19% of the approved budget, respectively.
<b>PI-2. Expenditure composition outturn</b>	<b>D+</b>	<b>Scoring Method M1</b>
PI- 2.1 Expenditure composition outturn by function	D	Variance in expenditure composition by functional classification was above 15% in each of the last three FYs. Variance of the three years was 77.95%, 49.15%, and 50.98%, respectively.
PI- 2.2 Expenditure composition outturn by economic type	NA	There was no economic classification for the GFB in FYs 2016-2018 (referring to PI-4.1).
PI- 2.3 Expenditure from contingency reserves	A	In FYs 2016-2018, actual expenditure charged to a contingency vote was on average 0.60% of the original budget (i.e. less than 3% of the original budget).
<b>PI-3. Revenue outturn</b>	<b>C</b>	<b>Scoring Method M2</b>
PI- 3.1 Aggregate revenue outturn	B	In FYs 2016 - 2018, the variance in aggregate revenue was 103.63%, 111.09%, and 131.54%, respectively. The actual revenues were between 94% and 112% of budgeted revenues in two of the three FYs.
PI- 3.2 Revenue composition outturn	D	Composition variance in revenue collection in the three FYs was 38.82%, 38.77%, and 105.24%, respectively, all more than 15%.
<b>Pillar II. Transparency of public finances</b>		

Indicator/dimension	Score	Description of requirements met
<b>PI-4. Budget classification</b>	<b>D</b>	<b>Scoring Method M1</b>
PI- 4.1 Budget classification	D	Budget documentation is nationally consistent. The GPB is based on functional and economic classification, but the GFB is only based on functional classification.
<b>PI-5. Budget documentation</b>	<b>C</b>	<b>Scoring Method M1</b>
PI- 5.1 Budget documentation	C	Budget documentation contains three basic elements and no additional element.
<b>PI-6. Central government operations outside financial reports</b>	<b>A</b>	<b>Scoring Method M2</b>
PI- 6.1 Expenditure outside financial reports	A	All expenditures are included in the budget/financial reports.
PI- 6.2 Revenue outside financial reports	A	All revenues are included in the budget/financial reports.
PI- 6.3 Financial reports of extrabudgetary units	A	The social insurance fund budget is included in the budget execution report and submitted to the government within three months of the end of the FY.
<b>PI-7. Transfers to subnational governments</b>	<b>NA</b>	<b>Scoring Method M2</b>
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.
<b>PI-8. Performance information for service delivery</b>	<b>C</b>	<b>Scoring Method M2</b>
PI- 8.1 Performance plans for service delivery	C	No information on policy or program objectives is published. 74.22% of the ministries published the activities to be performed under the policies or programs in FY 2019. No framework of performance indicators relating to outputs and outcomes is in place.
PI- 8.2 Performance achieved for service delivery	D	No information is published about the quantity of outputs produced or outcomes achieved. 13.53% of the bureaus publish annual information on their performed activities.
PI- 8.3 Resources received by service delivery units	A	Based on the selected Education Department and Public Health Department, there are no reports compiling information on resources received by frontline service delivery units. However, the financial reports of each service delivery unit contain estimates of the resources received.
PI- 8.4 Performance evaluation for service delivery	D	Published third-party evaluations accounted for 0.3% of service delivery expenditure in FY 2018, and there was no published self-evaluation. The unpublished evaluation of the efficiency or effectiveness of service delivery covered 2.56% of total service delivery expenditures in FY 2018.
<b>PI-9. Public access to fiscal information</b>	<b>D</b>	<b>Scoring Method M1</b>



Indicator/dimension	Score	Description of requirements met
PI- 9.1 Public access to fiscal information	D	The Youxian Government makes available to the public one basic elements within the specified time frame.
<b>PI-9bis. SNG public consultation</b>	<b>NU</b>	<b>This is a pilot indicator. The Youxian County government chose not to use this indicator in this assessment.</b>
<b>Pillar III. Management of assets and liabilities</b>		
<b>PI-10. Fiscal risk reporting</b>	<b>C+</b>	<b>Scoring Method M2</b>
PI- 10.1 Monitoring of public corporations	C	All 10 largest PCs in Youxian submitted financial reports to the Government, and 9 of 10 PCs that submitted their financial reports within 9 months of the end of the FY.
PI- 10.2 Monitoring of subnational governments	NA	There are no lower-SNGs in Youxian.
PI- 10.3 Contingent liabilities and other fiscal risks	B	Guarantees are recorded in the Government Debt Management System. Data are updated and consolidated monthly. But information on contingent liabilities is not published.
<b>PI-11. Public investment management</b>	<b>D+</b>	<b>Scoring Method M2</b>
PI- 11.1 Economic analysis of investment proposals	D	In FY 2018, no economic analysis was conducted for any major investment project.
PI- 11.2 Investment project selection	B	All major investment projects are selected and prioritized by the government executive on the basis of standard criteria 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	C	The MIPO monitors total cost and physical progress monthly. Information on the implementation of major investment projects is prepared monthly.
<b>PI-12. Public asset management</b>	<b>B</b>	<b>Scoring Method M2</b>
PI- 12.1 Financial asset monitoring	C	The Youxian Government maintains records of its holdings in all major categories of financial assets, which are recognized at book value. Information on the aggregate value of financial assets is submitted to the People's Congress annually but not published.
PI- 12.2 Non-financial asset monitoring	C	The Youxian Government maintains records of its holdings of fixed assets and collects partial information on their usage and age. The information on non-financial assets 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.
<b>PI-13. Debt management</b>	<b>C+</b>	<b>Scoring Method M2</b>
PI- 13.1 Recording and reporting of debt and guarantees	C	Debt records are complete, accurate, and updated when transactions are made. They are updated monthly via the debt management system. Reconciliations are performed annually, the relating information being recorded in the system.



Indicator/dimension	Score	Description of requirements met
PI- 13.2 Approval of debt and guarantees	A	The Youxian Finance Bureau is the responsible debt management entity and is authorized to borrow on behalf of the County Government and monitor debt transactions according to the debt management rules. Annual borrowing undergoes approval by the County People's Congress.
PI- 13.3 Debt management strategy	D	There is no medium-term DMS including target ranges for indicators such as interest rates, refinancing or foreign currency risks.
<b>Pillar IV. Policy-based fiscal strategy and budgeting</b>		
<b>PI-14. Medium-term budget strategy</b>	<b>D+</b>	<b>Scoring Method M2</b>
PI- 14.1 Preparation of the budget	C	Budget preparation is based on information of transfers, revenue, and expenditure, but the referred data are not submitted to the legislature. There is no evidence budget preparation is built on projections of macroeconomic indicators or fiscal and sectoral strategies. Estimates of revenue and expenditure for the two following FYs are not prepared.
PI- 14.2 Fiscal impact of policy proposals	D	There are no estimates of the fiscal impact of proposed changes in revenue and expenditure policy for the FY.
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.
<b>PI-15. Fiscal strategy</b>	<b>NU</b>	<b>Scoring Method M2</b>
<b>PI-16. Medium term perspective in expenditure budgeting</b>	<b>NU</b>	<b>Scoring Method M2</b>
<b>PI-17. Budget preparation process</b>	<b>C+</b>	<b>Scoring Method M2</b>
PI- 17.1 Budget calendar	B	A clear annual budget calendar exists and is adhered to. It provides budgetary units slightly less than 6 weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.
PI- 17.2 Guidance on budget preparation	B	The budget circular covers total budget expenditure for the full FY. The approved expenditure ceilings were provided after the distribution of the budget circular to the budget units, but before the budget units submitted their revised budget.
PI- 17.3 Budget submission to the legislature	D	Budget submission to the legislature took place around or after the beginning of the FY for all three FYs.
<b>PI-18. Legislative scrutiny of budgets</b>	<b>C+</b>	<b>Scoring Method M1</b>
PI- 18.1 Scope of budget scrutiny	B	Budget scrutiny by the Youxian People's Congress covers details of expenditure, revenue, and fiscal policies, but not medium-term fiscal forecasts and medium-term priorities.
PI- 18.2 Legislative procedures for budget scrutiny	B	Procedures for reviewing budget proposals are approved by the Youxian People's Congress in advance of budget hearings and are adhered to. Legislature carries out an array of organizational arrangements, including a technical investigation by a specialized review committee, preliminary budget scrutiny, negotiation of the budget proposals with representatives of the functional departments, and re-submission of the budget proposals. However, no public consultation takes place.

Indicator/dimension	Score	Description of requirements met
PI- 18.3 Timing of budget approval	C	The subnational legislature approved the annual budget within one month of the start of the FY in two of the last three FYs.
PI- 18.4 Rules for budget adjustment by the executive	C	The Budget Law sets rules and procedures for in-year budget adjustment by the executive. These rules are adhered to in some instances.
<b>Pillar V. Predictability and control in budget execution</b>		
<b>PI-19. Revenue administration</b>	<b>NA</b>	<b>Scoring Method M2</b>
PI- 19.1 Rights and obligations for revenue measures	NA	
PI- 19.2 Revenue risk management	NA	
PI- 19.3 Revenue audit and investigation	NA	
PI- 19.4 Revenue arrears monitoring	NA	
<b>PI-20. Accounting for revenue</b>	<b>A</b>	<b>Scoring Method M1</b>
PI- 20.1 Information on revenue collections	A	The Youxian Government obtains revenue data at least monthly from the collecting units. The information is consolidated into a report, broken down by revenue type.
PI- 20.2 Transfer of revenue collections	A	All tax revenues collected are transferred directly to the TSA on a daily basis. Units collecting non-tax revenue transfer almost all the collections daily to a special account 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 NA.
<b>PI-21. Predictability of in-year resource allocation</b>	<b>D</b>	<b>Scoring Method M2</b>
PI- 21.1 Consolidation of cash balances	C	The bank account balances of the Treasury accounts are consolidated daily, while the bank account balances of special accounts are consolidated monthly.
PI- 21.2 Cash forecasting and monitoring	D	The Youxian Finance Bureau does not conduct comprehensive cash flow forecasting and monitoring.
PI- 21.3 Information on commitment ceilings	D	Budgetary units are not provided reliable information on commitment ceilings.
PI- 21.4 Significance of in-year budget adjustments	D*	Significant budget adjustments happen, but details for each budget adjustment are not available.
<b>PI-22. Expenditure arrears</b>	<b>D</b>	<b>Scoring Method M1</b>
PI- 22.1 Stock of expenditure arrears	D*	Since Youxian County has not set up a monitoring system for expenditure arrears, data on the stock of arrears are not available.
PI- 22.2 Expenditure arrears monitoring	D	There is no monitoring system for expenditure arrears in Youxian County.
<b>PI-23. Payroll controls</b>	<b>C+</b>	<b>Scoring Method M1</b>
PI- 23.1 Integration of payroll and personnel records	A	The approved employee list, personnel database and payroll are directly interlinked through an IT system and updated on real time basis, effectively ensuring budget control, data consistency, and monthly reconciliation.

Indicator/dimension	Score	Description of requirements met
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 payroll payments by the centralized payment center. Retroactive adjustments are rare.
PI- 23.3 Internal control of payroll	A	A complete internal control system is in place for changes to the payroll. The e-financial management system assigns unique passwords and identification numbers to each approver to ensure the approval process can be traced, and the integrity of data is warranted.
PI- 23.4 Payroll audit	C	A special review team to identify and prevent the occurrence of 'ghost employees' inspects all budgetary units once a year. But no special payroll audits are conducted by external auditors; only partial payroll audits are conducted by internal auditors together with the economic responsibility audit.
<b>PI-24. Procurement management</b>	<b>D+</b>	<b>Scoring Method M2</b>
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 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 is met.
PI- 24.4 Procurement complaints management	A	All six criteria are met.
<b>PI-25. Internal controls on non-salary expenditure</b>	<b>B</b>	<b>Scoring Method M2</b>
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	Some expenditures take place outside the control. Cash-based accounting is still widely used, and some payables are not recorded by the budget units.
PI- 25.3 Compliance with payment controls	A	Compliance with payment rules and procedures is very high (more than 90%), and all exceptions are authorized in advance.
<b>PI-26. Internal audit</b>	<b>D+</b>	<b>Scoring Method M1</b>
PI- 26.1 Coverage of internal audit	D	Internal audit is operational for budget units representing 30.96% of total budgeted expenditure.
PI- 26.2 Nature of audits and standards applied	B	Internal audit activities focus on internal control and risk audit. The internal audit work is guided by the <i>Internal Audit Standards</i> . However, internal audit quality assurance is not established in Youxian.
PI- 26.3 Implementation of internal audits and reporting	D	In 2018, the budget units of Youxian that carried out internal audit did not prepare internal audit work plans.
PI- 26.4 Response to internal audits	D	During 2016 to 2018, management of audited budget units did not respond to audit recommendations.
<b>Pillar VI. Accounting, Recording and Reporting</b>		
<b>PI-27. Financial data integrity</b>	<b>B</b>	<b>Scoring Method M2</b>

Indicator/dimension	Score	Description of requirements met
PI- 27.1 Bank account reconciliation	B	Reconciliation of all bank accounts is completed within 15 days after the end of each month.
PI- 27.2 Suspense accounts	NA	There are no suspense accounts in Youxian County.
PI- 27.3 Advance accounts	NA	There are no advance accounts in Youxian County.
PI- 27.4 Financial data integrity processes	B	Access and changes to the financial data information system are restricted, must be authorized in advance, and are secured by a U-shield and password. Both result in an audit trail. The system is managed by the Information Center at the Finance Bureau, which passed the organized safety and quality test. But there is no unit in charge of verifying financial data integrity.
<b>PI-28. In-year budget reports</b>	<b>B+</b>	<b>Scoring Method M1</b>
PI- 28.1 Coverage and comparability of reports	A	Monthly budget execution and quarterly analysis reports are prepared. All revenues and expenditures including those for deconcentrated SNG units are included in the in-year budget reports. Coverage and classification of data are comparable with the original budget.
PI- 28.2 Timing of in-year budget reports	A	Budget execution reports are prepared monthly, and all of them are published on the website of the Finance Bureau within two weeks of the end of the reported month.
PI- 28.3 Accuracy of in-year budget reports	B	There are no concerns regarding data accuracy. Data are reliable and useful for the analysis of budget execution which is prepared quarterly. However, information on expenditure is covered at payment and not at commitment stage.
<b>PI-29. Annual financial reports</b>	<b>D+</b>	<b>Scoring Method M1</b>
PI- 29.1 Completeness of annual financial reports	C	Annual budget execution reports are prepared and are comparable with the approved budget. The reports include information on revenue, expenditure, and cash balances, but do not provide any information on financial and tangible assets.
PI- 29.2 Submission of reports for external audit	A	The 2018 budget execution report was submitted to the Audit Bureau within 3 months of the end of the FY.
PI- 29.3 Accounting standards	D	The budget execution reports for FY 2016-2018 were prepared in line with the national standards stipulated by the MOF. However, the accounting standards adopted were not disclosed in notes or other parts of the financial reports.
<b>Pillar VII. External Scrutiny and Audit</b>		
<b>PI-30. External audit</b>	<b>C+</b>	<b>Scoring Method M1</b>
PI- 30.1 Audit coverage and standards	C	In FYs 2016-2018, for budget units carried out external audit, the expenditure of budget units accounted for 64.97% of total expenditures.
PI- 30.2 Submission of audit reports to the legislature	B	In FYs 2016-2018, the audit reports on budget execution were submitted to the City People's Congress within 6 months upon receipt of the financial reports.
PI- 30.3 External audit follow-up	A	The rectification reports show that in FYs 2016-2018, required follow-up action on the issues disclosed by auditors was taken by the concerned entities effectively and timely.

Indicator/dimension	Score	Description of requirements met
PI- 30.4 Supreme Audit Institution independence	B	The Audit Law and related regulations provide concrete basis to secure the independence of the SAI. Although the Audit Office is one of the line bureaus under the leadership of the County Government and uses executives to assist with the procedure for budget request submission and execution, the executives do not interfere in the budget approved by the People's Congress for the SAI.
<b>PI-31. Legislative scrutiny of audit reports</b>	<b>B</b>	<b>Scoring Method M2</b>
PI- 31.1 Timing of audit report scrutiny	A	The time period between the issuance of the audit report and its scrutiny by the People's Congress was less than three months for all FYs 2016-2018.
PI- 31.2 Hearings on audit findings	B	Besides the directors of the Finance Bureau and the Audit Bureau, representatives from most of the audited entities are required to attend the hearing.
PI- 31.3 Recommendations on audit by the legislature	A	The subnational legislature issues recommendations on actions to be implemented by the executive and systematically follows up on their implementation.
PI- 31.4 Transparency of legislative scrutiny of audit reports	D	The scrutiny process is carried out only between the members of the Standing Committee and several chiefs from the governmental departments. Access is not provided to the general public.

## Annex 2. Summary of observations on the internal control framework

Internal Control Components and Elements	Summary of Observations
<b>1. Control Environment</b>	
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.
<b>2. Risk Assessment</b>	
2.1 Risk identification	Several PIs are related to the extent to which risks are identified, notably: <b>Economic Analysis of Investment Proposals is rated ‘D’ in 11.1</b> – In FY 2018, all major investment projects do not conduct economic analyses. <b>Debt Management Strategy is rated ‘D’ in 13.3</b> – There is no medium-term Debt Management Strategy including target ranges for indicators such as interest rates, refinancing, and foreign currency risks. <b>Macro-fiscal sensitivity analysis is rated ‘D’ in 14.3</b> –No medium-term expenditure and revenue estimates are prepared. <b>Cash Flow Forecasting and Monitoring is rated ‘D’ in 21.2</b> -Youxian Finance Bureau has not conducted a comprehensive cash flow forecasting and monitoring.

Internal Control Components and Elements	Summary of Observations
2.2 Risk assessment (significance and likelihood)	See risk identification (2.1 above)
2.3 Risk evaluation	<p>In 2018, the budget units of Youxian county that carry out internal audit did not make internal audit work plan in advance. <b>(Implementation of internal audits and reporting – 26.3 rated ‘D’)</b>.</p> <p>Internal audit activities focus on internal control and risk audit. The internal audit work is guided by the Internal Audit Standards, the Code of Professional Ethics for Internal Auditors, and the Internal Audit Quality Evaluation, all issued by the China Institute of Internal Audit (CIIA). <b>(Nature of internal audits and standards applied – 26.2 rated ‘B’)</b>.</p>
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.
<b>3. Control Activities</b>	
3.1 Authorization and approval procedures	<p><b>Financial data integrity processes are rated ‘B’ in 27.4.</b> Access and changes to the financial data information system are restricted, must be authorized in advance, and are secured by a U-shield and password. Both result in an audit trail. The system is managed by the Information Center at the Finance Bureau, which passed the organized safety and quality test. But there is no unit in charge of verifying financial data integrity.</p> <p><b>Recording and reporting of debt and guarantees are rated ‘C’ in 13.1.</b> Debt records are complete, accurate, and updated when transactions are made. They are updated monthly via the debt management system. Reconciliations are performed annually; the relating information being recorded in the system.</p> <p><b>Approval of debt and guarantees are rated ‘A’ in 13.2.</b> The Youxian Finance Bureau is the responsible debt management entity, being authorized to borrow on behalf of the Government and monitoring the debt transactions according to the debt management rules. Annual borrowing undergoes approval by county level People’s Congress.</p> <p><b>Effectiveness of expenditure commitment controls is rated ‘D’ in 25.2.</b> There are some expenditures taking place outside control. During the assessed period, cash-based accounting was still widely used in the government financial management system, and some payables were not recorded by the budget units.</p> <p><b>Integration of payroll and personal records is rated ‘A’ in 23.1.</b> The approved employee list, personnel database and payroll are directly linked to each other through an IT system and updated on a real time basis, effectively ensuring budget control, data consistency, and monthly reconciliation.</p> <p><b>Management of payroll changes is rated ‘A’ in 23.2</b> Necessary changes to personnel records and payrolls are updated in real time. There is no delay in making payroll payments by the centralized payment center. Retroactive adjustments is rare.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p><b>Compliance with payroll payment rules and procedures is rated ‘A’ in 23.3.</b> A complete internal control system is in place for changes to the payroll. The e-financial management system assigns unique passwords and identification numbers to each approver to ensure the approval process can be traced.</p> <p><b>Segregation of duties is rated ‘A’ in 25.1.</b> Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage.</p>



Internal Control Components and Elements	Summary of Observations
3.3 Controls over the access to resources and records	<p><b>Compliance with payment rules and procedures is rated 'A' in 25.3.</b> Compliance with payment rules and procedures is very high (more than 90%), and all exceptions are authorized in advance.</p> <p><b>Financial data integrity processes are rated 'B' in 27.4.</b> Access and changes to the financial data information system are restricted, must be authorized in advance, and are secured by a U-shield and password. Both result in an audit trail. The system is managed by the Information Center at the Finance Bureau, which passed the organized safety and quality test. But there is no unit in charge of verifying financial data integrity.</p>
3.4 Verifications	<p><b>Accuracy of in-year budget reports is rated 'B' in 28.3.</b> A set of in-year budget execution reports are prepared and data is reliable. However, information on expenditure is covered at payment and not at commitment stage.</p>
3.5 Reconciliations	<p><b>Banks account reconciliations is rated 'B' in 27.1.</b> Reconciliation of all bank accounts is completed within 15 days after the end of each month.</p> <p><b>Suspense account reconciliations is rated 'NA' in 27.2.</b> There is no suspense account.</p>
3.6 Reviews of operating performance	<p><b>Revenue audit and investigations are rated 'NA' in 19.3.</b> PI-19 is not applicable to China's local governments.</p>
3.7 Reviews of operations, processes and activities	<p><b>Procurement monitoring is rated 'D*' in 24.1.</b> The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.</p>
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	<p>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.</p>
<b>4. Information and Communication</b>	
<b>5. Monitoring</b>	
5.1 Ongoing monitoring	<p>The Assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p><b>Resources received by service delivery units is rated 'A' in 8.3.</b> 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.</p> <p><b>Monitoring of public corporations is rated 'C' in 10.1.</b> All 10 largest PCs in Youxian submitted financial reports to the Government within 12 months of the end of last fiscal year.</p> <p><b>Contingent liabilities and other fiscal risks is rated 'B' in 10.3.</b> Guarantees are recorded in the Government Debt Management System. Data are updated and consolidated monthly. But information on contingent liabilities is not published.</p> <p><b>Investment project monitoring is rated 'C' in 11.4</b> The MIPO monitors the total cost and physical progress monthly. Information on implementation of major investment projects is prepared monthly.</p> <p><b>Procurement monitoring is rated 'D*' in 24.1.</b> The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.</p> <p><b>Implementation of internal audits and reporting is rated 'D' in 26.3.</b> In 2018, the budget units of Youxian county that carry out internal audit did not make internal audit work plan in advance.</p>



Internal Control Components and Elements	Summary of Observations
5.2 Evaluations	<p><b>Performance evaluation for service delivery is rated 'D' in 8.4.</b> The published third-party evaluations account for 0.93%, and there is no published self-evaluation. The unpublished evaluation of the efficiency or effectiveness of service delivery covered 7.93% of total service delivery expenditures in FY 2018.</p> <p><b>Investment project selection is rated 'B' in 11.2.</b> There are clearly defined standard criteria for project selection. The government executive is responsible for selecting and prioritizing the major investment projects.</p>
5.3 Management responses	<p><b>Response to internal audits is rated 'D' in 26.4.</b> During 2016 to 2018, the budget units with implemented the internal audit did not respond to the internal audit.</p> <p><b>External audit follow-up is rated 'A' in 30.3.</b> The rectification reports show that in FYs 2016-2018, required follow-up action on the issues disclosed by auditors was taken by the concerned entities effectively and timely.</p>

### Annex 3. Public sector agencies covered by assessment

Type		Units	
Budgetary units	GAUs	31 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) Forestry Bureau; (11) Commerce and food bureau; (12) Bureau of Culture, Tourism, Radio, Television and Sports; (13) Natural Resources Bureau; (14) Government Administration Office; (15) Development and Reform Bureau; (16) Public Security Bureau; (17) Judicial Bureau; (18) Finance Bureau; (19) Audit Bureau; (20) Bureau of Veterans Affairs; (21) Emergency Management Bureau; (22) Bureau of Urban Management and Comprehensive Law Enforcement; (23) Market Supervision and Administration Bureau; (24) Bureau of Statistics; (25) Government financial affairs office; (26) Letters and Calls bureau; (27) Poverty Alleviation and Development Office; (28) Health care security Bureau; (29) Administrative examination and approval service bureau; (30) Standing National People's Congress office; ;(31) Political consultative conference office.
		96 others	
	Townships (13) and streets(4)		(1) Lianxing, (2) Jiangqiao, (3) Chunlian, (4) Tanqiao, (5) Luanshan, (6) Huangfengqiao, (7) Jiubujiang, (8) Wangling, (9) Huangtuling, (10) Ningjiapingi, (11) Yajiangqiao, (12) Xinshi, (13) Caihuaping; (14) Liantangao; (15) Lutian; (16) Shiyangtang; (17) Taoshui.
	PSUs	Five largest in education sector	Youxian No. 1 Middle School
			Youxian No. 2 Middle School
			Youxian No. 3 Middle School
			Youxian No. 4 Middle School
			Liantangao town middle school
		Five largest in health sector	Youxian People's Hospital
			Youxian hospital of traditional Chinese medicine
Youxian maternal and child care service centre			
Lianxing street community health service center			
Central Hospital of Huangtuling Town			
545 others			
EBUs		None <sup>1</sup>	
PCs	Five largest PCs	Youzhou investment development group co. LTD	
		Youxian rural commercial bank co. LTD	
		Youzhou state-owned assets investment group co. LTD	
		Youxian industrial development investment co. LTD	
		Youxian market construction co. LTD	
	11 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 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 indicators

Indicators (PEFA 2020 framework)	Evidence
HLG-1. Transfers from an HLG	<ol style="list-style-type: none"> <li>1. Youxian budget documentation for FYs 2016, 2017 and 2018.</li> <li>2. Data of all transfers from the HLG for FYs 2016, 2017 and 2018.</li> <li>3. Release schedule of transfers for FYs 2016, 2017 and 2018.</li> </ol>
1. Aggregate expenditure out-turn	1. Government budget documentation and fiscal reports for FYs 2016, 2017, 2018.
2. Expenditure composition out-turn	<ol style="list-style-type: none"> <li>1. GPB document for FYs 2016, 2017, 2018</li> <li>2. Government budget documentation and fiscal reports of FYs 2016, 2017, 2018.</li> </ol>
3. Revenue out-turn	<ol style="list-style-type: none"> <li>1. GPB document from FYs 2016, 2017, 2018.</li> <li>2. Government budget documentation and fiscal reports of FYs 2016, 2017, 2018.</li> </ol>
4. Budget classification	1. The GPB and the GFB of Youxian, FY 2018.
5. Budget documentation	1. Youxian annual budget documentation of FY 2018.
6. SNG operations outside financial reports	<ol style="list-style-type: none"> <li>1. The annual budget documentation of FYs 2016, 2017 and 2018 (including social security funds).</li> <li>2. The budget documents of 8 self-funding units, FY 2018.</li> </ol>
7. Transfers to SNGs	NA.
8. Performance information for service delivery	<ol style="list-style-type: none"> <li>1. Youxian annual budget documentation for FYs 2016, 2017 and 2018.</li> <li>2. Financial reports of the service delivery units for FYs 2016, 2017, 2018 collected from the Finance Bureau of Youxian.</li> </ol>
9. Public access to fiscal information	<ol style="list-style-type: none"> <li>1. Government website for the enacted budget, FY 2018, time of access: 2020/5/8: <a href="http://www.hnyx.gov.cn/c5653/20180424/i664901.html">http://www.hnyx.gov.cn/c5653/20180424/i664901.html</a></li> <li>2. Government website for the annual budget execution report, FY 2018, time of access: 2020/5/8: <a href="http://www.hnyx.gov.cn/c5653/20191127/i1253734.html">http://www.hnyx.gov.cn/c5653/20191127/i1253734.html</a>.</li> <li>3. Government website for the audited annual financial report, 2018, time of access: 2020/5/8: <a href="http://www.hnyx.gov.cn/c5913/20190217/i832192.html">http://www.hnyx.gov.cn/c5913/20190217/i832192.html</a>.</li> </ol>
10. Fiscal risk reporting	<ol style="list-style-type: none"> <li>1. The 2014 Budget Law.</li> <li>2. Data of the total value of equity which is weighted by the percentage of shares owned by the SNG, date of submission to Finance Bureau and date of publication of the annual financial statements of each public corporation for FY 2019 (including information on whether each one is audited) collected from Youxian Finance Bureau.</li> <li>3. The debt management system of Youxian.</li> <li>4. The Comprehensive Report on State-owned Assets Management for FY 2019.</li> <li>5. Interview with the director of the PPP Center, Youxian Finance Bureau, about how many PPP projects there are in Youxian and their impact on Youxian's finance, on December 11, 2019.</li> </ol>
11. Public investment management	<ol style="list-style-type: none"> <li>1. Information on the 10 largest major investment programs received from the DRB and the MIPO, Youxian.</li> <li>2. Major investment programs monthly monitoring reports made by MIPO in 2018.</li> </ol>

Indicators (PEFA 2020 framework)	Evidence
12. Public asset management	<ol style="list-style-type: none"> <li>1. The Summary Table of State-owned Assets of GAUs and PSUs in FY 2019.</li> <li>2. Statistics of SOEs, Youxian.</li> <li>3. The asset register system of Youxian.</li> <li>4. The Regulation on Disposal of State-owned Assets of Youxian, issued by Youxian People's Government Office on October 20, 2011.</li> <li>5. The Provisional Regulation on Asset Administration and Management in Youxian, issued by Youxian People's Government Office on October 20, 2011.</li> <li>6. The Regulation on the Administration of Reporting on Major Issues of SOEs owned by Youxian, issued by Youxian People's Government Office on May 17, 2015.</li> <li>7. The statement of disposition of assets and summary statement of return on assets in Youxian, issued by State owned assets affairs center which published in, time of access: 2020/1/4 <a href="http://www.You.gov.cn/Yougov/xxgk/fdzdgknr/tzgg/42472723/index.html">http://www.You.gov.cn/Yougov/xxgk/fdzdgknr/tzgg/42472723/index.html</a></li> </ol>
13. Debt management	<ol style="list-style-type: none"> <li>1. The 2014 Budget Law.</li> <li>2. Detailed Rules for the Implementation of Government Debt Management in Youxian.</li> <li>3. Government budget documentation and fiscal reports for FY 2018 and 2019.</li> <li>4. Youxian government debt statistics in FY2018.</li> <li>5. Screenshot of the Debt Management IT system, captured on February 20, 2020.</li> </ol>
14. Macroeconomic and fiscal forecasting	<ol style="list-style-type: none"> <li>1. Interview with the Budget Department of the Youxian Finance Bureau about the process of budget preparation on February 16, 2020.</li> </ol>
17. Budget preparation process	<ol style="list-style-type: none"> <li>1. Notice on Preparation of department budget in 2019, released by Youxian Finance Bureau on 2018/10/30. This document contains detailed budget calendar information.</li> </ol>
18. Legislative scrutiny of budgets	<ol style="list-style-type: none"> <li>1. Annual budget proposals of FY 2016, 2017 and 2018 from the Youxian Finance Bureau, time of access: 2020/6/8: <a href="http://www.hnyx.gov.cn/c5653/index.html">http://www.hnyx.gov.cn/c5653/index.html</a></li> <li>2. Records about the budget proposal reviewing process of the people's Congress for FY 2016, 2017 and 2018.</li> </ol>
19. Revenue administration	NA.
20. Accounting for revenue	<ol style="list-style-type: none"> <li>1. Screenshot of transaction between collecting entities and specialized account, and the transaction and reconciliation record between specialized account and treasury account.</li> </ol>
21. Predictability of in-year resource allocation	<ol style="list-style-type: none"> <li>1. The daily balance report of the STA from the Youxian Branch of the PBOC for three consecutive days in 2019.</li> <li>2. Government budget documentation and fiscal reports, FY 2019.</li> <li>3. Interview with the Treasury Department of the Youxian Finance Bureau, about how many accounts are there and how often these account cash balances are consolidated, on March 18, 2020.</li> <li>4. Daily reconciliation forms of the Youxian financial special account.</li> <li>5. Daily reconciliation forms of the Youxian Treasury.</li> <li>6. The monthly payment schedule of the Youxian Branch of the PBOC.</li> <li>7. Reply from the Finance Bureau to the Budget Department of the Education Bureau (Document No. 3, 2019 of Youxian Finance Bureau).</li> <li>8. The final statement of GPB expenditures, FY 2019.</li> </ol>

Indicators (PEFA 2020 framework)	Evidence
22. Expenditure arrears	<ol style="list-style-type: none"> <li>1. Interviews records of the Payroll Bureau of Youxian, about how to monitoring the expenditure progress of key projects.</li> <li>2. Balance sheets (sample as of November 2019).</li> </ol>
23. Payroll controls	<ol style="list-style-type: none"> <li>1. The Salary Welfare and Retirement Working Manual of Hunan Province, on December 18, 2017.</li> <li>2. The register/ record of examination and approval of wage changes.</li> <li>3. The personnel information system of the Human Resources and Social Security Bureau (including the module for automatic payroll generation), on March 18, 2020.</li> <li>4. The interface operation manual (the original manual has been reviewed by the evaluator, but the paper copy has not been provided for confidentiality), on March 18, 2020.</li> <li>5. The application guide to wage payment matters of the Youxian organs' and units' personnel.</li> <li>6. Preparation of staff change business (screenshot material about how to operate the staff change business in the electronic system); examination and approval form for change situations of organs and units (The form generated by the office after completing the change business through the electronic system, which is distributed to the budget unit as the paper voucher of the staff change).</li> <li>7. Screenshot of the preparation management system of the Government Employees Staff Office, on March 18, 2020.</li> <li>8. Screenshot of the payroll management system, on March 18, 2020.</li> <li>9. The internal control system of the Treasury Centralized Payment Bureau, published on July 23, 2011.</li> <li>10. Document No. 50, 2017 of the Youxian Human Resources and Social Security Bureau, Notice on the implementation of prevention and control of "Ghost staff" in all budget units.</li> <li>11. Changsha Platform for the Comprehensive Management of Information of Administrative Institution Personnel.</li> <li>12. Payroll audit system permissions.</li> <li>13. Youxian Human Resources and Social Security Notice No. 22, 2017, On the specific measures to deal with "Ghost staff" in all budget units.</li> <li>14. Evidence (Statistical table of "Ghost staff" checked by budget unit) in FYs 2016, 2017 and 2018.</li> </ol>
24. Procurement management	<p>24.1:</p> <ul style="list-style-type: none"> <li>▪ The tendering and bidding record for works, goods and services procured in FY 2018 maintained by Important Projects Administration Office under Youxian Development and Reform Bureau.</li> <li>▪ The tendering and bidding record for works, goods and services procured in FY 2018 maintained by Public Resources Transaction Administration Office under Youxian Development and Reform Bureau.</li> <li>▪ The government procurement information statistics maintained by the Government Procurement Administration Office under Youxian Finance Bureau.</li> <li>▪ The local government procurement information statistics management system maintained by Youxian Finance Bureau.</li> <li>▪ The financial integration information system of Hunan (<a href="http://10.104.9.5">http://10.104.9.5</a>).</li> <li>▪ <i>Zhuzhou Prefecture Regulation: Catalogs and Thresholds of Government Procurement in Zhuzhou</i> issued by Zhuzhou Finance Bureau on Feb. 8, 2018</li> </ul>

Indicators (PEFA 2020 framework)	Evidence
24. Procurement management	<p>24.2:</p> <ul style="list-style-type: none"> <li>▪ The tendering and bidding record for works, goods and services procured in FY 2018 maintained by Important Projects Administration Office under Youxian Development and Reform Bureau.</li> <li>▪ The tendering and bidding record for works, goods and services procured in FY 2018 maintained by Public Resources Transaction Administration Office under Youxian Development and Reform Bureau.</li> <li>▪ The government procurement information statistics maintained by the Government Procurement Administration Office under Youxian Finance Bureau.</li> </ul> <p>24.3:</p> <ul style="list-style-type: none"> <li>▪ Website of Hunan Provincial Tendering and Bidding Supervision (<a href="http://www.bidding.hunan.gov.cn">http://www.bidding.hunan.gov.cn</a>, with the new website <a href="http://218.76.24.90/flow">http://218.76.24.90/flow</a> effective from December 9, 2019).</li> <li>▪ Website of Zhuzhou Public Resources Transaction (<a href="http://ggzy.zhuzhou.gov.cn/">http://ggzy.zhuzhou.gov.cn/</a></li> <li>▪ Website of Hunan Provincial Government Procurement (<a href="http://www.ccgp-hunan.gov.cn/">http://www.ccgp-hunan.gov.cn/</a>).</li> <li>▪ The financial integration information system of Hunan (<a href="http://10.104.9.5">http://10.104.9.5</a>).</li> <li>▪ The local government procurement information statistics management system maintained by Youxian Finance Bureau.</li> </ul> <p>24.4</p> <ul style="list-style-type: none"> <li>▪ The Tendering and Bidding Law of the PRC, effective as of January 1, 2000.</li> <li>▪ The implementing regulation for the Tendering and Bidding Law of the PRC issued by the State Council, effective as of March 2, 2019.</li> <li>▪ The Government Procurement Law of the PRC, effective as of January 1, 2003.</li> <li>▪ The implementing regulation for the Government Procurement Law of the PRC issued by the State Council and effective as of March 1, 2015.</li> <li>▪ 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.</li> <li>▪ 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</li> <li>▪ Complaint Handling Procedure and Guidance for Procurement Following Government Procurement Law issued by Hunan Provincial Department of Finance on Aug. 5, 2019</li> </ul>
25. Internal controls on non-salary expenditure	<ol style="list-style-type: none"> <li>1. Payment rules and procedures issued by Youxian Finance Bureau in 2016.</li> <li>2. Sampling records on payment occurred on May, 2019.</li> </ol>
26. Internal audit	<ol style="list-style-type: none"> <li>1. Provisions of the audit office on the work of internal audit.</li> <li>2. The Internal Audit Report of the Education Bureau.</li> <li>3. The Working Guidance for the Internal Audit Section of the Youxian Audit Bureau for the FYs 2017 to 2021.</li> <li>4. Copies of some audit manuscripts of the internal audit work of the sampled bureaus (Education Bureaus, Forestry Bureau internal audit from 2016 to 2019).</li> <li>5. Internal audit work plans of the GAUS (FYs 2016 to 2019).</li> </ol>
27. Financial data integrity	<ol style="list-style-type: none"> <li>1. The internal control system for Youxian Treasury Centralized Payment (reconciliation part), published in August 2011.</li> <li>2. Statement of the Youxian Finance Bureau and Youxian Sub-Treasury for two consecutive months in 2019.</li> </ol>

Indicators (PEFA 2020 framework)	Evidence
27. Financial data integrity	3. Statement of the Youxian Finance Bureau and Treasury Payment for two consecutive months in 2019. 4. Monthly statements on the Treasury Section and special financial accounts of the Youxian Finance Bureau for two consecutive months in 2019. 5. The information security authentication process of the Ministry of Public Security, Certified since 2007.
28. In-year budget reports	1. Monthly reports and quarterly analyses of budget execution in FY 2018.
29. Annual financial reports	1. Budget execution report of Youxian County for FY 2018.
30. External audit	1. The annual audit reports and corresponding audit rectification reports of FYs 2016, 2017 and 2019. 2. Bulletins of the Standing Committee of the People's Congress of Youxian for FYs 2016, 2017 and 2019 (September 11, 2017; December 3, 2019; November 4, 2019). 3. Reports on budget implementation and other financial revenue and expenditure audit reports for FYs 2016, 2017 and 2018. 4. Lists of participants of the meetings of the Standing Committee of the County People's Congress.
31. Legislative scrutiny of audit reports	1. Notice of the People's Congress on the review of audit reports, including the list of representatives from audited entities of 2016, 2017 and 2018. 2. The scrutiny record of the People's Congress, as well as recommendations of remediation, time of access: 2020/6/8: <a href="http://www.hnyx.gov.cn/c8868/20171123/i584683.html">http://www.hnyx.gov.cn/c8868/20171123/i584683.html</a> .

## Annex 5. List of persons interviewed

Name	Position	Institution	Telephone
Rong Huang	Director	Youxian People's Congress, Finance Committee	17773329188
Aiwu Wang	Chief accountant	Youxian Finance Bureau	13974199090
Xiangqing He	Deputy director	Youxian Finance Bureau	13974113606
Chengfeng Xie	Clerk	Youxian Finance Bureau	15197369799
Daping Cheng	Section chief	Youxian Finance Bureau, Budget Section	13874117295
Yunhua Liu	Section chief	Youxian Finance Bureau, Budget Section	13974160127
Zhanyou Wang	Section chief	Youxian Finance Bureau, Treasury Department	13974113280
LJianwu Li	Section chief	Youxian Finance Bureau, Payment Center	13974106916
Zhijia He	Section chief	Youxian Finance Bureau, Economic Construction Section	13347336328
Linghong Liu	Section chief	Youxian Finance Bureau, Science, Education and Culture Section	13874125311
Zhanming Liu	Section chief	Youxian Finance Bureau, International Trade Section	13974109638
Xianghua Peng	Section chief	Youxian Finance Bureau, Key Project Management Center	13974187167
Min Huang	Director	Youxian Finance Bureau, Government Procurement Center	13762317999
Renzan Hu	Section chief	Youxian Finance Bureau, Social Security Department	13974162693
Jian Ouyang	Deputy section chief	Youxian Finance Bureau, Municipal Financial Affairs Center	13807417801
Jingyun Yi	Deputy director	Youxian Finance Bureau, Performance Management Center	18873317999
Xiaohua Cai	Deputy director	Youxian Finance Bureau, Information Center	18873317231
Qian Li	Deputy director	Youxian Finance Bureau, Financial Debt Section	15974261311
Xi Luo	Deputy director	Youxian Finance Bureau, Non tax Income Center	13467336142
Yuehua Liu	Director	Youxian Finance Bureau, Construction Review Center	14789438188
Xinrong Chen	Deputy director	Youxian Finance Bureau, Accounting Section	13974113928
Xiaoying Shan	Deputy director	Youxian Finance Bureau, Foreign Handling Section	13574273056
Yanrong Xia	Clerk	Youxian Finance Bureau, Foreign Handling Section	13974132652
Zhenggang Hu	Deputy director	Youxian DRB	131073333888
Zhengwu Tan	Clerk	Youxian DRB	18274271533
Jingshuang Wang	Chief auditor	Youxian Audit Bureau	17373388668
Yunnan Zhu	Section chief	Youxian Audit Bureau	15974386667
Qi Zhang	Section chief	Youxian Audit Bureau	13874102727



## 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: Million RMB**

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Non-earmarked grants</b>						
Income tax rebate		13.98				
VAT rebate		41.75				
Income from excise tax rebate						
Income from VAT 50:50 sharing rebate						
Other tax rebate		52.08				
Institutional adjustment subsidies						
Equalization transfer		147.57				
Awarding transfer under basic financial support mechanism for counties		128.13				
Settlement subsidies		46.39				
Subsidies for budget-level adjustment of enterprises and institutions		4.87				
Fixed amount subsidies		189.14				
Transfers for old revolutionary base areas		18.67				
Transfers for poor areas						
Other general transfers		15.52				
Total non-earmarked grants		658.10				
<b>Earmarked grants</b>						
Tax rebate for fuel tax reform		12.29				
Transfer for resource exhausted cities						
Transfers for Public Security, Prosecution and Legal Department		10.48				
Transfers for compulsory education		87.24				
Transfers for basic old-age insurance		230.77				
Transfers for urban and rural basic medical insurance		272.79				
Transfer for rural comprehensive reform		29.69				
Rewarding fund for large grain (oil) producing counties		40.78				
Transfer for key ecological functional areas						
Special transfers		1129.33				
Total Grants	1255.33	2471.47		2471.47	2471.47	
<b>Outturn as percentage of budget</b>					<b>196.9%</b>	
<b>Composition variance</b>					<b>NA</b>	

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

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

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Non-earmarked grants</b>						
Income tax rebate		13.98				
VAT rebate		41.42				
Income from excise tax rebate		0.33				
Income from VAT 50:50 sharing rebate		4.77				
Other tax rebate		44.68				
Institutional adjustment subsidies						
Equalization transfer		214.54				
Awarding transfer under basic financial support mechanism for counties		95.25				
Settlement subsidies		43.77				
Subsidies for budget-level adjustment of enterprises and institutions		4.87				
Fixed amount subsidies		171.06				
Transfers for old revolutionary base areas		10.35				
Transfers for poor areas		15.70				
Other general transfers		51.91				
Total non-earmarked grants		712.63				
<b>Earmarked grants</b>						
Tax rebate for fuel tax reform		12.29				
Transfer for resource exhausted cities		2.80				
Transfers for Public Security, Prosecution and legal department		13.77				
Transfers for compulsory education		83.00				
Transfers for basic old-age insurance		289.76				
Transfers for urban and rural basic medical insurance		267.49				
Transfers for rural comprehensive reform		21.67				
Rewarding fund for large grain (oil) producing counties		41.38				
Transfers for key ecological functional areas						
Special transfers		1115.19				
Total Grants	1436.28	1854.48		2559.98	2559.98	
<b>Outturn as percentage of budget</b>						<b>129.1%</b>
<b>Composition variance</b>						<b>NA</b>

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

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

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Non-earmarked grants</b>						
Income tax rebate		13.98				
VAT rebate		41.42				
Income from excise tax rebate		0.33				
Income from VAT 50:50 sharing rebate		4.77				
Other tax rebate		44.68				
Institutional adjustment subsidies						
Equalization transfer		227.92				
Awarding transfer under basic financial support mechanism for counties		39.03				
Settlement subsidies		42.22				
Subsidies for budget-level adjustment of enterprises and institutions		4.87				
Fixed amount subsidies		191.56				
Transfers for old revolutionary base areas		13.30				
Transfers for poor areas		27.58				
Other general transfers		185.09				
Total non-earmarked grants		836.75				
<b>Earmarked grants</b>						
Tax rebate for fuel tax reform		12.29				
Transfer for resource exhausted cities		4.80				
Transfers for Public Security, Prosecution and legal department		7.72				
Transfers for compulsory education		108.91				
Transfers for basic old-age insurance		324.33				
Transfers for urban and rural basic medical insurance		271.14				
Transfer for rural comprehensive reform		18.85				
Rewarding fund for large grain (oil) producing counties		43.67				
Transfer for key ecological functional areas						
Special transfers		1027.05				
Total Grants	1522.49	2655.51		2655.51	2655.51	
<b>Outturn as percentage of budget</b>						<b>174.4%</b>
<b>Composition variance</b>						<b>NA</b>

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

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

Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public service expenditure	196.51	375.68	296.10	79.58	79.58	26.9%
Defense expenditure	2.25	3.49	3.39	0.10	0.10	2.9%
Public security expenditures	114.03	191.19	171.82	19.37	19.37	11.3%
Expenditures on education	459.64	682.56	692.59	-10.03	10.03	1.4%
Expenditures on science and technology	43.43	18.77	65.44	-46.67	46.67	71.3%
Cultural Sports and media expenditure	16.40	192.10	24.71	167.39	167.39	677.4%
Social security and employment expenditure	613.25	661.42	924.05	-262.63	262.63	28.4%
Health and family planning expenditure	407.14	541.62	613.48	-71.86	71.86	11.7%
Energy saving and environmental protection expenditure	6.29	85.37	9.48	75.89	75.89	800.7%
Urban and rural community expenditure	121.85	990.67	183.60	807.07	807.07	439.6%
Agricultural, forestry and water expenditure	215.03	711.85	324.01	387.84	387.84	119.7%
Transportation expenditure	12.12	95.15	18.26	76.89	76.89	421.0%
Expenditure for resources exploration information	16.91	185.66	25.48	160.18	160.18	628.6%
Business services and other expenditures	5.78	29.59	8.71	20.88	20.88	239.8%
Financial expenditure	0.00	0.37	0.00	0.37	0.37	0.0%
Expenditure on land, ocean and meteorology	10.46	24.90	15.76	9.14	9.14	58.0%
Housing security expenditure	11.00	130.06	16.57	113.49	113.49	684.7%
Expenditure on stockpiling grain	3.01	15.46	4.54	10.92	10.92	240.9%
Other GPB expenditure	1029.90	13.95	1551.86	-1537.91	1537.91	99.1%
Allocated expenditure	3285.00	4949.86	4949.86	0.00	3858.20	77.9%
Interests	0.00	24.13				
Contingency	20.00	0.00				
Total expenditure	3305.00	4973.99				
<b>Aggregate outturn, as percentage of budget (PI-1)</b>						<b>150.5%</b>
<b>Composition (PI-2) variance</b>						<b>77.9%</b>
<b>Contingency share of budget</b>						<b>0.61%</b>

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

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

Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public service expenditure	298.88	430.52	448.96	-18.44	18.44	4.1%
Defense Expenditure	3.50	5.05	5.26	-0.21	0.21	3.9%
Public security expenditures	123.21	228.81	185.08	43.73	43.73	23.6%
Expenditures on education	492.44	625.33	739.71	-114.38	114.38	15.5%
Expenditures on science and technology	43.01	78.45	64.61	13.84	13.84	21.4%
Cultural Sports and media expenditure	18.35	184.64	27.56	157.08	157.08	569.9%
Social security and employment expenditure	731.87	886.40	1099.37	-212.97	212.97	19.4%
Health and family planning expenditure	505.79	584.10	759.76	-175.66	175.66	23.1%
Energy saving and environmental protection expenditure	13.73	61.98	20.62	41.36	41.36	200.5%
Urban and rural community expenditure	139.38	641.54	209.37	432.17	432.17	206.4%
Agricultural, forestry and water expenditure	329.02	814.53	494.23	320.30	320.30	64.8%
Transportation expenditure	24.08	101.98	36.17	65.81	65.81	181.9%
Expenditure for resources exploration information	18.35	104.38	27.56	76.82	76.82	278.7%
Business services and other expenditures	7.77	37.91	11.67	26.24	26.24	224.8%
Financial expenditure	0.00	0.38	0.00	0.38	0.38	0.0%
Expenditure on land, ocean and meteorology	10.52	48.27	15.80	32.47	32.47	205.5%
Housing security expenditure	67.50	96.04	101.39	-5.35	5.35	5.3%
Expenditure on stockpiling grain	0.00	9.15	0.00	9.15	9.15	0.0%
Other GPB expenditure	475.90	22.54	714.87	-692.33	692.33	96.8%
Allocated expenditure	3303.30	4962.00	4962.00	0.00	2438.68	49.1%
Interests	0.00	92.90				
Contingency	20.00	0.00				
Total expenditure	3323.30	5054.90				
<b>Aggregate outturn, as percentage of budget (PI-1)</b>						<b>152.1%</b>
<b>Composition (PI-2) variance</b>						<b>49.1%</b>
<b>Contingency share of budget</b>						<b>0.60%</b>

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

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

Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public service expenditure	320.71	430.53	488.98	-58.45	58.45	12.0%
Defense expenditure	3.50	4.18	5.34	-1.16	1.16	21.7%
Public security expenditures	107.92	164.75	164.54	0.21	0.21	0.1%
Expenditures on education	566.04	596.91	863.04	-266.13	266.13	30.8%
Expenditures on science and technology	43.67	132.58	66.58	66.00	66.00	99.1%
Cultural Sports and media expenditure	21.69	33.35	33.07	0.28	0.28	0.8%
Social security and employment expenditure	805.59	901.77	1228.28	-326.51	326.51	26.6%
Health and family planning expenditure	531.27	557.80	810.02	-252.22	252.22	31.1%
Energy saving and environmental protection expenditure	26.93	71.22	41.06	30.16	30.16	73.5%
Urban and rural community expenditure	131.58	1077.34	200.62	876.72	876.72	437.0%
Agricultural, forestry and water expenditure	364.86	706.03	556.30	149.73	149.73	26.9%
Transportation expenditure	27.54	101.70	41.99	59.71	59.71	142.2%
Expenditure for resources exploration information	25.57	93.61	38.99	54.62	54.62	140.1%
Business services and other expenditures	7.89	20.55	12.03	8.52	8.52	70.8%
Financial expenditure	0.00	0.72	0.00	0.72	0.72	0.0%
Expenditure on land, ocean and meteorology	13.14	36.16	20.03	16.13	16.13	80.5%
Housing security expenditure	67.50	129.74	102.92	26.82	26.82	26.1%
Expenditure on stockpiling grain	0.00	6.32	0.00	6.32	6.32	0.0%
Other GPB expenditure	269.10	18.83	410.29	-391.46	391.46	95.4%
Allocated expenditure	3334.50	5084.09	5084.09	0.00	2591.87	51.0%
Interests	0.00	121.61				
Contingency	20.00	0.00				
Total expenditure	3354.50	5205.70				
<b>Aggregate outturn, as percentage of budget (PI-1)</b>						<b>155.2%</b>
<b>Composition (PI-2) variance</b>						<b>51.0%</b>
<b>Contingency share of budget</b>						<b>0.60%</b>

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

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

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Tax revenues</b>						
VAT	95.25	125.08	98.71	26.37	26.37	26.7%
Business tax	154.35	105.13	159.95	-54.82	54.82	34.3%
Corporate income tax	45.64	37.73	47.30	-9.57	9.57	20.2%
Corporate income tax refund						
Individual income tax	18.20	11.57	18.86	-7.29	7.29	38.7%
Resource tax	29.70	20.16	30.78	-10.62	10.62	34.5%
City maintenance and construction tax	33.00	31.16	34.20	-3.04	3.04	8.9%
Property tax	14.00	29.76	14.51	15.25	15.25	105.1%
Stamp duty	6.00	7.73	6.22	1.51	1.51	24.3%
Urban land use tax	7.00	11.84	7.25	4.59	4.59	63.2%
Land appreciation tax	55.00	41.66	57.00	-15.34	15.34	26.9%
Vehicle and vessel tax	11.60	11.38	12.02	-0.64	0.64	5.3%
Farmland conversion tax	40.00	29.74	41.45	-11.71	11.71	28.3%
Deed tax	70.00	88.10	72.54	15.56	15.56	21.5%
Tobacco taxes						
Other tax revenue						
<b>Social contributions</b>						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
<b>Grants</b>						
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	
<b>Other revenue</b>						
Special Revenue	27.00	44.81	27.98	16.83	16.83	60.2%
Income from administrative fees	119.00	129.33	123.32	6.01	6.01	4.9%
Fines, penalties and forfeits	55.00	57.38	57.00	0.38	0.38	0.7%
Income from state capital operation						
Income from paid use of state-owned resources (assets)	1000.00	1122.60	1036.28	86.32	86.32	8.3%
Other Revenue	349.00	48.19	361.66	-313.47	313.47	86.7%
<b>Government fund revenue</b>						
Additional revenue of urban public utilities		4.36		4.36	4.36	
Agricultural land development fund revenue		3.00		3.00	3.00	
Revenue from transfer of state-owned land use right		248.83		248.83	248.83	
Revenue from other government funds	3.00	0.57	3.11	-2.54	2.54	81.7%
Total revenue	2132.74	2210.11	2210.11	0.00	858.05	
<b>Overall variance against budget</b>						<b>103.6%</b>
<b>Composition variance against adjusted budget</b>						<b>38.8%</b>

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

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

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Tax revenues</b>						
VAT	195.00	239.66	216.62	23.04	23.04	10.6%
Corporate income tax	52.92	46.80	58.79	-11.99	11.99	20.4%
Individual income tax	15.40	17.86	17.11	0.75	0.75	4.4%
Resource tax	25.95	13.88	28.83	-14.95	14.95	51.9%
City maintenance and construction tax	38.00	30.85	42.21	-11.36	11.36	26.9%
Property tax	36.00	28.56	39.99	-11.43	11.43	28.6%
Stamp duty	10.00	14.67	11.11	3.56	3.56	32.1%
Urban Land Use tax	14.70	22.19	16.33	5.86	5.86	35.9%
Land appreciation tax	50.00	120.17	55.54	64.63	64.63	116.3%
Vehicle and Vessel tax	13.40	13.94	14.89	-0.95	0.95	6.4%
Farmland conversion tax	34.00	21.22	37.77	-16.55	16.55	43.8%
Deed tax	93.00	112.12	103.31	8.81	8.81	8.5%
Other tax revenue						
<b>Social contributions</b>						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
<b>Grants</b>						
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	
<b>Other revenue</b>						
Special Revenue	32.00	43.22	35.55	7.67	7.67	21.6%
Income from administrative fees	150.00	130.80	166.63	-35.83	35.83	21.5%
Fines, penalties and forfeits	55.00	88.69	61.10	27.59	27.59	45.2%
Income from state capital operation						
Income from paid use of state-owned resources (assets)	1200.00	998.01	1333.07	-335.06	335.06	25.1%
Other Revenue	34.00	43.14	37.77	5.37	5.37	14.2%
<b>Government fund revenue</b>						
Special fund revenue of new wall materials	0.30		0.33	-0.33	0.33	100.0%
Additional revenue of urban public utilities	4.00	1.50	4.44	-2.94	2.94	66.2%
Agricultural land development fund revenue	1.00		1.11	-1.11	1.11	100.0%
Revenue from transfer of state-owned land use right		292.11		292.11	292.11	
Other government fund revenue		3.12		3.12	3.12	
Total revenue	2054.67	2282.51	2282.51	0.00	885.01	
<b>Overall variance against budget</b>						<b>111.1%</b>
<b>Composition variance against adjusted budget</b>						<b>38.8%</b>

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



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

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Tax revenues</b>						
VAT	270.00	280.77	355.17	-74.40	74.40	20.9%
Corporate income tax	60.48	59.31	79.56	-20.25	20.25	25.5%
Individual income tax	20.44	21.89	26.89	-5.00	5.00	18.6%
Resource tax	24.75	22.64	32.56	-9.92	9.92	30.5%
City maintenance and construction tax	39.80	39.71	52.35	-12.64	12.64	24.2%
Property tax	36.30	20.02	47.75	-27.73	27.73	58.1%
Stamp duty	18.70	10.03	24.60	-14.57	14.57	59.2%
Urban Land Use tax	23.80	15.78	31.31	-15.53	15.53	49.6%
Land appreciation tax	111.00	99.51	146.01	-46.50	46.50	31.8%
Vehicle and Vessel tax	17.20	21.69	22.63	-0.94	0.94	4.1%
Farmland conversion tax	27.00	21.90	35.52	-13.62	13.62	38.3%
Deed tax	116.00	95.83	152.59	-56.76	56.76	37.2%
Tobacco taxes						
Environmental protection tax	14.00	6.13	18.42	-12.29	12.29	66.7%
Other tax revenue						
<b>Social contributions</b>						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
<b>Grants</b>						
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	
<b>Other revenue</b>						
Special Revenue	35.00	53.85	46.04	7.81	7.81	17.0%
Income from administrative fees	140.00	111.76	184.16	-72.40	72.40	39.3%
Fines, penalties and forfeits	60.00	91.49	78.93	12.56	12.56	15.9%
Income from state capital operation						
Income from paid use of state-owned resources (assets)	990.00	308.35	1302.29	-993.94	993.94	76.3%
Other Revenue	60.00	24.56	78.93	-54.37	54.37	68.9%
<b>Government fund revenue</b>						
Agricultural land development fund revenue	1.50	1.00	1.97	-0.97	0.97	49.3%
Revenue from transfer of state-owned land use right		1411.80		1411.80	1411.80	
Urban infrastructure supporting fee revenue						
Sewage treatment fee revenue	3.00	3.60	3.95	-0.35	0.35	8.8%
Other government fund revenue						
Total revenue	2068.97	2721.62	2721.62	0.00	2864.35	
<b>Overall variance against budget</b>						<b>131.5%</b>
<b>Composition variance against adjusted budget</b>						<b>105.2%</b>

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

## Annex 7. Fiscal risks of main PCs

PCs can bear the fiscal risks for the Youxian County Government. This PEFA assessment evaluates the quality of fiscal risk monitoring associated with PCs under dimension PI-10.1. The assessment is anchored to the financial reports of the PCs - and determines whether they are submitted to the Government in a timely fashion, are disclosed to the public, and are audited. China laws and regulations require that SOEs operate on a commercial basis and produce goods and services at market prices. The government has no legislative obligation to bail out any SOE. However, some PCs, in particular those tagged as LGFV that have been undertaking quasi-governmental activities, can present significant fiscal risks for the county government.

This annex complements the PEFA assessment and contributes to the analysis of the potential risks posed by LGFVs by assessing (i) the size of their operation, as compared with the government budget, (ii) their debt recording and reporting, and (iii) the monitoring of the major investment projects they sponsor. The assessment is based on the PEFA dimensions and requirements.

The Youxian Government confirmed that there were still two LGFV operating at the end of 2018 – Youzhou Investment Group and Youzhou State-owned Assets Investment Group, which are in the process of transformation toward commercial entities. Others were either merged into these three LGFVs or transformed to commercial SOEs. Table A1 provides the key information of the three LGFVs. Even though they are not allowed to borrow on behalf of the county government, their financing is closely monitored by the Youxian FB. The Youxian FB also extends its monitoring to select PCs that are not known as LGFVs.

**Table A7.1: Summary of Youxian LGFVs**

Name of PC	Main activities	Share owned by Youxian Government (%)	Assets (RMB million)	Stock of debt (RMB million)
Youzhou Investment Group	Hotel Management; nursing services, elderly and disabled care services, sanatorium; real estate development and operation; tap water supply; electricity sales; gas sales; advertising design, production, release, agency services; bidding consultation and agency services; planning and design management; engineering survey and design; housing construction; civil engineering construction; architectural decoration; decoration and other construction industries ; building materials sales and other services.	92.5%	11887.15	5554.92
PCs Affiliated to Youzhou Investment Group:				
State owned assets investment Youxian Taicheng investment and Construction Co., Ltd	Investment in urban construction projects and other industries permitted by other countries; infrastructure investment, construction, management and supporting services; engineering construction, land development, urbanization construction; financial consulting services; advertising design, production and release.	100%	1579.51	1024.81

Name of PC	Main activities	Share owned by Youxian Government (%)	Assets (RMB million)	Stock of debt (RMB million)
Youxian Huachang Public Transport Co., Ltd	Maintenance of urban public transport passenger transport and class II motor vehicles (large and medium-sized passenger transport maintenance).	100%	10.97	15.67
Hunan Taiwang Real Estate Development Co., Ltd	Real estate development and operation; housing construction; housing construction engineering design service; architectural decoration; real estate intermediary service; property management; building materials wholesale and retail.	100%	9.67	0
Youxian Kaiyuan Investment Co., Ltd	Real estate development and operation, urban development and construction, urban infrastructure, supporting project investment and development services, industrial investment, economic information, investment consulting services.	100%	62.54	7.8
Youxian Taihong Municipal Construction Co., Ltd	Water source and water supply facilities engineering construction, pipeline engineering construction, industrial and mining engineering construction, stringing and equipment installation, pipeline and equipment installation, building decoration, landscaping engineering services, construction steel structure engineering installation services, earthwork engineering services.	100%	30.69	13.78
Youxian Taimin water Co., Ltd	Tap water production and supply, pure water production and sales, water meter calibration, maintenance, pipeline installation and maintenance, plumbing equipment, building materials, hardware products, water dispensers, ceramic products wholesale and retail.	100%	279.07	7.6
Kangtai health pension Co., Ltd	Maintenance services for the elderly and the disabled; adoption and asylum services for orphans and disabled children; sanatorium; hospice care services; retail of daily necessities and food and sales of medical devices, rubber products and plastic products; telephone call services; organization and planning of cultural activities; health management; mental rehabilitation services; health consulting services; enterprise management consulting services; catering services; home Political services.	100%	145.84	107.1
Youxian Hongtai Hotel Co., Ltd	Hotel services, catering services, KTV services, conference services, daily necessities, food, tobacco and wine sales.	100%	30.69	13.78

Name of PC	Main activities	Share owned by Youxian Government (%)	Assets (RMB million)	Stock of debt (RMB million)
Youxian urban construction and Development Co., Ltd	To be engaged in the transformation of shantytowns within the urban area and the investment of public infrastructure within the transformation area.	100%	2294.08	1880.24
Youxian Market Construction Co., Ltd	Professional market development and operation; market management	100%	2638.87	1540.58
Youzhou State-owned Assets Investment Group	State owned assets management, investment project management, investment attraction management, land development service, urbanization construction, infrastructure investment construction, management and supporting services, municipal engineering design, municipal roads and engineering construction, earthwork engineering construction, stringing and pipeline engineering construction, housing construction, other civil engineering construction, wholesale of mineral products, building materials and chemical products.	100%	4300.55	2730.30
PCs Affiliated to Youzhou State-owned Assets Investment Group:				
Youxian Industrial Development Investment Co., Ltd	Asset management, project investment and management, land development, real estate development, management and supporting services, municipal engineering design, municipal road engineering construction, earthwork engineering construction, stringing and pipeline engineering construction, housing construction, other civil engineering construction, enterprise owned house rental services, power sales, heat supply, water supply.	100%	3517.83	1231.34
Youxian boshco water Co., Ltd	Tap water production and supply, drinking water manufacturing, sewage treatment and recycling, pipeline engineering construction, water treatment equipment sales, water treatment equipment installation, municipal engineering design services, environmental protection engineering design services, environmental protection engineering construction, water treatment technical consulting services, engineering technical consulting services, environmental protection technical consulting services.	20%	137.08	105.31
Youxian Lanyu environmental protection energy technology development Co., Ltd	Environmental protection and energy saving technology promotion service, coal water slurry R & D, production, sales, thermal production and supply, energy contract management	38%	37.91	8.14
<b>Total</b>			<b>26962.45</b>	<b>14241.37</b>

Data source: Youxian 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 a PCs' operation, the higher potential risk they present to the government. The indicator contains two dimensions.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-6. PC operations outside financial reports (M2)</b>		<b>D</b>
<b>6.1 Expenditure outside financial reports</b>	Total gross expenditure of the two LGFVs in Youxian exceeds 10 percent of BG's expenditure.	D
<b>6.2 Revenue outside financial reports</b>	Total gross revenues of the two LGFVs in Youxian 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 caution, 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 two LGFVs in Youxian amounted to RMB 3682.17 million in 2018, equivalent to 70.73 percent of the BG's total expenditures. Score D.

### PI-6.2 Revenue outside financial reports

Total gross revenues of the two LGFVs in Youxian amounted to RMB 3239.93 million in 2018, equivalent to 119.04 percent of the BG's total revenues. Score D.

**Table A7.2: Youxian LGFVs' operations out of the BG financial report, million RMB**

	Amount	As % of BG
<b>Revenue</b>	3,239.93	119.04%
Youzhou Investment Group	3,080.61	
Youzhou State-owned Assets Investment Group	159.32	
<b>Expenditures</b>	3,682.17	
Youzhou Investment Group	3,296.79	70.73%
Youzhou State-owned Assets Investment Group	385.38	

### 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 the 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
<b>11.4. Investment project monitoring</b>	The MIPO monitors the total cost and physical progress monthly. Information on implementation of major investment projects is prepared monthly.	C

The management method and monitoring procedures for major investment projects taken by LGFVs are same as these for other governmental investment projects.

There is a MIPO (Major Investment Project Office) set in Youxian DRB, with its routine task of coordinating different parties during major investment projects implementation, such as handling disputes, coordinating fund allocation and other coordination functions. As of 2018, the MIPO is responsible for investment project monitoring and preparing monthly reports on cost and physical progress. These reports however are not published.

Moreover, there is an intranet named Management Platform for Major Investment Project of Hunan Province recording the information on total cost and physical progress for each project.

Based on the evidence, the score for this dimension is C.

### PI-13.1 Recording and reporting of debt management

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
<b>13.1. Recording and reporting of debt and guarantees</b>	Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly and submitted to the government executive and provincial MoF. The Youxian Finance Bureau pre-reviews and monitor each transaction of the LGFVs, though LGFVs obtain financial management autonomy nominally after the transformation since 2018.	A

The Youxian LGFVs report on all their public-benefit investment projects, their financing, borrowing, outstanding debt, amortization and interest payment to the City Finance Bureau. These data are updated every month. Based on the provided evidence, the score for this dimension is A.

**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 city (Y/N)
Youxian YID	Y	M	Y	M / All	M	Y	Monthly
Youxian SOAI	Y	M	Y	M / All	M	Y	Monthly







Hunan Finance  
Department



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