



Hunan Finance
Department



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CHINA

LIUYANG CITY, HUNAN PROVINCE

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA)
PERFORMANCE ASSESSMENT REPORT



Hunan Finance
Department



World Bank Group

Liuyang City
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 Liuyang City for their cooperation, and the peer reviewers and PEFA Secretariat for their guidance. A substantial number of Liuyang 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 Liuyang City 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 – Liuyang city

Public Expenditure and Financial Accountability (PEFA) Performance
Assessment Report

Based on the 2020 Subnational PEFA methodology

Version of June 8, 2020

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
July 3, 2020

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ABBREVIATIONS AND ACRONYMS

AFS	Annual Financial Statements
CAFS	China Academy of Fiscal Sciences
CG	Central Government
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
EBU	Extrabudgetary Unit
FY	Fiscal Year
GAU	Government Administrative Unit
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GFB	Government Fund Budget
GPB	General Public Budget
HLG	Higher-Level Government
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
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 city of Liuyang, 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 the design of 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 Liuyang City can be measured.

The assessment covers the city of Liuyang, 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 in Liuyang City, the social security fund is managed separately from the core budget system—general public budget and government fund budget, and thus is classified as extrabudgetary operation in this assessment. Following China’s legislative classification, state owned enterprise (SOE) is assessed as a public corporation. China laws and regulations prohibit any SOE including local government financing vehicles (LGFV) from financing government investment projects, on behalf of the government. LGFVs that have been undertaking quasi-fiscal operations are required to be transformed into commercial entities, operating according to market rules, producing goods and services at market price and bearing risks on their own. The government does not have 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 Liuyang. At the time of assessment, there were two LGFVs in Liuyang that are still in the process of transformation to commercial entities.

The field work for the assessment was undertaken from December 8 to 14, 2019, with a follow-up mission from January 14 to 17, 2020. 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 Liuyang perform well in budget execution, budget reporting and internal control. The main weaknesses pertain to budget reliability, medium-term budgeting, transparency, fiscal risk control and legislative scrutiny. The context in which Liuyang sets its budget is important. Liuyang generally complies to the PFM practices mandated by the central and provincial governments.

Fiscal discipline

The budget fails to impose much fiscal discipline in Liuyang. The variation between outturn and budget estimates for both aggregate expenditure (PI-1.1) and expenditure composition (PI-2.1) is rated D, and there are significant budget adjustments for expenditures with information shortage (PI-21.4, rated D) within the fiscal year. The main factor is the lack of predictability of higher-level government (HLG) transfers (HLG-1, rated D+) and land revenues (PI-3, rated D+). The in-year resource allocation is frequent and unpredictable (PI-21, rated C+), and monitoring of expenditure arrears is missing (PI-22.2, rated D).

Effective control over expenditures by budgetary units helps to maintain fiscal discipline. All government operations are included in financial reports (PI-6, rated A). Liuyang made an effort in cash management,

including the consolidation of cash balances (scored A) and cash forecasting and monitoring (scored B). Payroll control is effectively 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 of non-salary expenditure (PI-25, rated B+) and an internal audit system (PI-26, rated B+) have ensured strict control over spending during budget execution. Moreover, there is good reporting and recording of debt (PI-13.1, rated C) and contingent liabilities (PI-10.3, rated A).

Liuyang City recognizes the role of enhanced management over SOEs to the success of imposing fiscal discipline. It has taken the initiative to establish a double-control system to enhance scrutiny of the financial transactions and operations of a broad range of SOEs, including local government financing vehicles (LGFVs). The system has enhanced the government's monitoring of contingent liabilities. However, there is no evidence that the Liuyang Finance Bureau makes use of this information to assess the implication that the financial performance of public corporations (PCs) has for fiscal sustainability, or to impose discipline on aggregate public investment.

Strategic allocation of resources

The main PEFA indicator concerned with medium-term budget strategy (PI-14) is rated C. During budget preparation, estimates are provided for revenues, expenditures and transfers, but no forecasts are contained based on macroeconomic or demographic indicators. In addition, costing information of major investment projects is not included in the budget documents (PI-11.3, rated D).

The oversight arrangements, with respect to the budget preparation process and legislative scrutiny of the budget, are assessed as reasonable (PI-17, rated B and PI-18, rated C+).

Other indicators that relate to the strategic allocation of resources are rated at a satisfactory level. Clear rules for prioritizing major investments are in place (PI-11.2, rated A). Budget documentation (PI-5, rated C) meets all basic requirements, though economic classification is not fully adopted in the budget accounting (PI-4, D).

Efficient use of resources for service delivery

The PFM systems of Liuyang encourage the efficient use of resources for service delivery. While the share of budgetary units that publish performance targets is not high (PI-8.1, C), they conduct performance evaluation regularly (PI-8.4, C), and they report on available resources (PI-8.3, A). However, both low budget reliability and predictability of in-year resource allocation (PI-21, C+) adversely affect the capacity of service delivery units to make efficient use of resources.

Required mechanisms are in place to reduce the possible leakage of funds, such as the asset management system (PI-12, B) and internal controls on payroll (PI-23, B+) and non-salary expenditure (PI-25, B+). With regard to procurement management, strong monitoring exists for big value contracts – to which mostly competitive bidding methods are applied. However, no monitoring takes place for small-value contracts (PI-24.1, D*) and procurement methods in general (PI-24.2, D*). Information disclosure is reasonable (PI-24.3, C), and the complaint solving regime sound (PI-24.4, A).

The ratings of the existing oversight arrangements are mixed (C+ for PI-30 and B for PI-31). Audit coverage is high, and audit reports are submitted to the People's Congress within nine months. The required follow-up actions are taken by the respective entities effectively and timely. However, the audit reports and hearings are

not accessible to the public.

In summary, the Liuyang PFM system performs well given the context in which it operates. With the right regulatory framework set by the central and provincial government, there is great potential for improvement.

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

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

The reforms that are currently being pushed by the Central Government (CG), and fully embraced by Hunan Province, provide a good opportunity and foundation for the 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	
SNG PILLAR: Intergovernmental fiscal relations							
HLG-1	Transfers from an HLG	M2	D	D	A	D	D+
HLG-2	Fiscal rules and monitoring of fiscal position	M1					NU
Pillar One: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	D				D
PI-2	Expenditure composition outturn	M1	D	NA	A		D+
PI-3	Revenue outturn	M2	C	D			D+
Pillar Two: Transparency of public finances							
PI-4	Budget classification	M1	D				D
PI-5	Budget documentation	M1	C				C
PI-6	SNG operations outside financial reports	M2	A	A	A		A
PI-7	Transfers to subnational governments (SNGs)	M2					NA

PFM PERFORMANCE INDICATOR (PI)		SCORING METHOD	DIMENSION RATINGS				OVERALL RATING
			i	ii	iii	iv	
PI-8	Performance information for service delivery	M2	C	B	A	C	B
PI-9	Public access to fiscal information	M1	D				D
PI-9bis	SNG public consultation	M2					NU
Pillar Three: Management of Assets and Liabilities							
PI-10	Fiscal risk reporting	M2	B	NA	A		B+
PI-11	Public investment management	M2	C	A	D	C	C+
PI-12	Public asset management	M2	B	C	A		B
PI-13	Debt management	M2	C	A	D		C+
Pillar Four: Policy-based fiscal strategy and budgeting							
PI-14	Medium-term budget strategy	M2	C	D	D	NA	D+
PI-15	Fiscal strategy	M2					NU
PI-16	Medium-term perspective in expenditure budgeting	M2					NU
PI-17	Budget preparation process	M2	A	B	D		B
PI-18	Parliamentary scrutiny of budgets	M1	B	B	C	C	C+
Pillar Five: Predictability and control in budget execution							
PI-19	Revenue administration	M2					NA
PI-20	Accounting for revenue	M1	A	A	NA		A
PI-21	Predictability of in-year resource allocation	M2	A	B	D	D	C+
PI-22	Expenditure arrears	M1	D*	D			D
PI-23	Payroll controls	M1	A	A	A	B	B+
PI-24	Procurement management	M2	D*	D*	C	A	C
PI-25	Internal controls on non-salary expenditure	M2	A	C	A		B+
PI-26	Internal audit	M1	A	B	A	A	B+
Pillar Six: Accounting and reporting							
PI-27	Financial data integrity	M2	A	NA	NA	A	A
PI-28	In-year budget reports	M1	A	B	B		B+
PI-29	Annual financial reports	M1	C	A	D		D+
Pillar Seven: External scrutiny and audit							
PI-30	External audit	M1	A	C	A	B	C+
PI-31	Parliamentary scrutiny of audit reports	M2	A	C	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 also had a longstanding relationship with the World Bank in this area, and is currently engaging with the World Bank to design and implement a Program-for-Results lending operation, to support a reform program for the improvement of PFM in the Province.

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

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

1.2 Assessment management, oversight and quality assurance

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

Table 1.1: Assessment management, oversight and quality assurance arrangements

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

Huang Weixiong, Mayor, Pingjiang Government	Oversight Team Member
Wang Kunqiu, Vice Mayor, Liuyang Government	Oversight Team Member
Liu Zhengkai, Vice Mayor, Liling Government	Oversight Team Member
Li Zishan, Vice Mayor, Youxian Government	Oversight Team Member
Jiang Xiaozhong, 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, Hunan Provincial DOF), 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 and Su Zhili, Lewis Hawke, Sanjay Vani, Christoph Ungerer, and Martin Bowen (PEFA Secretariat). Comments from Deng Weiping represent those of Hunan Provincial DOF 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 March 23, 2020. The revised version incorporating comments from the peer reviewers of the WB and PEFA Secretariat was submitted to the Hunan provincial DOF and the Liuyang city government for review on April 14, 2020.
Reviewers and date they provided comments:	Written comments were received from Lewis Hawke (EEAG1), Sanjay Vani (EEAG1), Christoph Ungerer (EECM2), and Martin Bowen (PEFA Secretariat) on March 30, 2020. Written comments were received from HPFD on May 6, 2020, from Liuyang city government on May 7, 2020
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 Liuyang City, 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 Liuyang, there are no EBUs and no local governments below the county level¹. The Social security fund is managed separately from the core budget system—general public budget and government fund budget, and thus is classified as an extrabudgetary operation in this assessment. In addition, Liuyang has 69 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 laws and regulations prohibit any SOE, including local government financing vehicles (LGFV), from financing on behalf of the government. LGFVs that have been undertaking quasi-fiscal operations are required to be transformed into commercial entities, operating according to market rules, producing goods and services at market prices and bearing risks on their own. The government does not have 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 Liuyang. At the time of assessment, there were still two LGFVs that were still in the process of transformation to commercial entities.

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

Table 1.2: Timing of PEFA assessment in Liuyang City

Training for assessors and local government officials:	December 4-7, 2019
In-country field work:	December 8-14, 2019 and January 14-17, 2020
Country FY:	January 1 – December 31
Last three FYs covered:	FY 2016, FY 2017, FY 2018
Latest budget submitted to legislature:	FY 2019
Time of assessment (planned cut-off):	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 followed the methodology without deviation 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 CG and 40 SNGs. A second training session was held in October 2019 in Changsha, for officials from 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 assisted by Julia Dhimitri and Guillaume Brule.

¹ Townships are local governments below the county level, but their budgets are managed by the county government. Townships are therefore treated as regional budget units in this assessment.



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 an 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.²

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, toward one led by domestic consumption, services and productivity. This transition has been well managed, as evidenced by some key economic indicators shown in Table 2.1.

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

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

Data source: World Bank.

² Source: China Statistics Yearbook, 2018

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

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

Economic indicators	2016	2017	2018
GDP (billion RMB)	3,155	3,390	3,633
GDP per capita (RMB)	46,382	49,558	52,949
Real GDP growth rate (%)	8.00	8.00	7.80
Unemployment rate (%)	4.19	4.02	3.58
Inflation (CPI, %)	1.88	1.43	1.96
Average disposable income of urban residents (RMB)	31,284	33,948	36,698
Average disposable income of rural residents (RMB)	11,930	12,936	14,093
Public finance (% of regional GDP)			
GPB			
Revenues	8.6	8.1	7.9
Net transfers from CG	9.1	9.7	9.5
Expenditures	20.1	20.3	20.6
Overall balance	-2.5	-2.4	-3.2
GFB			
Revenues	3.3	3.8	6.1
Net transfers from CG	0.2	0.2	0.1
Expenditures	3.2	3.5	5.9
Overall balance	0.3	0.5	0.4
SNG debt (% of GDP)	21.6	22.6	24.0

Data Source: Hunan Department of Finance.

14. A strong PFM system is indispensable for driving the economic transformation in China and further developing it to a high-income country. China's fiscal system has successfully supported economic growth and rebalancing in the last decade. It helped raise the tax share of GDP from ten 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 recognizes public finance as the foundation of national governance to address

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 2014 Budget Law is a landmark reform for strengthening the fiscal discipline of SNGs and for protecting the integrity of the tax system. 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 more detailed discussions about China’s PFM reform program.

2.1.2 Intergovernmental fiscal arrangements

15. China is by far the most decentralized country in the world, with responsibilities for basic public services 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 government. 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. The CG decides its tax sharing and expenditure assignments with provinces and municipalities, and each province and municipality decides on its respective tax sharing and expenditure assignments with the cities and counties in their jurisdiction. The intra-budgetary system in most provinces, including Hunan Province, is streamlined in two tiers - the province and the prefectures/counties. The counties, bypassing the prefectures, directly interact with the province and manage the finances for their subordinated townships.

Assignment of expenditure responsibility

17. 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. The delineation of functionalities is expected to be completed by 2020.

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 city and county governments will take the ultimate responsibility for the delivery of services, the financing share undertaken by cities/counties varies depending on their level of development and fiscal capacity. Liuyang, being among China’s 100 top economically performing counties, will take on a 40 percent financing share for most public services.

Tax revenue sharing

19. Tax-sharing arrangements between the CG and the SNGs are stable and are governed by State Council Decrees No. 85, 1993 and No. 37, 2001. Taxes are collected by the National Tax Administration to the

National Treasury Single Account (TSA) and disbursed to the provinces. Provinces then decide the tax-sharing arrangements between the provincial government and 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 sub-provincial governments of Hunan Province.

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

Tax	Central	Hunan	
		Provincial	Sub-provincial
Custom duty	100	0	0
Consumption tax	100	0	0
Vehicle Purchase tax	100	0	0
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
Property tax	0	0	100
Stamp duty	0	0	100
Urban maintenance and construction tax	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

Source: Liuyang Finance Bureau.

Intergovernmental transfer

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

Subnational borrowing

21. Until 2015, SNGs were not allowed to borrow on-budget and therefore relied heavily on off-budget borrowing through LGFVs, effectively using future land revenues as collateral. Amendments to the Budget Law

that became effective at the beginning of 2015, allowed for explicit subnational borrowing within limits set by the CG, while restricting off-budgetary borrowing for investment finance.

2.1.3 Main facts and economic indicators of Liuyang

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

Table 2.4: Summary of main facts of Liuyang City

Liuyang City	Detail
Tier of government	As a county-level city, Liuyang is subordinated to Changsha Municipality, the capital of Hunan Province. With regard to PFM, Liuyang 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 Changsha, it has direct fiscal relations with Hunan Province, at the third tier of the fiscal system.
Population	1,494,000
Main characteristics	With per capita GDP at USD 13,822, Liuyang is one of the richest counties in China. It is located in the northeast of Hunan Province, covering a land area of 5,007.75 square kilometers. The urbanization rate is 47.6 percent. The urban-rural income disparity is not significant.
Economy	80 percent of the fireworks in the global market are produced by Liuyang. Other major industries include electronic information, biological medicine, machine manufacturing, food processing and tourism. Agriculture, manufacturing and services accounted for 7%, 64% and 28% of GDP respectively in 2018. Liuyang attracts immigrants for jobs and for public services, which brings challenges for the public service delivery and city infrastructure.
Services provided by the SNG	Liuyang provides a wide range of public services, including education, health care, infrastructure, transportation etc.

Data source: Liuyang Statistics Bureau and Liuyang Finance Bureau.

Table 2.5: Selected economic indicators for Liuyang City (2016-2018)

Economic indicators	2016	2017	2018
GDP (billion RMB)	121.8	136.5	134.2
Share of Sectors			
Agriculture	8%	8%	7%
Industry	69%	69%	64%
Services	23%	23%	28%
GDP per capita (RMB)	81,704	92,007	89,845
GDP growth rate	11.0%	10.8%	8.6%
Average disposable income of urban residents (RMB)	39,641	42,925	46,410
Average disposable income of rural residents (RMB)	27,182	29,244	31,791

Data source: Liuyang Statistics Bureau.

2.2 Fiscal and budgetary trends in Liuyang

23. In FYs 2016 and 2018, the overall financial situation in Liuyang City was sound and stable (see Table 2.6 and Table 2.7). Compared to most counties in Hunan Province, Liuyang relied much less on transfers from the upper-level government. Still, transfers financed 27.3 percent of total expenditure of the general public fund budget (GPB) in 2018. The total received transfers were stable, close to 3 percent of GDP. Tax revenues stood steadily at around 3.4 percent of regional GDP. Non-tax revenue inched down from 1.8 percent in 2016 to 1.4 percent in 2018 due to the implementation of a national policy to reduce administrative fees and charges. Thanks to the steady real estate market, the government's land sales revenues increased from 2.5 percent of GDP in 2016 to 3.1 percent in 2018. As a result, the combined overall balance of the GPB and the government fund budget (GFB) declined from 1.5 percent of GDP in 2017 to 1.3 percent in 2018, despite an increase in expenditures of both the GPB and GFB.

Table 2.6: GPB - Source of funding, Liuyang

Source of funding	RMB million			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
Expenditure	9,506	11,608	12,455	7.8	8.5	9.3
Revenue	5,885	6,236	6,919	4.8	4.6	5.2
Tax	3,736	4,553	5,103	3.1	3.3	3.8
Non-tax	2,150	1,683	1,816	1.8	1.2	1.4
Transfer from HLGs	3,341	3,363	3,398	2.7	2.5	2.5
Tax rebate	366	372	372	0.3	0.3	0.3
General transfer	1,629	1,722	1,988	1.3	1.3	1.5
Special transfer	1,542	1,452	1,506	1.3	1.1	1.1
(-) Transfer to HLGs	(196)	(183)	(469)	-0.2	-0.1	-0.3
Overall balance	(280)	(2,009)	(2,139)	-0.2	-1.5	-1.6
Transfer from GFB and Others	187	497	1,502	0.2	0.4	1.1
Change in cash balance	(23)	(21)	564	0.0	0.0	0.4
Withdrawal from reserve	(197)	146	(102)	-0.2	0.1	-0.1
Financing	313	1,388	175	0.3	1.0	0.1
Borrowing	3,005	2,716	1,132	2.5	2.0	0.8
Debt amortization	(2,692)	(1,328)	(957)	-2.2	-1.0	-0.7

Data source: Liuyang Finance Bureau.

Table 2.7: GFB – Source of funding, Liuyang

Source of funding	RMB million			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
Expenditures	3,332	4,257	3,961	2.7	3.1	3.0
Of which Urban and rural community services (Land and infrastructure development)	3,253	4,116	3,812	2.7	3.0	2.8
Social security and jobs	15	26	34	0.0	0.0	0.0

Source of funding	RMB million			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
Interest	0	69	70	0.0	0.1	0.1
Revenues	3,178	4,219	4,268	2.6	3.1	3.2
Of which Land sales revenues	3,093	4,001	4,158	2.5	2.9	3.1
Net grants from HLGs	178	101	63	0.1	0.1	0.0
Overall balance	23	63	369	0.0	0.0	0.3
Withdrawal from reserves and other sources	214	235	126	0.2	0.2	0.1
(-) Transfer to GPB	-2	-171	-968	-0.0	-0.1	-0.7
Financing	0	0	527	0.0	0.0	0.4
Debt	2,675	21	527	2.2	0.0	0.4
Debt amortization	2,675	21	0	2.2	0.0	0.0
Carry-over to next year	235	126	55	0.2	0.1	0.0

Data source: Liuyang Finance Bureau.

24. The core public services are financed from the GPB. The size of total expenditures of the GPB increased from 7.8 percent of GDP in 2016 to 9.3 percent in 2018. The major functions, by rank, of their share in the GPB are education, urban and rural community services (mostly urban infrastructure), agriculture, social security and employment, general public services, health care, transport and resource exploration information. Of these, the expenditure on urban and rural communities gained most, with its share in the GPB non-interest expenditures increasing by 5 percentage points, which reflects the rapid urbanization the city is undergoing. The overall deficit of the GPB expanded to 1.6 percent of GDP in 2018. It was financed from the GFB transfer (0.7 percent of GDP), the contribution of SOE profits (0.4 percent of GDP), drawdown of cash (0.4% of GDP) and net debt financing (0.1 percent of GDP).³

Table 2.8: Liuyang: GPB expenditure by function

Expenditure by function	RMB million			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
Total GPB Non-Interest Expenditures	9,438	11,464	12,204			
Education	2,013	2,304	2,528	21.3	20.1	20.7
Urban and rural community services	1,143	1,595	2,130	12.1	13.9	17.5
Agriculture, forestry and water conservation	1,515	1,703	1,809	16.1	14.9	14.8
Social security and employment	859	1,046	1,107	9.1	9.1	9.1
General public service	821	1,197	1,073	8.7	10.4	8.8
Health care and family planning	820	959	906	8.7	8.4	7.4
Transportation	407	418	513	4.3	3.6	4.2
Resource exploration information, etc.	437	457	470	4.6	4.0	3.9
Public security	331	425	351	3.5	3.7	2.9
Energy conservation and environmental protection	260	268	294	2.8	2.3	2.4

Data source: Liuyang Finance Bureau.

³ Data source: the assessment team's calculation based on the city's budget execution report. China's Budget Law requires subnational governments to adopt a balanced budget, treating all financing transactions above the line. The official headline GPB balance is zero or positive.

25. Liuyang prepared the GPB expenditures by economic classification for the first time in 2018. As shown in Table 2.9, this revealed that the Liuyang City Government spent most on capital expenditures, which accounted for 28 percent of total GPB expenditure. The second largest spend component was subsidies to households, social security funds and firms, taking a 25 percent share. Labor costs amounted to 24 percent, and the spending on goods and services totaled 21 percent.

Table 2.9: GPB expenditure by economic classification, Liuyang City, 2018

Expenditure by economic classification	RMB million	Percentage share
Total	12,455	100
Labor	2,973	24
GAUs	1,035	8
PSUs	1,937	16
Goods and services	2,578	21
GAUs	1,757	14
PSUs	821	7
Interest	251	2
Subsidies	3,121	25
Subsidies to firms	643	5
Subsidies to households	1,043	8
Subsidies to social security funds	1,144	9
Subsidies to non-profit entities and others	291	2
Capital expenditures	3,533	28
GAUs	2,984	24
PSUs	548	4
Capital subsidies to firms	0	0

Data source: Liuyang Finance Bureau.

26. Revenues from government funds were ringfenced for specified purposes according to the rules for each fund. Revenues from land sales dominated the GFB, accounting for 94 to 97 percent, and were mainly used for land acquisition, preparation and infrastructure development. When GFB revenues needed to be used to finance other public services, they were transferred to the GPB. These transfers amounted to 0.0, 0.1 and 0.7 percent of GDP in FYs 2016 to 2018.

27. Since 2015, Liuyang has received on-lend from subnational bonds issued by Hunan Province. The general bond proceeds have been recorded in the GPB and the project bond proceeds in the GFB. By 2019, the legacy off-budget debt had been entirely swapped with subnational bonds. By the end of 2018, Liuyang's total debt amounted to RMB 11.8 billion, equivalent to 8.8 percent of GDP.

Table 2.10: Subnational debt outstanding at end of 2018, Liuyang

Subnational debt	Million RMB	Percentage of GDP
Debt outstanding	11,786	8.8
General obligation bonds	8,563	6.4
Project bonds	3,223	2.4

Source: Liuyang Finance Bureau.

2.3 Legal and regulatory framework for PFM

28. China's Constitution (the current version was approved in 2018) provides for the National People's Congress (NPC) as the highest representative body for citizens to exercise legislative power; the State Council as the highest government executive body; and the China National Audit Office (CNAO) as the highest audit body. Among many responsibilities, the State Council prepares and executes the social and economic development plan and the government budget, which are subject to review and approval by the NPC, and audit by the NAO. The Standing Committee of the NPC exercises legislative power, as well as reviews and approves adjustments to the budget and the budget execution report during the closing period of the plenary conference of the NPC. A similar structure is established in the provinces, cities and counties. The representatives of the local people's congresses in the cities, counties and townships are directly elected, whereas the representatives of the national and provincial people's congress are elected by the representatives of the next-lower tier jurisdictions.

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 that each tier of government prepares its own budget. Moreover, cities/counties, together with the HLGs, shall prepare a consolidated budget that aggregates the revenues and expenditures of their own and that of their subordinated governments.

30. The Budget Law was first enacted in 1994 and revised in 2014 and 2018. The 2014 revision 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 audits on the revenues and expenditures of all GAUs, PSUs, and financial and non-financial corporations of both the CG and the SNGs. Every year and at each level of government, the audit institutions audit the government budget execution reports and prepare audit reports which are subject to the scrutiny of the people's congress at the same level.

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

2.4 Institutional arrangements for PFM

2.4.1 Overall institutional arrangements for PFM

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

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

35. Chinese government operations are large and complex. There are more than 749,000 budget units with 40.4 million public employees across China's five levels of administration. Over the course of ongoing market-oriented reforms, government agencies tend to limit themselves to their role as administrators and regulators and assign most public service delivery functions to PSUs, SOEs and urban development investment corporations (UDICs). The governments' budgets are financially intertwined with these entities in a complicated way. The introduction of new service delivery modalities, such as public-private partnerships (PPP) and the 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 lead the budget system reform. The budget system has five tiers, corresponding to the tiers of administration, consisting of the center, the provinces, prefectures, counties and townships. At each tier, the finance department, with designation from the government executive, prepares an annual budget for its own tier of government and a budget that consolidates all governments within its jurisdiction. For example, a province finance department will prepare a provincial-level government budget and a whole-province budget. The latter consolidates the budgets of the provincial-level government budget and those of all municipalities and counties within the province. This makes the budget preparation a long process, starting with governments at the lowest level. The NPC holds its annual conference to approve the national budget of current year in March. The township governments, with a few exceptions, generally rely on the city government to prepare their budget and manage their finances.

37. The whole government operations are presented in four budgets, while only GPB and GFB present governmental activities. The GPB holds tax and non-tax (fee and charges) revenues and finances core government services. The GFB holds the revenues from the 30 plus government funds and each fund revenue is earmarked for specified expenditures. The land revenues dominate the GFB and are mainly used for land preparation and infrastructure investments. There is the state capital operating budget (SCOB) that holds the profits surrendered by SOEs. Its proceeds are used to invest in SOEs or other commercial activities. A proportion of the SCOB revenues gets transferred to the GPB, if being used to finance public services. The social security budget (SSB) holds the contributions of firms and individuals to social security funds and pays for entitled social security benefits to participants. The financing gap is filled by the transfer from the GPB. As of 2020, SSB will be reassigned to the Hunan provincial government. 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 cash for centralized management. Budget appropriation between different tiers of government is notional, through paper documents (called ‘budget appropriation notifications’). The funds are settled 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 that 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. SNGs can issue bonds subject to annual quotas. However, only provincial level governments are allowed to borrow in this manner, both for themselves and on behalf of local (sub-provincial) governments. The following Golden Rule applies: 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. To access the capital market, provinces must also follow regulations for information disclosure, obtain credit ratings and follow market rules.

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

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

2.4.2 Subnational institutional arrangements for PFM

42. Table 2.11 presents the structure of Liuyang City in terms of its spending units. The city is divided into 28 townships, 4 streets and 2 economic development zones. As these 34 spending units do not have independent PFM systems, they are regarded as regional spending units in this assessment. There are in total 1,038 budgetary units, including 86 GAUs, 34 regional spending units and 918 PSUs. Of these, 100 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, and the revenues and expenditures of all PSUs are included in the budget execution reports. There exists no EBUs in Liuyang.

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

Budgetary units	Total	Primary Budgetary units	Secondary Budgetary units	EBUs
Total	1,038	100	938	0
GAUs	86	46	40	0
Regional spending units ¹	34	34	0	0
PSUs	918	20	898	0

¹ Regional spending units include 28 townships, 4 streets and 2 economic development zones.

Data source: Liuyang Finance Bureau.

43. As shown in Table 2.12, there are 69 SOEs that are directly controlled by the Liuyang City Government or other government entities. Of these 69 SOEs, 4 are financial institutions. All these SOEs are treated as PCs in this assessment. SOEs in Liuyang are supervised by the SOE Supervision Center under the Liuyang city government. China laws and regulations require SOEs operate on a commercial basis and the government provides no guarantees to any SOE. A number of SOEs that carry out quasi-governmental activities such as managing of government investment projects are classified as LGVVs. Under the recent reform program to restore government budget constraints and contain subnational fiscal risk, the legacy SNG debt incurred by LGFVs has been swapped with the proceeds of SNG bonds. Most ex-LGFVs have been either closed or transformed to commercial SOEs. Although the LGFVs are no longer allowed to borrow on behalf of SNGs, they can present the government with fiscal risks. At the time of this assessment, there were only two LGFVs in Liuyang that are still in the process of transformation. An additional assessment has been carried out for these two LGFVs, the results of which are presented in Annex 7.

Table 2.12: Summary of PCs in Liuyang

Type	Controlling entity	Number	Assets (million RMB)	Liabilities (million RMB)	Equity (million RMB)
Non-financial	City Government	12	41,141.34	20,083.67	21,057.67
	Townships	23	28,825.66	17,107.69	11,717.97
	GAUs	2	3,180.36	1,224.64	1,955.71
	PSUs	28	1,270.84	764.73	506.10
Financial	City Government	4	38,354.89	33,464.07	4,890.82
TOTAL		69	112,773.08	72,644.80	40,128.28

Data source: Liuyang Finance Bureau.

44. The parties involved in Liuyang's budget process are in line with the generally accepted practice of SNGs in China (see Box 1). The City People's Congress, the People's Government of Liuyang, the Finance Bureau and the City Audit Office share their functions at different stages of the budget process.

Box 1. Parties involved in the Liuyang budget process are

- **The Finance Bureau of Liuyang.** The divisions that are relevant for the city's PFM are:
 - The Budget Division: Prepares the budget.

- The Treasury Division: Operates the treasury single account system (TSAS) and financial management system.
 - Sectoral and Township Divisions: Oversee budget preparation and execution of budgetary units.
 - The Finance and Debt Division: Responsible for debt management and oversight of investment finance, PPPs and other contingent liabilities.
 - The Payment Center: Supervises and processes non-salary payments.
 - The Enterprises Division: Oversees the operation of SOEs and supervises the budget and budget execution of Firework Administration and Science and Information Administration.
 - The Fiscal Performance Management Division: Oversees the performance evaluation of all budgetary units.
 - The Government Procurement Supervision Office and Procurement Center: Administers public procurements above the threshold.
 - The Fiscal Supervision and Inspection Office: Responsible for internal audit.
 - The Non-Tax Revenue Management Bureau: Collects non-tax revenues (administrative fees and charges).
 - The Fiscal Investment Evaluation Center: Conducts fiscal capacity assessments of proposed government investment projects.
 - The Centralized Wage Payment Center: Supervises and processes the payment of wages and salaries of all staff and employees on the City Government's payroll.
 - The Administrative State Assets Management Division: Oversees the assets of all GAUs.
 - The Source Tax Office: Responsible for coordinating the organization, supervision and performance examination of tax protection, as well as the supervision of non-tax revenue.
 - The Social Security Division: Oversees the budget and budget execution related to human resources, social security, civil affairs, health and associated departments.
 - The Education, Science and Arts Division: Oversee the budget and budget execution of the education, science, tourism, sports and arts departments.
 - The Foreign Trade and Economic Division: Oversees the budget and budget execution of the business, investment promotion, and market administration departments.
 - 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 City DRC:** Prepares the development plan for the whole City, and reviews and approves all government investment projects.
 - **The City People's Congress and its Standing Committee:** Review and approve the City's social and economic development five-year 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 City Government budget.
 - **The City Audit Office.** The City Audit Office carries out audits of City finance; develops proposals and recommendations on measures to be taken, including measures for elimination and the 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 City People's Congress.
 - **The Mayor** is an elected official and chief executive of the City. The mayor is responsible and fully accountable for budgeting and strategic planning across the City.



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 the following 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
HLG-1. Transfers from an HLG (M2)		D+
HLG-1.1: Outturn of transfers from an HLG	The outturns for FY 2016, 2017 and 2018 were 177.5%, 162.7% and 131.7%, respectively. While the deviation of actual grants from the original budgeted grants steadily declined, it was still above 116% in all three FYs.	D
HLG-1.2: Earmarked grants outturn	The composition variance of earmarked grants in FY 2016, 2017 and 2018 was 54.0%, 47.4% and 6.8%, respectively. The composition variance was above 15% in two of the last three years.	D
HLG-1.3: Timeliness of transfers from an HLG	A disbursement timetable is prescribed by law and agreed between the HLG and the City Government. In all of the last three completed FY, more than 75% of actual transfers were on time.	A
HLG-1.4: Predictability of transfers	The HLG provides only partial information on transfers for the following FY, and no advance notification about changes in the distribution methodology of transfer prior to the beginning of the 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 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.

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 DOF. From Table 3.2, it is obvious that most variation stems from earmarked transfers rather than non-earmarked transfers, the outturns of which ranged from 116 to 131 percent of the original budget estimates in the last three FYs. As the outturn was above 116 percent for each of the three FYs (see Table 3.3), the score is D.

Table 3.2: Outturn of transfers from the HLG (non-earmarked versus earmarked)

Aggregate expenditure (million RMB)	2016		2017		2018	
	non-earmarked	earmarked	non-earmarked	earmarked	non-earmarked	earmarked
Approved budget	896.43	1,096.36	947.87	1,231.40	977.73	1,957.42
Outturn	1,043.56	2,493.53	1,118.05	2,427.96	1,282.97	2,583.54
Outturn as percentage of budget	116.4	227.4	118.0	197.2	131.2	132.0

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

Table 3.3: Outturn of transfers from the HLG

Aggregate expenditure (million RMB)	2016	2017	2018
Approved budget	1,992.79	2,179.27	2,935.15
Outturn	3,537.09	3,546.01	3,866.51
Outturn as percentage of budget	177.5%	162.7%	131.7%
Composition variance of earmarked grants, percent	54.0%	47.4%	6.8%

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

Dimension HLG-1.2 Earmarked grants outturn

49. The composition variance of earmarked transfers was more than 15 percent in the last three FYs. The variance in the last three completed FYs (2016, 2017 and 2018) was 54.0, 47.4, and 6.8 percent, respectively. Hence, the score is D.

50. The main contributor to the composition variance of earmarked grants were special transfers in 2016 and 2017, and both other general transfers and special transfers in 2018.

Dimension HLG-1.3 Timeliness of transfers from the HLG

51. 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.

52. Liuyang used the IT system of the fiscal integration management platform (see Section 5.4) to track HLG transfers. This system generates records for each transfer. The documents in the system demonstrate that the percentage of transfers disbursed on time were 76.5%, 77% and 75% in the last three FYs, respectively. Score A.

Dimension HLG-1.4 Predictability of transfers

53. In Liuyang, the predictability of transfers from HLG is low. Prior to the beginning of the FY, the HLG usually provides some indicative notification and disburse part of the transfers prior to the approval of the HLG budget. 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 75.6, 74.6 and 66.8 percent of all budgeted transfers, respectively.) Only after the approval of the HLG budget, will the City Government receive the remaining transfers and adjust the budget in the middle of the FY (Figure 1). Score D.



HLG-2. Fiscal rules and monitoring of fiscal position

54. HLG-2 assesses the extent to which the central government sets fiscal rules framing the budget and granting subnational governments the right to borrow. It also assesses the extent to which the central government monitors the financial position of subnational governments.

55. HLG-2 is a pilot indicator. China central MOF has set up a set of fiscal rules for subnational, but these rules are not disclosed to the public. The Liuyang City government chose not to use this indicator in this assessment.



PILLAR 1: Budget reliability

56. 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.

57. Following the New Budget Law, the budget is presented in four books - the GPB, the GFB, the SCOB and the SSB. Details of the four books were discussed under section 2.4.1. The assessment under this Pillar is based solely on the GPB and GFB.

PI-1. Aggregate expenditure outturn

58. 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
PI-1: Aggregate expenditure outturn (M1)		D
PI 1.1 Aggregate expenditure outturn	Aggregate expenditure outturn deviated significantly from the budgeted amounts in the last three FYs. The outturn was 148.4%, 165.6% and 161.2% of the approved budget, respectively.	D

59. 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 3.4.

Table 3.4: Aggregate expenditure outturn

Aggregate expenditure (million RMB)	2016	2017	2018
Approved budget	8,652.91	9,579.27	10,182.23
Outturn	12,837.71	15,864.73	16,416.48
Outturn as a percentage of budget	148.4	165.6	161.2

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

60. The significant deviation in all three FYs was mainly caused by the unpredictability of HLG transfers. Liuyang City is dependent on HLG transfers - intergovernmental transfers make up about 25 percent of its total expenditure - and as shown in Table 3.3, the actual transfers amounted to 177.5, 162.7 and 131.7 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

61. 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. This indicator has three dimensions. The assessment covers Liuyang's budgetary units over the last three completed FYs (2016-2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-2. Expenditure composition outturn (M1)		D+
2.1 Expenditure composition outturn by function	Variance in expenditure composition by functional classification was more than 15% in each of the last three FYs. Variance of the three years was 30.2%, 30.6%, and 26.2%, respectively.	D
2.2 Expenditure composition outturn by economic type	There was no economic classification for the GFB in FYs 2016-2018 (referring to PI-4.1).	NA
2.3 Expenditure from contingency reserves	In FYs 2016-2018, actual expenditure charged to a contingency vote was on average 0.7% of the original budget (i.e. less than 3% of the original budget).	A

Dimension PI-2.1 Expenditure composition outturn by function

62. 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 3.5: Aggregate expenditure outturn

Variance	2016	2017	2018
Functional classification	6.1%	15.5%	14.5%
Functional classification (including transfers)	30.2%	30.6%	26.2%
Economic classification	NA	NA	NA

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

63. As summarized in Table 3.5, variance was above 15 percent in each of the assessed three FYs. Major variation occurred in agricultural, forestry and water, and health and family planning expenditures. Unpredictable mandates from the HLGs, unexpected revenues from land sales and exclusion of some of the PSUs' own revenues (mainly hospitals) from the budget plan all contributed to the variance. The score for this indicator dimension is D.

Dimension PI-2.2 Expenditure composition outturn by economic type

64. While the GPB contains both functional and economic classifications, in the last three FYs, there was no economic classification for the GFB (Table 3.5). Hence, dimension PI-2.2 was rated NA.

Dimension PI 2.3 Expenditure from contingency reserves

65. In the last three FYs, the actual expenditure charged to a contingency vote was 0.70, 0.71 and 0.69 percent of the original budget, respectively (Table 3.6). Thus, the average is 0.7 percent or less than 3 percent of the original budget. The score is A.

Table 3.6: Expenditure from contingency reserves

Variance	2016	2017	2018
Contingency expenditure share of budget, %	0.70	0.71	0.69

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

PI-3. Revenue outturn

66. 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).

67. 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 extrabudgetary revenues are neither reported nor fully covered by the main budget, they are assessed by PI-6 (dimension PI-6.2).

Indicators/ Dimensions	Assessment of performance	2019 Score
PI-3. Revenue outturn (M2)		D+
3.1 Aggregate revenue outturn	In FY 2016 - 2018, the variance in aggregate revenue was 103.5%, 115.8% and 116.5%, respectively. The actual revenues were between 92% and 116% of budgeted revenues in two of the three FYs.	C
3.2 Revenue composition outturn	Composition variance in revenue collection in the three FYs was 15.9%, 30.0% and 25.3%, respectively, all more than 15%.	D

Dimension PI-3.1 Aggregate revenue outturn

68. 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 2016, 2017 and 2018. The figures on aggregate revenue outturn are summarized in Table 3.7.

Table 3.7: Aggregate revenue outturn

Total revenue (million RMB)	2016	2017	2018
Approved budget	8,752.18	9,024.38	9,602.23
Outturn	9,062.72	10,454.67	11,186.55
Variance (as a % of original budget)	103.5	115.8	116.5
Composition variance (%)	15.9	30.0	25.3

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

69. Liuyang has a strong capability to project revenues. The variance of tax and non-tax revenues of GPB is around 3 percent. (Table 3.8) But the outturn of GFB revenues (mainly land sales revenues) was volatile. The revenue outturn was 104, 165 and 149 percent in 2016, 2017 and 2018 respectively. This brought the overall revenue variance to around 116 percent in later years. As the variance is between 92 and 116 percent in only two out of three years, the score is C.

Table 3.8: Aggregate revenue outturn by GPB and GFB

Total Revenue (million RMB)	2016		2017		2018	
	Tax and non-tax (GPB)	GFB	Tax and non-tax (GPB)	GFB	Tax and non-tax (GPB)	GFB
Approved budget	5,687.78	3,064.40	6,474.00	2,550.38	6,735.00	2,867.23
Outturn	5,885.12	3,177.60	6,235.80	4,218.87	6,918.75	4,267.80
Variance (% of approved budget)	103.5	103.7	96.3	165.4	102.7	148.8

Data source: Liuyang Finance Bureau.

Dimension PI-3.2 Revenue composition outturn

70. For revenue composition, the variance was 15.9, 30.0, and 25.3 percent in the last three FYs, respectively (Table 3.7). Reasons for this variance were similar to those for the variance in aggregate revenue outturn. Deviations were mainly caused by the GFB in FY 2017 and 2018. Score D.



PILLAR 2: Transparency of public finances

71. 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

72. 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
PI-4. Budget classification		D
4.1 Budget classification	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

73. 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.

74. The MOF annually issues an update of the budget classification code. Prior to 2018, only a functional classification code had been issued. The economic classification code was not issued until 2018. China's budget classification is largely consistent with the international standard (Table 3.9). The main deviation from the international standard is the treatment of tax expenditures, which are deducted directly from revenues, rather than being recorded as expenditures.

75. GPB formulation, execution, and reporting in Liuyang 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 3.9: Comparison of budget classification between China and the International Monetary Fund (IMF)

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

76. 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
PI-5. Budget documentation		C
5.1 Budget documentation	Budget documentation contains three basic elements and one additional element.	C

Dimension PI-5.1 Budget documentation

77. 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 one additional element (Table 3.10). 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, there is no documentation on the quantification of tax expenditures. Elements regarding documentation of deficit financing and medium-term fiscal forecasts are not applicable to the City Government. Score C.

Table 3.10: Budget documentation

Item	Included (Y/N)	Source of evidence and comments
Basic elements		
1 Forecast of the fiscal deficit or surplus or accrual operating result.	N	The Budget Law stipulates the original budget of local governments shall be balanced and deficit financing might be arranged only in the middle of the FY through budget adjustment proposal.
2 Previous year's budget outturn, presented in the same format as the budget proposal.	Y	Reports on the 2018 budget execution and the 2019 budget http://www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lyczyjsgk7/zfyjs18/42231947/index.html?from=singlemessage
3 Current FY's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Y	Enacted budget 2019.
4 Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Y	Enacted budget 2019.

Item	Included (Y/N)	Source of evidence and comments
Additional elements		
5 Deficit financing, describing its anticipated composition.	NA	The local government receives information on 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 is 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 not 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.	Y	Reports on the 2018 budget execution and the 2019 budget draft.
8 Financial assets, including details at least for the beginning of the current FY presented in accordance with the GFS or other comparable standard.	N	Liuyang City started to compile a comprehensive financial statement in 2019. In 2018, asset information in the budget documents was not yet included.
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 information of PPPs, but there is no information on 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	The 2018 budget execution report and the 2019 budget provided 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	

PI-6. SNG operations outside financial reports

78. 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.

79. The Liuyang Government does not have any EBUs or significant extrabudgetary activities by budgetary units in GPB or GFB. The only government operations that are not covered by either the GPB or the GFB are the social security funds overseen by the Liuyang Government. Management of the social security funds is assessed in dimension 6.3. However, a number of LGFVs have been undertaking quasi-governmental activities. Although the government doesn't have legislative obligation to bail them out, they still present fiscal risks to the government. Since the scoring of this indicator doesn't reflect the reporting on quasi-governmental activities, the performance of LGFVs is assessed separately in Annex 7 to complement PEFA assessment.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-6. SNG operations outside financial reports (M2)		A
6.1 Expenditure outside financial reports	All expenditures are included in the budget/financial reports.	A
6.2 Revenue outside financial reports	All revenues are included in the budget/financial reports.	A
6.3 Financial Reports of Extrabudgetary Units	The social security 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

80. In Liuyang, 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 Liuyang. For the five self-funding units, their self-collected revenues account for 7.8 percent of total government expenditure (Table 3.11). Mostly, they stem from the Liuyang People's Hospital and the Liuyang Hospital of Chinese Medicine. All these revenues and expenditures are recorded in the GPB execution report. The assigned score is A.

Table 3.11: Information of the five self-funding units in Liuyang, FY 2018

Unit	Revenue (million RMB)		Self-collected revenue as % of total government expenditure
	Budget appropriation	Self-collected revenues	
Liuyang People's Hospital	0	701	4.27
Liuyang Hospital of Chinese Medicine	0	573	3.49
Original Planting Farm in Liuyang	2.92	5.02	0.03
Liuyang Horticultural Demonstration Field	0.45	0.02	0.00
Liuyang City Planning Information Service Center	0	2.33	0.01
Total	3.37	1281	7.80

Data source: Liuyang Finance Bureau.

Dimension PI-6.2 Revenue outside financial reports

81. As mentioned above, all revenues are included in the budget execution report. Score A.

Dimension PI-6.3 Financial Reports of EBUs

82. Every year, the Liuyang Government presents a financial report on the social security funds to the City People's Congress for approval. In 2018, the Bureau of Human Resources and Social Security submitted this report to the City Finance Bureau on December 27. 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. Liuyang does not expect any long-term obligations arising from these funds. Score A.

PI-7. Transfers to SNGs

83. This indicator assesses the transparency and timeliness of transfers to lower levels of SNG with direct financial relationships to the Liuyang City 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
PI-7. Transfers to SNGs		NA
7.1 System for allocating transfers	There are no separate lower-level SNGs, rather deconcentrated units of the city government.	NA
7.2. Timeliness of information on transfers	There are no separate lower-level SNGs, rather deconcentrated units of the city government.	NA

84. Within Liuyang City, there are no lower-tier SNGs. The townships do not have full ownership of their assets, and their budget is covered by the city's budget. Hence, they are treated as regional expenditure budgetary units of the city. The indicator is NA.

PI-8. Performance information for service delivery

85. 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.

86. This indicator examines the service delivery performance information in the executive's budget proposal or 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 and EBUs 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) were examined.

87. Neither the CG nor Liuyang adopted program budgeting. Nevertheless, performance evaluation has been generally promoted by the central MOF. Liuyang City has taken its own initiative to promote the adoption of performance plans and self-evaluation, linking performance with budgetary expenditures. The performance plans and results are disclosed together with the departmental budgets and work plans.

88. In the assessment for this indicator, 14 departments are defined as service delivery units: the Education Department, the Science and Information Technology 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, the Natural Resources Department, and the Industry and Information Technology Department. Each department comprises administrative units and subordinate budgetary units. For example, the Education Department comprises the Education Bureau and all public schools.

89. 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 were specified for each program, service or function; and whether the planned outputs and outcomes specified for each indicator were 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, both budgetary units and EBUs. 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 – the Education Bureau for Compulsory Education and Health Bureau for Public Health.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-8. Performance information for service delivery (M2)		B
8.1. Performance plans for service delivery	The expenditures with policy objectives published in performance plans or work plans accounted for 77.55% of the total expenditures of core public services in FY 2019.	C
8.2. Performance achieved for service delivery	9 of the 14 public service departments in Liuyang published their performance achieved in FY 2018. 7 of the 14 service delivery departments conducted self-assessments of their overall expenditure performance, the other departments carried out self-assessments of project expenditure performance. The disclosed performance achievement measured by quantitative outputs/outcomes covered 87.12% of total service delivery expenditures.	B
8.3. Resources received by service delivery units	Information on the resources received by the service providers at spending units is available, and the public service departments in the sample have established a financial account, recording the details of the funds allocated to each service delivery unit.	A
8.4. Performance evaluation for service delivery	The evaluation of the efficiency or effectiveness of service delivery covered 26.14% of total service delivery expenditures in FY 2018, but they were not published.	C

Dimension PI-8.1 Performance plans for service delivery

90. As of 2019, the Liuyang City Government required all budgetary units to articulate their performance plans for special funds in the departmental budget documents. In FY 2019, all of the 14 service delivery departments disclosed their performance plans on the government website (see Annex 4 for the website). Most performance plans contained quantitative output and/or outcome targets to be delivered by the whole department or through some specific projects. For example, the Education Department announced that 11 new primary schools and public kindergartens would be built; that 26 schools would be expanded; and that the coverage of inclusive kindergartens would reach 84 percent. The expenditures with performance plans that include policy objectives, key performance indicators or output/outcome indicators, accounted for 77.55% of the total expenditure of these public service providers.

91. 11 public service providers had published work plans containing performance plan information. These work plans all contained information on the activities to be carried out by the department, as well as some performance plan information. However, only some of these work plans included performance indicators and measurable outputs and/or outcome targets. Table 3.12 shows that the expenditures with performance plan or work plan including information on activities carried out under the policy objectives, account for about 77.55% of the total expenditure of these public service providers. So the dimension score is C.

Table 3.12: Performance plans of the 14 largest service delivery agencies, FY 2019

Department	Final accounts (RMB million)	Budget meeting requirements (RMB million)	% of service delivery expenditures	Program objectives specified (Y/N)	Key PIs (Y/N)	Planned performance		Information on activities undertaken	Documents of performance plans
						Outputs (Y/N)	Outcomes (Y/N)		
Education	2,290.63	2,095.42	91.48	Y	Y	N	Y	Y	performance plan
Civil Affairs	271.24	244.98	90.32	Y	Y	N	Y	Y	performance plan
Housing and Urban-Rural	557.34	13.63	2.45	Y	Y	N	Y	Y	performance plan
Science and Information Technology	61.05	5.82	9.53	Y	Y	N	Y	Y	performance plan
Industry and Information Technology	60.34	9.09	15.06	Y	Y	Y	Y	Y	performance plan
Human Resources and Social Security	42.13	36.08	85.64	Y	Y	Y	N	Y	performance plan
Transport	202.74	31.96	15.76	Y	Y	Y	Y	Y	performance plan
Water Resources	287.75	92.74	32.23	Y	Y	Y	Y	Y	performance plan
Agriculture	371.69	30.58	8.23	Y	Y	Y	N	Y	performance plan
Forestry	152.88	62.42	40.83	Y	Y	Y	Y	Y	performance plan
Commerce	29.39	10.21	34.74	Y	Y	Y	Y	Y	performance plan
Culture and Tourism	156.95	34.11	21.73	Y	Y	Y	Y	Y	performance plan
Health Care	2,850.93	3125 ¹	100 ¹	Y	N	N	N	Y	work plan
Natural Resource	811.83	800	98.54	Y	N	N	N	Y	work plan
Total	8,146.88 (a)	6,317.97 (b)	77.55% (b/a)						

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

Note 1: The expenditure with performance plans of the Health Care system in the report was 3125. The reason that it was larger than the figure in the final account was that hospitals and other expenditure units could not precisely predict the revenue/expenditure.

Dimension PI-8.2 Performance achieved for service delivery

92. As of 2018, the Liuyang City Government had required all budgetary units to conduct self-assessments of the overall performance of their department or by project, laid out a framework for the self-assessment reports, and required them to use quantitative indicators for outputs and outcomes to measure performance. Of the 14 service delivery departments, 7 conducted self-assessments of their departmental expenditure program, while the others conducted self-assessments of project performance only.

93. 9 of the service delivery departments published their FY 2018 performance achievements on their websites. The Education Department, for example, reported it had completed 5 new middle schools, 70 standardized schools, and 6 new public kindergartens; eliminated 178 oversized classes; and significantly improved education equity between urban and rural schools. The Health Department reported the establishment of 192 family doctor service teams and the construction of 60 family doctor consulting rooms. The ratio of residents who have signed contract with family physician reached 60 percent. Of the disclosed performance information, the performance achievement measured by quantitative outputs and outcomes in FY 2018 covered 87.12 percent of total service delivery expenditures (Table 3.13). Therefore, the assigned dimension score is B.

Table 3.13: Actual performance measured by the 14 largest service delivery agencies, 2018

Department	Final accounts (RMB million)	Final accounts meeting the requirements (RMB million)	% of service delivery expenditures	Actual performance			Document capturing actual performance
				Data on out-puts (Y/N)	Data on out-comes (Y/N)	Information on activities (if no outputs/outcomes) (Y/N)	
Education	2,290.63	2,290.63	100.00	Y	Y	Y	Work summary
Civil Affairs	271.24	88.55	32.65	Y	Y	Y	Performance Self-Assessment Report
Housing and Urban-Rural Development	557.34	142.96	25.65	Y	Y	Y	Work summary
Science and Information Technology	61.05	58.48	95.79	Y	Y	Y	Work summary
Industry and Information Technology	60.34	60.34	100	Y	Y	Y	Work summary
Human Resources and Social Security	42.13	42.13	100	Y	Y	Y	Work summary
Transport	202.74	22.75	11.22	Y	Y	Y	Performance Self-Assessment Report
Water Resources	287.75	263.30	91.50	Y	Y	Y	Performance Self-Assessment Report
Agriculture	371.69	371.69	100.00	Y	Y	Y	Work summary

Department	Final accounts (RMB million)	Final accounts meeting the requirements (RMB million)	% of service delivery expenditures	Actual performance			Document capturing actual performance
				Data on out-puts (Y/N)	Data on out-comes (Y/N)	Information on activities (if no outputs/outcomes) (Y/N)	
Forestry	152.88	16.22	10.61	Y	Y	Y	Performance Self-Assessment Report
Commerce	29.39	29.39	100.00	Y	Y	Y	Work summary
Culture and Tourism	156.95	48.15	30.68	Y	Y	Y	Performance Self-Assessment Report
Health Commission	2,850.93	2,850.93	100.00	Y	Y	Y	Work summary
Natural Resource	811.83	811.83	100.00	Y	Y	Y	Work summary
Total	8,146.89 (a)	7,097.35 (b)	87.12% (b/a)				

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

Notes: The public website of the work summary and performance self-assessment report can be found in Annex 4.

Dimension PI-8.3 Resources received by service delivery units

94. This dimension measures the extent to which a department can monitor whether the service delivery units receive the funds allocated to the respective sector/services as planned. Based on their funding sources, there are two kinds of frontline service delivery units: those fully-funded and those partially-funded by the SNG. Partially-funded units also rely on their own revenue for service-delivery, mainly in the Transportation, Health and Education Departments. Below an example is given of two frontline units, the Education Bureau and the Health Bureau:

95. Under the Education Bureau, there are:

- **10 administrative service units fully funded by the SNG including an examination center, an education equipment procurement center, a graduate employment service center;**
- **209 primary schools, 62 middle schools, 2 intermediate vocational schools and 1 special education school for the disabled. They were fully funded by the SNG. From 2016 to 2018, some of them received donations from firms and households which were directly transferred into a single treasury account. At the same time, depending on the purpose of the donation and the designated beneficiaries, these funds were separately disbursed by the donated schools. The disbursement of donations was still incorporated in the budget execution reports.**

96. Under the Health Bureau, there are:

- **7 administrative service units, 1 of them being partially funded by the SNG. Their scope of functions covers birth consultation and support, disease control, public health awareness enhancement, supervision, law enforcement and so on. Most funds, like those for the Public Health Performance Assessment Center in Liuyang, are raised entirely through their own efforts. However, these are also incorporated in the budget execution reports.**
- **4 general hospitals, 3 specialized hospitals, 32 township hospitals and 4 community health service centers. These medical institutions are partially funded by the SNG and mainly rely on their own generated revenue.**

97. The Liuyang 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 fees, are recorded in their financial report. The monthly financial reports are submitted to the Liuyang Health Bureau.

98. The administrative departments overseeing these frontline service delivery units - such as the Education Bureau and the Health Bureau - confirmed that resources to frontline units were 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 in the case of the Health Bureau. It is also confirmed that no in-kind resources are received by service delivery units and that the information on resources in the report is disaggregated by source of funds.

99. The score for this dimension is A.

Dimension PI-8.4 Performance evaluation for service delivery

100. Liuyang has carried out the third-party evaluation and self-evaluation by service delivery units, which accounted for 26.14 percent of the total expenditures of all service delivery in 2018. The results of the third-party evaluation and self-evaluation are not published. Also, independent evaluation of service delivery is still rare, though reports of independent evaluations have been published. The assigned score is C.

Table 3.14: Performance evaluation for service delivery, FY 2018

Department	Final accounts (RMB million)	Assessed amount of service delivery expenditure (RMB million)	Both third-party evaluation and self-evaluation			Only self-evaluation																																																																				
			Program/service evaluated	Assessed amount of service delivery expenditure (RMB million)	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)	Program/service evaluated	Assessed amount of service delivery expenditure (RMB million)	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)																																																																
Education	2,290.63	961	Program/service evaluated	7.27	Y	Y	Subsidy for children with Financial Difficulties	4.36	Y	Y																																																																
											Early expenses of education projects	42.8	Y	Y	Tuition Free for High School Poor Students	3.32	Y	Y																																																								
																			School equipment cost	4.40	Y	Y	Inclusive Kindergarten Project	10.62	Y	Y																																																
																											Special funds for renovation of canteen of wooden roof truss auditorium	12.7	Y	Y	Living Allowance for Poor Boarders in Compulsory Education	10.79	Y	Y																																								
																																			Special funds for education project	37.54	Y	Y	Guankou Middle School Student Dormitory	4.40	Y	Y																																
																																											Special funds for renovation of wooden roof truss auditorium	12.7	Y	Y	Construction of Unified Patrol Command Platform	6.50	Y	Y																								
																																																			Special funds for renovation of wooden roof truss auditorium	12.7	Y	Y	Student Dormitory of Shegang Middle School	3.20	Y	Y																
																																																											Special funds for renovation of wooden roof truss auditorium	12.7	Y	Y	No. 5 Apartment Building Project of No. 1 Middle School	12.00	Y	Y								
																																																																			Special funds for renovation of wooden roof truss auditorium	12.7	Y	Y	Changxinghu Primary School Construction Project	51.58	Y	Y
Special funds for renovation of wooden roof truss auditorium	12.7	Y	Y	School Water Source Rectification and Water Quality Monitoring	2.48	N	Y																																																																			
								Special funds for renovation of wooden roof truss auditorium	12.7	Y	Y	Educational People's Livelihood Supplies	43.44	N	Y																																																											

Department	Final accounts (RMB million)	Assessed amount of service delivery expenditure (RMB million)	Both third-party evaluation and self-evaluation			Only self-evaluation				
			Program/service evaluated	Assessed amount of service delivery expenditure (RMB million)	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)	Program/service evaluated	Assessed amount of service delivery expenditure (RMB million)	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)
Civil Affairs	271.24	108.07	Special fund for welfare lottery	19.52	Y	Y	Special Fund for Allowance for the Elderly	47.49	Y	Y
Science and Information Technology	61.05	5.29	Special fund for welfare lottery	/	/	/	Special Fund for Living Subsidy for Retired Village Cadres	11.02	Y	Y
Housing and Urban-Rural Development	557.34	54.17	Special funds for public welfare projects	31.00	Y	Y	Two Subsidies for the Disabled	28.65	Y	Y
Industry & Information Technology	60.34	60.34	Special funds for public welfare projects	31.00	Y	Y	2018 Basic Living Expenses for orphans	1.39	Y	Y
Transport	202.74	22.75	Special fund for registration and certificate issuance of rural land contractual management right	41.09	Y	Y	2018 Overall Department Expenditure	5.29	Y	Y
Agriculture	371.69	325.9	Special fund for registration and certificate issuance of rural land contractual management right	41.09	Y	Y	2018 Overall Department Expenditure	60.34	Y	Y
							2018 Overall Department Expenditure	22.75	Y	Y
							2018 Overall Department Expenditure	212.68	Y	Y

Department	Final accounts (RMB million)	Assessed amount of service delivery expenditure (RMB million)	Both third-party evaluation and self-evaluation			Only self-evaluation				
			Program/service evaluated	Assessed amount of service delivery expenditure (RMB million)	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)	Program/service evaluated	Assessed amount of service delivery expenditure (RMB million)	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)
Agriculture	371.69	325.9	Financial special poverty alleviation fund	66.90	Y	Y	2018 Overall Department Expenditure	212.68	Y	Y
			Special work of rural collective property right system reform	5.23	Y	Y				
Commerce	29.39	27.14	/	/	/	/	2018 Overall Department Expenditure	27.14	Y	Y
			Action of building beautiful countryside in the whole region	28.38	Y	Y	2016-2018 Three year Action of Building Beautiful Countryside	29.24	Y	Y
Health	2850.93	202.44	Basic public health services	71.76	Y	Y	2018 Overall Department Expenditure	18.91	Y	Y
							Family Planning Support Funds	48.60	Y	Y
							Basic Public Health Services	71.78	Y	Y
Forestry	152.88	69.52	Forestry production and afforestation project	12.00	Y	Y	Village Health Room Construction Project	10.30	Y	Y
							Special Funds for Forestry Law Enforcement and Supervision	4.22	Y	Y
							Expenses for pine wilt control in 2018	3.66	Y	Y
			Agricultural insurance	37.64	Y	Y				

Department	Final accounts (RMB million)	Assessed amount of service delivery expenditure (RMB million)	Both third-party evaluation and self-evaluation			Only self-evaluation								
			Program/service evaluated	Assessed amount of service delivery expenditure (RMB million)	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)	Program/service evaluated	Assessed amount of service delivery expenditure (RMB million)	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)				
Natural Resources	811.83	34.95	Special urban planning	5.00	Y	Y	Basic Farmland Management	2.92	Y	Y				
								Topographic Survey Fee	3.35	Y	Y			
								Cultivated Land Protection Fund of Land Office	3.20	Y	Y			
								Planning and Preparation Funds for Beautiful Countryside	19.48	Y	Y			
			Funds for Real Estate Surveying and Mapping	1.00	Y	Y								
Human Resources and Social Security	42.13	42.13	/				2018 Overall Department Expenditure	42.13	Y	Y				
Water Resources System	287.75	139.77	Compensation fund for scale aquaculture withdrawal	45.56	Y	Y								
											Rural tap water promotion project	45.62	Y	Y
											Winter and spring water conservancy project	44.75	Y	Y
											Water conservancy business funds	3.84	Y	Y
Total	8,146.89 (a)	2,130 (b=c+d)	562.26 (c)					1,567.74 (d)						
%Percentage	26.14 (b/a)													

Data source: Liuyang Finance Bureau.

PI-9. Public access to fiscal information

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

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

102. The transparency of public finances is undermined by the fact that some relevant documents are not made publicly available. Only three basic elements are made available to the public within the specified time frame (Table 3.15). budget Score D.

Table 3.15: Public access to fiscal information, FY 2018

Item	Criteria met (Y/N)	Explanation	Source of evidence
Basic elements			
1	N	The budget document for FY 2018 was submitted to the People's Congress on January 9, 2018. It was available to the public on January 15, 2018. (The budget was submitted to the Standing Committee on December 28, 2017, as mentioned in PI-17.3)	Government website: http://www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lyczyjsgk7/zfyjs18/42242294/index.html
2	Y	The 2018 budget law was approved by the People's Congress on January 11, 2018, and it was publicized on January 15, 2018.	Government website: http://www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lyczyjsgk7/zfyjs18/42242294/index.html
3	N	Liuyang has monthly budget execution reports which are not made public. (The half-year budget execution report for 2018 was issued on September 27, 2018. It was publicized on October 16, 2018.)	Government website: http://www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lyczyjsgk7/zfyjs18/42145257/index.html
4	Y	The budget execution report of the previous FY 2017 was publicized on January 15, 2018.	Government website: http://www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lyczyjsgk7/zfyjs18/42242294/index.html

5	Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve months of the FY's end.	Y	The summarized report for FY 2017 prepared by the Audit Office and discussed in the hearing chaired by the Standing Committee was posted on City Government website on September 30, 2018.	Government website: http://www.liuyang.gov.cn/eportal/ui?articleKey=42180524&columnId=3658959&pageId=300507
Additional elements				
6	Prebudget statement.	N	There was no prebudget statement.	
7	Other external audit reports.	N	Some special audits were carried out including debt risk audits, SOE audits and medical insurance audits (see Table 3.52 in PI-30.1), but they are not made available to the public.	
8	Summary of the budget proposal.	N	There was no summary of the budget proposal (citizens' budget).	

PI-9bis. SNG public consultation

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

104. This is a pilot indicator. Liuyang City Government chose not to use this indicator in this assessment.



PILLAR 3: Management of assets and liabilities

105. 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

106. 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 Liuyang, there are none. For Dimension 10.3, the explicit contingent liabilities arising from the financing of public investment projects are assessed.

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-10: Fiscal risk reporting (M2)		B+
10.1. Monitoring of PCs	6 out of the 10 largest SOEs (accounting for 78.63 percent of total assets) published their audited financial reports within 6 months of the end of the FY. A consolidated report on the financial performance of the PC sector is published by the SNG annually.	B
10.2. Monitoring of SNGs	Lower tier SNGs in Liuyang are treated as decentralized budget units.	NA
10.3. Contingent liabilities and other fiscal risks	Most contingent liabilities and other financial risks of Liuyang City are recorded in the government debt management system. In 2018, a report including contingent liabilities was published.	A

Dimension PI-10.1 Monitoring of PCs

108. At the end of FY 2018, there were 69 operating PCs/ SOEs in Liuyang (see Table 2.12). They are administered either directly by the county government (and reporting to the Finance Bureau) or indirectly by PSUs or GAUs other than the Finance Bureau (see Table 2.11).

109. Of the 10 largest PCs in Liuyang, 8 PCs submitted their financial reports of FY 2018 to the government

within nine months of the end of the FY, and 6 corporations published the audited financial reports within 6 months of the end of FY (Table 3.16). This accounted for 78.63 percent of total assets of the 10 largest SOEs.

110. In 2019, the SOE Supervision Center of the Finance Bureau prepared and disclosed an annual comprehensive report on state-owned assets which summarized the financial information (such as assets, liabilities, equity, revenue, net profits, etc.) of all SOEs in Liuyang for FY 2018. The score of this dimension is B.

Table 3.16: Financial reporting of PCs, FY 2018

Ten largest PCs	Government-held assets (RMB million)	% of 10 largest PCs	Date of publication of 2018 audited financial statement	Date of submission of financial report to government	Consolidated report (Y/N)
1. Hunan jinyang Investment Group Co., Ltd	12,461.12 (100%)	17.54	2019.4.26	2019.4.26	
2. Liuyang Xinnong Development Co., Ltd	2,840.16 (90%)	4.00	N	2019.5.30	
3. Liuyang Economic Development Zone Hengkang Infrastructure Management Co., Ltd	8,447.54 (100%)	11.89	N	2019.3.20	
4. Liuyang Kaiyuan development Investment Co., Ltd	2,114.91 (84.09%)	2.98	2019.4.30	2019.5.7	
5. Liuyang Economic Development Zone Hengyang Investment Management Co., Ltd.	1,530.00 (100%)	2.15	N	N	Y
6. Liuyang Hongda Investment Co., Ltd.	2,204.67 (100%)	3.10	2019.4.30	2019.5.7	
7. Liuyang Economic Development Zone Investment Development Co., Ltd	2,166.51 (76.34%)	3.05	N	2019.9.20	
8. Liuyang UDIC	29,416.16 (100%)	41.39	2019.4.30	2019.5.7	
9. Liuyang Traffic Construction Investment Co., Ltd	3,666.24 (100%)	5.16	2019.1.20	2019.1.27	
10. Liuyang Water Conservancy Construction Investment Co., Ltd	6,216.81 (94.4%)	8.76	2019.4.19	2019.4.26	
Total	71,064.12	100.00			

Data source: *Comprehensive Report on State-Owned Assets Management in 2018*, Liuyang SOE Center.

Dimension PI-10.2 Monitoring of SNGs

111. Within Liuyang City, there are 28 townships, 4 streets and 2 economic development zones. They are treated as deconcentrated budgetary units, so there are no lower-tier SNGs. Therefore, this dimension is NA.

Dimension PI-10.3 Contingent liabilities and other fiscal risks

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

113. 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), and state guarantees on private investments of different types, including special financing instruments, such as PPPs.

114. In China, there are no state insurance schemes (such as deposit insurance, private pension fund insurance, and crop insurance) operated at the county level.

115. In 2018, there was only one operating PPP project in Liuyang City, and the estimated annual fiscal expenditure during the operation period of the project was between 0.02% and 0.32% of the GPB expenditure of the same year, so it was not a significant contingent liability. In addition, Liuyang City has included the estimated PPP expenditures in its budget to effectively control PPP risks.

116. As of the year 2015, when the new Budget Law was enacted, Liuyang has established a government debt management system and has continued to upgrade the function of this system. At the time of assessment, the Liuyang FB maintained good records of both the government direct debt and contingent liabilities through this system and updates the information monthly.

117. Concerning the potential fiscal implications of PCs, Liuyang upgraded its supervision over selected PCs and strictly monitored all financial transactions of these PCs (revenues, expenditures, debt incurrence and debt repayment, i.e., all financial inflows and outflows) with an information system called ‘double control system’. All transactions require pre-review by the Finance Bureau through this system. The Finance Bureau reconciles debt records with the corporations and banks every month and produces a consolidated report which is then submitted to the mayor.

118. Overall, Liuyang has maintained good records of contingent liabilities and updates them monthly. Information of the contingent liabilities - ‘guaranteed debts and other contingent debts’ - was published on the Liuyang Government website⁴ at the end of 2018, though it was not included in the budgetary documents. The score is A.

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	DEC 31, 2018	Y
EBUs	NA	NA	NA	NA	NA	

Data source: Liuyang Finance Bureau.

4 <http://www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lczyjsgk7/zfxzw16/42243436/index.html>

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 Liuyang, the assessment covers budgetary units and the EBUs, as well as the investment projects co-funded by the CG, as long as the Liuyang 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
PI-11 Public investment management (M2)		C+
11.1 Economic analysis of investment proposals	In FY 2018, economic analyses of all major investment projects were conducted according to national guidelines by professional institutes and reviewed by experts from universities and government departments other than the sponsoring department. However, results of the reports were not published.	C
11.2 Investment project selection	The Major Investment Project Office (MIPO) of the DRC is responsible for selecting the investment projects and making proposals to the County Committee. There are clearly stipulated criteria for prioritizing investment projects.	A
11.3 Investment project costing	Investment project costing information is not included in the budget documents.	D
11.4 Investment project monitoring	The MIPO monitors the total cost and physical progress monthly and publicizes the result biannually on the government website. Standard procedures and rules governing project implementation are available.	C

Dimension PI-11.1 Economic analysis of investment proposals

120. Economic analyses of all of the ten largest public investment projects approved in 2018 were conducted in line with national regulations and guidelines by professionals as part of project feasibility studies. The Liuyang Development and Reform Bureau (DRB) carried out a final review of the analyses, but the results were not publicized.

121. Score C.

Dimension PI-11.2 Investment project selection

122. The Liuyang DRB issued the Liuyang Major Investment Project Management Methods in 2013, which provides detailed guidance on the application, selection criteria, approval procedures and implementation of government investment projects. This decree was upgraded in 2017 by Liuyang City Government, adding more detailed rules. All projects with total investment above RMB 10 million must comply with this decree. The Major Investment Project Office (MIPO) is established in the DRB to take charge of the selection, approval and oversight of all major investment projects. The MIPO solicits project proposals from all departments, selects projects according to the specified criteria, makes a project list proposal and submits the latter to the Government Executive Committee for approval. Based on the decision of the executive meeting, the MIPO formulates and issues the annual investment plan. Therefore, all major investment projects are prioritized by a central entity on the basis of published standard criteria for project selection.

123. The score is A.

Dimension PI-11.3 Investment project costing

124. For major investment projects, general projections were made for total capital costs but not recurrent costs or annual breakdown of the costs in FY 2018. In addition, the costing information of investment projects was not 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)
Soil remediation and treatment for the contaminated land of Tieshan, Baoshan, and Yonghe	N	N	N	Y	Y	Y	Y	N
Outpatient building construction project in Liji Hospital	N	N	N	Y	Y	Y	Y	N
Jichuan River upstream (north of Shuangyong Road) straight outlet regulation project	N	N	N	Y	Y	Y	Y	N
Quality improvement and reconstruction project of Chuanghui Road (Dongjin road Liudong Road)	N	N	N	Y	Y	Y	Y	N
Soil remediation project of slag waste water pollution in sulfur mine, Qibaoshan Township, Yonghe Town	N	N	N	Y	Y	Y	Y	N
Shantytown reconstruction in Zhangfang town	N	N	N	Y	Y	Y	Y	N
Road overhaul from Jingping to Chengtanjiang	N	N	N	Y	Y	Y	Y	N
Staff dormitory construction in Shegang Town health center	N	N	N	Y	Y	Y	Y	N
High standard farmland construction	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 breakdown in budget documents (Annual/Three-year)	Recurrent costs included in budget documents (Annual/Three-year)	Monitoring of total cost (Y/N)	Physical progress monitoring (Y/N)	Standard rules and procedures exist (Y/N)	High level of compliance with procedures (Y/N)	Information on total cost and physical progress published annually (Y/N)
Lixin Road extension	N	N	N	Y	Y	Y	Y	N

Data source: Liuyang DRB.

Dimension PI-11.4 Investment project monitoring

125. The MIPO is responsible for investment project monitoring and preparing monthly reports on cost and physical progress for submission to the government. However, information on progress of the major investment projects is not published. Though the Liuyang Government has been publishing the total investment costs and overall progress of major investment projects every six months (see Annex 4 for relevant links), there is no publicly accessible information of the individual investment projects. Based on the provided evidence, 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. It contains the following three dimensions and uses the M2 (AV) method for aggregating dimension scores. The Liuyang assessment covers the budgetary units and the last completed FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-12. Public asset management (M2)		B
12.1. Financial asset monitoring	Liuyang maintains records of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at real (market) value. Information on the performance of the major categories of financial assets is published annually.	B
12.2. Nonfinancial asset monitoring	Liuyang maintains records of its holdings of fixed assets and collects partial information on their usage and age. The information is mostly not available to the public.	C
12.3. Transparency of asset disposal	Procedures and rules for the transfer or disposal of nonfinancial 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 and equity in state-owned and private sector institutions.

128. According to the Management Methods for the Annual Report of State-Owned Assets held by GAUs and PSUs published by the MOF in 2017 (Circular Cai Zi, 2017, No. 3), the Liuyang Finance Bureau compiled the Summary Table of State-Owned Assets of GAUs and PSUs in 2018, where balances of cash, bank deposits, leases, receivables and social insurance funds were recorded. The equity in the state-owned enterprises held by the Liuyang Government is recorded by the Liuyang SOE Center in a ledger primarily based on the amount of capital contribution.

129. In 2018, a comprehensive report on the management of state-owned assets in Liuyang was prepared, submitted to the People's Congress for review in March 2019, and published on the website of the Liuyang Finance Bureau.

130. In addition, the city's state-owned capital operating income (including profits handed over by SOEs, dividend income, etc.) in 2018, was included in the audited financial report of the SCOB, submitted to the People's Congress for review in March 2019, and published on the website of the Liuyang Government.

131. Therefore, the main categories of financial assets are well recorded, summarized in the annual comprehensive report and published. But the financial assets are mainly recorded at book value, and except in a few cases, they are recorded at fair (market) value. The score is B.

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)	Source of information
Equity	Y	Y	N	N	Y	1. Comprehensive report on state-owned assets management of the City in 2018. 2. 2018 Budget execution report.
Term Dep.	Y	N	Y	Y	Y	
Leases	Y	Y	N	N	Y	
Receivables	Y	Y	N	N	Y	
Loans to PCs	NA	NA	NA	NA	NA	

Dimension PI-12.2 Nonfinancial asset monitoring

132. Per the PEFA Assessment Fieldguide, categories of nonfinancial 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).

133. The Summary Table of State-Owned Assets of GAUs and PSUs in 2018 compiled by the Liuyang Finance Bureau covered intangible assets, land, and most items of the fixed assets (such as office buildings, economic affordable housing, roads and bridges, urban infrastructure, vehicles, and other machinery and equipment) and kept detailed records including usage and age.

134. In Liuyang, the government's nonfinancial assets, apart from mineral, energy and other natural resources, are also recorded in the ledgers and registers of the Changsha GAU and PSU Asset Management Information System, covering information on the acquisition time, estimated life span, accumulated depreciation and net value of the assets. The information on water, forest and mineral resources is registered by the relevant management departments. For instance, the records on water resources are kept by the Water Conservancy Bureau and Hydrology Bureau.

135. Most of the nonfinancial assets were reported in a balance sheet of the Liuyang Government in 2018 and included in the Summary Table of State-Owned Assets of GAUs and PSUs. Some aggregate data on the assets held by the Liuyang Government, including non-productive assets such as land, water, forest and mineral resources, were included in the Comprehensive Report on the Management of State-Owned Assets in Liuyang and published.

136. Therefore, the Liuyang Government maintains records of its holdings of fixed assets, and collects partial information on their usage and age, but the information is mostly not available to the public, which meets the criteria for a C score.

Table 3.20: Non-financial asset monitoring – check list of record of holdings, FY 2018

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	NA	N

Data source: Related management departments (Water Conservancy Bureau and Hydrology Bureau; Forestry Bureau; Natural Resource Bureau); Liuyang Finance Bureau; City Civil Affairs Bureau.

Dimension PI-12.3 Transparency of asset disposal

137. The Provisional Regulations for the Management of State-Owned Assets held by GAUs and PSUs in Liuyang, promulgated in 2011, stipulate the rules governing the disposal of both financial and non-financial assets by budgetary units, where disposal of assets includes transferring, exchanging, allocating, donating, dismantling, scrapping, reporting loss, etc. Accordingly, the Finance Bureau is responsible for the management of asset disposal by all budget units. For disposing of assets worth more than RMB 50,000, assets evaluation and market-based bidding methods are required. For disposing of equity in SOEs, land-use rights and other major assets, the budget units shall go through established application procedures and get approval from the Finance Bureau and the top city leaders. The State-Owned Assets Trading Center shall conduct classified registration of asset disposal.

138. In the Summary Table of State-Owned Assets of GAUs and PSUs in 2018, prepared by the Liuyang Finance Bureau, the asset disposal information was reported and included the original and net book value of disposed assets, as well as gains from asset disposal, being broken down by type of disposal method (scrap, damage, free allocation, etc.) and by type of budgetary unit (GAU or PSU). Information on the gains from asset disposal in 2018 was published on the website of the Liuyang Government in the Comprehensive Report on the Management of State-Owned Assets in Liuyang.

139. The score is A.

Table 3.21: Transparency of asset disposal, FY 2018

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	Y	NA	N

Data source: Finance Bureau; the City State-Owned Assets Trading Center.

PI-13. Debt management

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-13. Debt management (M2)		C+
13.1. Recording and reporting of debt and guarantees	Debt records are complete, accurate, and updated when transactions are made. They are updated monthly via the debt management system and reconciled annually. Comprehensive reports of explicit debt obligation are issued by the Liuyang Government annually.	C
13.2. Approval of debt and guarantees	The Liuyang Bureau of Finance is the responsible debt management entity. It is authorized to borrow on behalf of the city government and monitor the financing transactions according to the debt management rules. Annual borrowing undergoes approval by the Liuyang City People's Congress.	A
13.3. Debt management strategy (DMS)	There is no medium-term DMS indicating risk indicators such as interest rates and refinancing, and foreign currency risks.	D

Data source: Liuyang Finance Bureau.

Dimension PI-13.1 Recording and reporting of debt and guarantees

141. 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 SNG 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.

142. In Liuyang, all bonds are recorded in a debt management system developed by the MOF. There are three kinds of bonds - general bonds, special bonds, and swap bonds which aim to substitute the contingent liabilities identified in 2014. 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. The majority of debt is the on-lending of subnational bonds issued by Hunan province. HPFD reconciled the debt information with Liuyang BF annually. Comprehensive management and statistical reports covering debt service, stock, and transactions are produced annually.

143. The recording and reporting of debt and guarantees in Liuyang 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)	M	Y

Data source: Liuyang Finance Bureau.

Dimension PI-13.2 Approval of debt and guarantees

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

145. Liuyang City 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 City's Finance Bureau shall be the responsible debt management entity. It is authorized to borrow on behalf of the county government upon approval of the county government and monitor financing transactions.

146. Evidence shows that the Budget Law and the above Rules have been strictly adhered to. The borrowing amount of Liuyang in 2018 was included in the budget adjustment and approved by the City 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

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 (October 26, 2018)

Data Source: Liuyang Finance Bureau.

Dimension PI-13.3 Debt management strategy

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



PILLAR 4: Policy-based financing

148. This pillar assesses whether the government's fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections. The assessment under this Pillar is based solely on the GPB and GFB.

PI-14. Medium-term budget strategy

149. This indicator measures the ability of a county to develop robust macroeconomic and fiscal forecasts, which are crucial to 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 Liuyang budgetary units and the last budget (2019) submitted to the local legislature.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-14. Medium-term budget strategy (M2)		D+
14.1. Preparation of the budget	Budget preparation is based on information of transfers, revenue and expenditure, 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
14.2. Fiscal impact of policy proposals	There are no estimates of fiscal impact about proposed changes in revenue and expenditure policy for the FY.	D
14.3. Medium-term expenditure and revenue estimates	No medium-term expenditure and revenue estimates are prepared.	D
14.4. Consistency of budget with previous year estimates	No medium-term expenditure and revenue estimates are prepared.	NA

Dimension PI-14.1 Preparation of the budget

150. According to a collection of reference documents for budget preparation, the budget for the 2018 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. Revenues 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.

151. However, budget preparation did not consider some of the key macroeconomic indicators such as the CPI and interest rates or refer to fiscal and sectoral strategies. Moreover, estimates of revenue and expenditure for the two following FYs were not prepared.

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

Dimension PI-14.2 Fiscal impact of policy proposals

153. 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.

154. In the budget report submitted to the legislature, there are rough revenue and expenditure descriptions for each main item rather than fiscal impacts, which include, but are not limited to, the increase of public service and investment projects and 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	Y

Data source: Budget report FY 2018.

Dimension PI-14.3 Medium-term expenditure estimates

155. The annual budget presents the 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 can also identify the service delivery program or the department. But no medium-term expenditure and revenue estimates were conducted in preparing the budget for the FY 2018. Based on the supporting 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 FY 2018 and budget estimates 2018.

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

156. No medium-term expenditure and revenue estimates were prepared. This dimension is NA.

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

157. 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

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

Indicators/ Dimensions	Assessment of performance	2019 Score
PI-17. Budget preparation process (M2)		B
17.1 Budget calendar	Date of the 2019 budget circular was September 18, 2018. Deadline for submission of the budget drafts was January 3, 2019. I.e., there is more than 6 weeks from receipt of the budget circular to meaningfully completing detailed estimates.	A
17.2 Guidance on budget preparation	The expenditure ceilings were provided on January 1, 2019, after the distribution of the budget circular to the budget units (September 18, 2018), but before the budget units submitted their revised budget on January 3, 2019.	B
17.3 Budget submission to the legislature	Budget submission to the legislature was after the start of the FY for two of the three FYs.	D

Dimension PI-17.1 Budget calendar

159. In accordance with a predetermined calendar, the budget preparation in Liuyang 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 budget proposal and submit it to FB 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 (2018.10.31): Deadline for budgetary units to submit first draft budget to the government.
- (2) First down (2019.1.1): Government approves the expenditure ceilings and sends to budgetary units.
- (3) Second up (2019.1.3): Deadline for budgetary units to submit revised budget proposal to legislature, based on the ceiling.
- (4) Second down (2019.1.18): Legislature approves the budget.

160. The budget calendar is generally adhered to. The date of the FY 2019 budget circular was September 18, 2018. The deadline for submission of the budget drafts was January 3, 2019. This means that the budgetary units were given more than 6 weeks to meaningfully complete their detailed estimates on time. The score is A.

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	2018.9.18	2018.10.31	All units	100	2019.1.1	NA

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

Dimension PI-17.2 Guidance on budget preparation

161. 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 Liuyang Government. The expenditure ceilings were provided on January 1, 2019, after distribution of the first circular to the budgetary units on September 18, 2018, yet before completion and submission of the revised budgets by the budgetary units on Jan 3, 2019. Liuyang FB had several rounds of discussions with each budget unit about their budget priority before issuing the budget ceiling. This enabled budget units to revise their budget plan and submit to the FB within two days of receiving the budget ceiling. The score is B.

Dimension PI-17.3 Budget submission to the subnational council

162. 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.

163. 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 Liuyang, the submission of the budget to the legislature was after the start of the FY in two of the last three completed FYs (Table 3.27). One important reason is that the local People's Congress are mostly held around January. Thus, the score is D.

Table 3.27: Budget submission to legislature

FY	Date of submission of budget proposal
2016	2016.1.6
2017	2017.1.22
2018	2017.12.28
2019	2019.1.3

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

PI-18. Legislative scrutiny of budgets

164. 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. 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
PI-18. Legislative scrutiny of budgets (M1)		C+
18.1. Scope of budget scrutiny	Budget scrutiny by the Liuyang People's Congress covers details of expenditure, revenue and fiscal policies, but not medium-term fiscal forecasts and medium-term priorities.	B
18.2. Legislative procedures for budget scrutiny	Procedures for reviewing budget proposals were approved by the City People's Congress in advance of budget hearings and were adhered to. Legislature carried 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 had taken place.	B
18.3. Timing of budget approval	The subnational legislature approved the annual budget within one month of the start of the FY in two of the last three FYs.	C
18.4. Rules for budget adjustments by the executive	The Budget Law sets rules and procedures for in-year budget adjustment by the executive. However, these rules were not always adhered to.	C

Dimension PI-18.1 Scope of budget scrutiny

165. The legislature in Liuyang 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, revenue and fiscal policies which would impact fiscal revenues and expenditures in the coming FY, while not including medium-term fiscal forecasts and medium-term priorities.

166. The scope of budget scrutiny in Liuyang 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: <http://www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lczyjsgk7/index.html> (see the attachment at the bottom of annual budget report web page).

Dimension PI-18.2 Legislative procedures for budget scrutiny

167. The budget review procedure of the legislature was stipulated in the 2014 Budget Law and the Supervision Law of the Standing Committee of the People's Congress at Various Levels of the People's Republic of China (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 carry out a preliminary check, and the representatives to the people's congress 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, followed by the standing committee of the people's congress reporting the findings of the preliminary scrutiny of the budget proposal to the presidium. After that, the people's congress may approve the budget proposal. The Laws also stipulate, in detail, the contents of the standing committee's scrutiny of the budget proposal and the key points that the people's congress shall pay attention to in budget scrutiny.

168. The subnational legislature's procedures to review budget proposals shall be approved by the legislature in advance of the budget hearing. In April 2008, the Standing Committee of the Liuyang People's Congress approved the Measures for Budget Scrutiny. In February 2017, the Standing Committee of the Liuyang People's Congress approved the Decision of the Standing Committee of the Liuyang People's Congress on Strengthening the Supervision of Economic Development (trial version), the Decision of the Standing Committee of Liuyang People's Congress on Strengthening Budget Review and Supervision (trial version), and the Decision of the Standing Committee of Liuyang People's Congress on the Voting Procedures of Budget Scrutiny (trial version).

169. According to these Decisions, the preliminary scrutiny of budget proposals shall involve three steps. Evidence shows they were adhered to:

(1) First, after receiving the budget proposals, the Finance and Economic Committee of the Liuyang People's Congress consulted with the Finance Bureau when preparing for the budget. During the consultation, directors of each sector in the Finance Bureau introduced the budget preparation plan.

(2) Second, the Finance and Economic Committee of the Liuyang People's Congress held a plenary meeting to prepare a preliminary scrutiny report based on the investigation.

(3) Third, the Standing Committee of the Liuyang People's Congress met to scrutinize the budget proposals, and the chiefs of all functional departments attended this meeting for consultation.

170. However, there is no evidence that arrangements are in place for public consultation of the budget. Based on the analysis and the supporting 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: Liuyang People's Congress; Budget Law of the PRC.

Dimension PI-18.3 Time of budget approval

171. During the last three completed FYs (2016, 2017, and 2018), the annual budget proposals were approved by the Liuyang People's Congress on January 12, 2016, February 25, 2017, and January 10, 2018, respectively. China's FY begins on January 1. Therefore, in all three years, the county legislature approved the annual budget proposal after the start of the FY, the lag periods being 12 days in 2016, 55 days in 2017, and 10 days in 2018.

172. The timing of budget approval in Liuyang meets the criteria for a C score.

Table 3.30: Timing of budget approval

Budget for FY	Date of budget approval
2016	January 12, 2016
2017	February 25, 2017
2018	January 10, 2018
2019	February 1, 2019

Data source: Liuyang Government website.

Dimension PI-18.4 Rules for budget adjustments by executive

173. 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.

174. In December 2018, Liuyang People's Congress scrutinized the budget adjustment on October 26, covering transferred-ins from other budgets and on-lent bonds. However, many kinds of budget adjustments did not go through the approval procedures at the legislature – about 36 percent of all the budget adjustment and about 13.9 percent of the actually executed expenditure.

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

item			General public budget (D)	Government fund budget (E)	Total (D + E)	
Budget adjustments	In accordance with rules	Earmarked transfers	1506.41	65.80	1572.21	
		Received on-lending of SNG Bonds	175.00	527.00	702.00	
		Subtotal (A)	1681.41	592.80	2274.21	
	Not in accordance with rules	Tax rebate	372.12		372.12	
		General transfer	1987.98		1987.98	
		Carryover from last year	617.41	126.47	743.88	
		Transferred-in from other budgets	1501.78	0	1501.78	
		other	0	-970.82	970.82	
	Expenditure in adjusted budget			125.09	40.16	16525.43
	Expenditure in originally approved budget			64.50	42.68	10717.93
Total budget adjustment (B)			60.59	-2.52	6310.64	
Executed expenditure (C)			124.55	39.61	16416.48	
Amount of reallocations in accordance with rules (% of SNG budget) (A/C)			13.9%			
Extent of adherence to rules (A/B)			36.0%			

Data source: Liuyang Finance Bureau.

175. While clear rules for budget adjustment exist, they are adhered to only in certain instances. The rules for budget adjustments by the executive in Liuyang 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	13.9	Some

Data source: Liuyang Finance Bureau.



PILLAR 5: Predictability and control in budget execution

176. This pillar assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended. The assessment under this Pillar is based solely on the GPB and GFB.

PI-19. Rights and obligations for revenue measures

177. 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.

178. 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, the 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.

179. 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 administer 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 Liuyang, 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.

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

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

PI-20. Accounting for revenue

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-20. Accounting for revenue (M1)		A
20.1. Information on revenue collections	The Liuyang Government obtains revenue data at least monthly from the collecting units. The information is consolidated into a report, broken down by revenue type.	A
20.2. Transfer of revenue collections	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 designated agency, and to the Treasury 3 to 10 days later.	A
20.3. Revenue accounts reconciliation	Governments at county level are not authorized to administrate and collect taxes. The duty of tax revenue reconciliation is NA to Liuyang City.	NA

Dimension PI-20.1 Information on revenue collections

182. Own-source fiscal revenues in Liuyang include tax revenues and non-tax revenues. At present, STA is responsible for collecting the tax revenues and a small part of non-tax revenues, while Liuyang Finance Bureau is responsible for collecting most of the non-tax revenues (see Table 3.33).

183. The Treasury Office at the Finance Bureau obtains revenue data from the units responsible for collecting tax and non-tax revenues and compiles a daily report.

184. The PEFA assessors reviewed the revenue report of December 10, 2019, which indicated the daily and annual cumulative amounts of all types of fiscal revenues. The data is subdivided into each tax type and non-tax subject. This revenue data covers all the collected revenues on that day.

185. Based on the supporting evidence, the score of this dimension is A.

Dimension PI-20.2 Transfer of revenue collections

186. 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.

187. The SAT Liuyang office strictly abides by this rule, and all the tax revenues collected are directly and simultaneously paid into the Liuyang Treasury. The assessors checked the tax payment certificates, which show that the date of tax payment is identical with the date of transferal of the tax revenue to the Treasury.

188. According to the Circular of the MOF on Further Standardizing the Management of Local Treasury Funds

and Special Account Funds (Cai Ku, 2014, No. 175), the non-tax revenues that are collected through the special accounts must be transferred to the Treasury within 10 days.

189. The SAT and the Liuyang Finance Bureau strictly abide by this rule. The single treasury account system was established in Liuyang. It includes a local Treasury and several special accounts. 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 Treasury 3 to 10 days later. Units collecting non-tax revenue make daily transfers of their collections to a designated agency.

190. However, referring to the audit reports prepared by the Liuyang Audit Bureau on budget execution in FY 2018, the assessors found that RMB 109.4 million of non-tax revenues were not transferred to the Treasury timely. This accounted for 2.56 percent of total actual expenditures.

191. Based on the supportive 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 Finance Bureau			Revenue collections deposited:		Reconciliation	
	Revenue type(million RMB)	% of Total	At least monthly (Y/N) - entered into FMIS	Revenue type (Y/N)	Con-solidated report (Y/N) – prepared by FMIS	Frequen-cy	To Trea-sury Ac-count	Fre-quen-cy	Within
Revenue collected by budgetary units									
STA	Tax (753.31)	51.84	Y	Y	Y	Daily	Treasury Account	Daily	
STA	Nontax (36.67)	2.52	Y	Y	Y	Daily	Special Financial Account	Daily	
Liuyang Finance Bureau	Nontax (663.05)	45.64	Y	Y	Y	Daily	Special Financial Account	Daily	
Sub-total	1453.03	100							
Revenues collected by EBUs: none									

Data source: Liuyang Tax Bureau, Liuyang Finance Bureau.

Note: The revenue data is for November 2019.

Dimension PI-20.3 Revenue account reconciliation

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

PI-21. Predictability of in-year resource allocation

193. This indicator assesses the extent to which the central 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. The assessment covers the budgetary SNG units. The time period examined for 21.1, 21.2 and 21.4 is at 'time of assessment,' and for 21.3, the last completed FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-21. Predictability of in-year resource allocation (M2)		C+
21.1. Consolidation of cash balances	More than 90% of the balance of all bank accounts are consolidated daily.	A
21.2. Cash forecasting and monitoring	The forecasting of tax revenues and non-tax revenues is conducted at the beginning of the FY and updated monthly. Daily expenditure payments are made according to specified standards and a time schedule, forecasting for non-basic expenditures is conducted mainly for the holidays.	B
21.3. Information on commitment ceilings	The budgetary units can largely make payment within the approved budget, and there are no restrictions like commitment ceilings. But original approved budget expenditure accounts for less than two third of the actually executed expenditure. The expenditure ceilings for the budgetary units are largely unpredictable.	D
21.4. Significance of in-year budget adjustments	Significant in-year budget adjustments occur, but information on timing, amount and process for each budget adjustment is not available.	D

Dimension PI-21.1 Consolidation of cash balances

194. The TSA system set up in Liuyang in 2007 covers all accounts of the budgetary units, and it involves a number of bank accounts. The Treasury account is managed by the Liuyang branch of the People's Bank of China (PBOC); the special accounts includes: non-tax special account managed by 14 commercial banks, foreign loan special account and risk fund special account, with each managed by one commercial bank.

195. The Liuyang Treasury, managed by the Liuyang branch of the PBOC, provides daily balance reports to the Treasury Office of the Liuyang Finance Bureau. Meanwhile, the Finance Bureau achieves daily consolidation of the cash balances of all bank accounts through an electronic clearing system, and prepares daily bank balance statements covering deposits of the Treasury and all commercial banks. Therefore, the balances of all bank accounts are consolidated daily, and the score is A.

Table 3.34: Consolidation of bank and cash balances

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

Data source: Liuyang Finance Bureau.

Dimension PI-21.2 Cash forecasting and monitoring

196. Cash forecasting includes cash revenue and cash expenditure forecasting. In Liuyang, the Tax Bureau is responsible for tax revenue forecasting, while the Finance Bureau is responsible for expenditure forecasting and non-tax revenue forecasting. In 2018, the Tax Source Office at the Tax Bureau conducted annual tax revenue forecasting and the Current Fund Settlement Center at the Finance Bureau conducted annual non-tax revenue forecasting. The forecasting was updated monthly. Cash expenditures, these can be divided into daily basic expenditures and other non-basic expenditures. While daily basic expenditures are mainly arranged according to specified standards and a time schedule, in 2018, the Liuyang Finance Bureau conducted cash expenditure forecasting mainly for the non-basic expenditures, particularly for the holidays. The score is B.

Table 3.35: Cash flow forecasts, commitment controls and budget adjustments

Cash flow forecast (Y/N)	Frequency of update (M/Q/A)	Update based on cash inflows (Y/N)	Frequency of release of commitment ceilings (M/Q/A)
Y	M	Y	M

Data source: Liuyang Tax Bureau, Liuyang Finance Bureau.

Dimension PI-21.3 Information on commitment ceilings

197. The budgetary units can largely make payment within the approved budget, and there are no restrictions like commitment ceilings. Though the monthly payment plan is submitted and approved in advance, the actual expenditures frequently differ from the planned expenditures (according to the payment records provided by the Payment Center under the Finance Bureau). Therefore, the commitment of the budget unit cannot be considered reliable.

198. In Liuyang, the originally approved budget expenditure typically accounts for a relatively small share of the actual executed expenditure (the percentage is 67.4%, 60.3% and 62% in 2016, 2017 and 2018 respectively for the general public budget). The expenditure ceiling for the budgetary units are still unpredictable. Therefore, the score for this dimension is D.

Dimension PI-21.4 Significance of in-year budget adjustment

199. Liuyang conducted significant budget adjustments in 2018 (see PI-1.1 and PI-18.4), but the adjustments received only ex post approval from the legislature. The score for this dimension is D.

PI-22. Expenditure arrears

200. 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 21.3 is 'at time of assessment' (2019). The coverage comprises the SNG budgetary units.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-22. Expenditure arrears (M1)		D
22.1. Stock of expenditure arrears	Since Liuyang City has not set up a monitoring system for expenditure arrears, data on stock of arrears are not available.	D*
22.2. Expenditure arrears monitoring	The City did not systematically register and monitor possible payment arrears.	D

Dimension PI-22.1 Stock of expenditure arrears

201. According to the 2014 Budget Law, the expenditures of all budgetary units must be based on approved budgets. However, in the process of government procurement, expenditure arrears may be caused by delayed payment of budget units. Between FY 2016 and 2018, the city 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

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

PI-23. Payroll controls

203. This indicator is concerned with the payroll for public servants: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor (if using U.S. spelling change to 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 the 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 Liuyang budgetary units and EBUs.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-23. Payroll controls (M1)		B+
23.1. Integration of payroll and personnel records	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.	A
23.2. Management of payroll changes	Changes to the personnel records and payroll are updated monthly. Retroactive changes to the existing payroll records are not allowed in the e-financial management system.	A
23.3. Internal control of payroll	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.	A
23.4. Payroll audit	In the assessed FYs, payroll-related audits were conducted for more than 90% of the budgetary units and a special inspection of 'ghost employees' covered all budgetary units.	B

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

Dimension PI-23.1 Integration of payroll and personnel records

204. In Liuyang, the payroll control system for civil servants is handled by three departments: the Bureau of Human Resources and Social Affairs is responsible for keeping personnel records; the Finance Bureau is responsible for arranging the monthly salary payments, and the City Staffing Office is responsible for drafting the recruitment plan.

205. All budgetary units are required to recruit new staff members within the approved budget and the staffing quota determined by the City Staffing Office. Information on the plans, methods, process and results of the recruitment has to be published on the website of the Liuyang Government. Once the acceptance of a new staff member is approved by the City Staffing Office, a new personnel record is added for that person in the personnel information management system maintained by the Bureau of Human Resources and Social Affairs. The personnel records capture the following personal information of staff members: personal bank account, salary amount, tax and insurance payments, promotions and salary changes.

206. The Wage Payment Center at the Finance Bureau prepares the payroll according to the personnel records. For the Finance Bureau, the personnel records kept at the Bureau of Human Resources and Social Affairs

are readable but not editable. The Wage Payment Center under the Finance Bureau reconciles payroll and personnel records monthly, before salaries are paid to the bank accounts of the staff members. The approved employee list, personnel database and payroll are all directly linked to each other through the IT system. Therefore, the budget control and data consistency is ensured.

207. The score is A.

Table 3.36: Payroll controls

Function	Y/N	By whom	Frequency (if applicable)
Hiring and Promotion checked against approved staff list	Y	City Staffing Office	Monthly
Reconciliation of payroll and personnel database	Y	Human Resources and Social Security Bureau	Monthly
Documentation maintained for payroll changes	Y	Wage Payment Centre at the Finance Bureau	Monthly
Payroll checked and reviewed for variances from last payroll	Y	Wage Payment Centre at the Finance Bureau	Monthly
Updates to personnel records and payroll	Y	Wage Payment Centre at the Finance Bureau, City Staffing Office	Monthly
Updates include validation with approved staff list	Y	City Staffing Office	Monthly
Audit trail of internal controls	N	NA	NA
Payroll audits in last three years	Y	Audit Bureau	Annual

Data sources: <http://www.liuyang.gov.cn/eportal/ui?pageId=300507&articleKey=42404864&columnId=306065>.

Note: The audited units in last three FYs included the DOF, the Human Resources and Social Security Bureau, the Bureau of Industry and Information Technology, the Health Bureau, the Bureau of Forestry, the Urban Management and Law Enforcement Department, and their subordinate secondary units.

Dimension PI-23.2 Management of payroll changes

208. The Human Resources and Social Security Bureau updates the personnel records of budgetary units monthly, based on data received from the City Staffing Office concerning the staff members' sick leave, leave for business, resignation or termination. Following approval by the Salary Review Office of the Human Resources and Social Security Bureau, the Wage Payment Centre of the Finance Bureau will change the monthly payroll in the centralized salary payment system, which is part of the e-financial management system. Retroactive changes to the existing payroll are not allowed in this system. The score is A.

Dimension PI-23.3 Internal control of payroll

209. A complete internal control system is in place for changes to the payroll. There are four steps to a payroll change: first, the budgetary units apply for changes; second, the applications are reviewed by the City Staffing Office; third, the applications are reviewed by the Human Resources and Social Security Bureau; and finally, after verification, the approved payroll change is arranged by the Wage Payment Center. Post segmentation has been implemented for each of these steps. The e-financial management system assigns a unique password and

identification number to each approver to ensure that the approval process can be traced. The score is A.

Dimension PI-23.4 Payroll audit

210. In Liuyang, there is no internal and external audit specifically for the payroll, but personnel and payroll management is covered by all annual audit and inspection reviews. As shown in Table 3.51, for more than 90 percent of the budgetary units, payroll related audits have been conducted in all three FYs (2016-2018). In addition, Liuyang has established a special inspection and supervision system in order to identify and prevent the occurrence of 'ghost employees'. In 2018, a special inspection of 'ghost employees' covered all budgetary units. The score is B.

PI-24. Procurement

211. This indicator examines key aspects of procurement management. It focuses on the transparency of given arrangements, with an emphasis on open and competitive procedures, the monitoring of procurement results, and the access to appeal and redress arrangements. It contains four dimensions and uses the M2(AV) method for aggregating dimension scores. The time periods examined are the last three completed FYs (2016-2018), and the assessment covers both the SNG budgetary units and EBUs.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-24. Procurement (M2)		C
24.1. Procurement monitoring	Databases or records are maintained for contracts above the threshold, but data for small contracts are not available.	D*
24.2. Procurement methods	In the last FY, 98.6% of the total value of recorded contracts were awarded through competitive methods. However, procurement data for small contracts are generally not available.	D*
24.3. Public access to procurement information	Three out of six criteria are met.	C
24.4. Procurement complaints management	All six criteria are met.	A

Dimension PI-24.1 Procurement monitoring

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

213. In Liuyang, depending on the nature of procurement and the contract value to be procured, procurement is required by the law and regulations to be conducted in different venues, either at the procuring entities themselves, the Changsha Public Resources Transaction Center or the Liuyang Public Resources Transaction Center as detailed in the table below:

Table 3.37: Procurement venues

Venue	Changsha Public Resources Transaction Center	Liuyang Public Resources Transaction Center	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 0.5-4 million Goods: RMB 0.3-2 million Services: RMB 0.2-1 million	Works: < RMB 0.5 million Goods: < RMB 0.3 million Services: < RMB 0.2 million
Procurement following the Government Procurement Law	>=RMB 1 million	RMB 0.3-1 million	<RMB 0.3 million

214. For all contracts with a contract value of RMB 100,000 or above, all contract data, including data on what has been procured, the value of procurement and who has been awarded contracts, are recorded and registered in the Liuyang Government Procurement Information Management Platform - irrespective of whether they involve works, goods or services; irrespective of the procurement being conducted by the Changsha Public Resources Transaction Center, the Liuyang Public Resources Transaction Center, or the procuring entity itself; and irrespective of the procurement following the Tendering and Bidding Law or the

Government Procurement Law. The responsibility of maintaining the platform rests with the Liuyang Finance Bureau.

215. However, for contracts with a value less than RMB 100,000, contract data is not centrally recorded or maintained by any supervision agency or office.

216. In addition, for contracts procured following the Tendering and Bidding Law, contract data, including data on what has been procured, value of procurement and who has been awarded contracts, is published on the website of the Changsha Public Resources Transaction Electronic Service Platform (<http://csggzy.changsha.gov.cn>) if the procurement has been carried out at the Changsha Public Resources Transaction Center; and in a special column of the public resources transaction service on the website of the Liuyang People's Government (<http://www.liuyang.gov.cn>) if the procurement has been carried out at the Liuyang Public Resources Transaction Center.

217. Similarly, contracts 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 Changsha Government Procurement (<http://changsha.ccgp-hunan.gov.cn>) if the procurement has been carried out at the Changsha Public Resources Transaction Center; and in a special column of the public resources transaction service on the website of the Liuyang People's Government (<http://www.liuyang.gov.cn>) if the procurement has been carried out at the Liuyang Public Resources Transaction Center.

218. Since contract data for small contracts (with a contract value less than RMB 0.1 million) are not available, and there is no sound documentation on 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

219. This dimension focuses on the extent to which procurement contracts are awarded through competitive methods.

220. As mentioned above, only data for contracts with a contract value of RMB 100, 000 or above are available. Table 3.38 presents the available data on contract value procured in FY 2018 and the applied procurement methods.

Table 3.38: 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%
1, 286, 713, 000	17, 490, 000	1, 269, 223, 000	98.6%

221. 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.

222. For procurement following 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.

223. Again, since contract data for small contracts (with a contract value less than RMB 0.1 million) are not available, it is not possible to calculate the total value of contracts awarded through competitive methods. Score D* is assigned to this dimension.

Dimension PI-24.3 Public access to procurement information

224. This dimension looks at the extent to which the public has access to procurement information, including:

- (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.

225. The findings and conclusions under each criterion are summarized in the table below:

Table 3.39: Public access to procurement information

Element	Findings	Public access to procurement information
Legal and regulatory framework for procurement	Both the Tendering and Bidding Law and the Government Procurement Law as well as relevant implementation regulations issued by the government at central, provincial and prefectural levels are publicly available on various websites of the governments.	Yes
Government procurement plans	Only part of government procurement plans are disclosed publicly. (http://changscgcp-hunan.gov.cn/gp/homepage.html)	No
Bidding opportunities	For procurement following the Tendering and Bidding Law, the bidding opportunities are published on the website of the Hunan Provincial Tendering and Bidding Supervision (http://www.bidding.hunan.gov.cn , with a new website http://218.76.24.90/flow effective from December 9, 2019) and the website of the Changsha Public Resources Transaction Electronic Service Platform (http://csggzy.changsha.gov.cn) if the procurement is carried out at the Changsha Public Resources Transaction Center. Bidding opportunities are published in a special column of the public resources transaction service on the website of the Liuyang People's Government (http://www.liuyang.gov.cn) if the procurement is carried out at the Liuyang Public Resources Transaction Center. For procurement following the Government Procurement Law, bidding opportunities are published on the website of Changsha Government Procurement (http://changscgcp-hunan.gov.cn) and in a special column of the public resources transaction service on the website of the Liuyang People's Government (http://www.liuyang.gov.cn).	Yes

Element	Findings	Public access to procurement information
Contract award (purpose, contractor, value)	<p>For procurement following the Tendering and Bidding Law, the contract award information is published on the website of the Hunan Provincial Tendering and Bidding Supervision (http://www.bidding.hunan.gov.cn, with a new website http://218.76.24.90/flow effective from December 9, 2019) and the website of the Changsha Public Resources Transaction Electronic Service Platform (http://csggzy.changsha.gov.cn) if the procurement has been carried out at the Changsha Public Resources Transaction Center. The contract award information is published in a special column of the public resources transaction service on the website of the Liuyang People's Government (http://www.liuyang.gov.cn) if the procurement has been carried out at the Liuyang Public Resources Transaction Center.</p> <p>For procurement following the Government Procurement Law, the contract award information is published on the website of Changsha Government Procurement (http://changshaccgp-hunan.gov.cn) and in a special column of the public resources transaction service on the website of the Liuyang People's Government (http://www.liuyang.gov.cn).</p> <p>For small value contracts, the end-users are permitted to carry out procurement and invite the bids outside the centralized public resources transaction center. There are no consolidated centralized official record or file as referred to in 24.1 and 24.2. However, each end-user does publish contract information to public through its own media.</p>	Yes
Data on resolution of procurement complaints	<p>For procurement following the Tendering and Bidding Law, resolution of procurement complaints is only issued to the client and the bidder. The information is not disclosed to the public. If the resolution of a complaints results in any sanction or debarment against a bidder, such sanction or debarment is disclosed to the public on the website of the Changsha Good Faith Net (http://fgw.changsha.gov.cn/xycs).</p> <p>For procurement following the Government Procurement Law, the resolution of procurement complaints are disclosed to the public on the website of Changsha Government Procurement (http://changshaccgp-hunan.gov.cn). If a complainant is not satisfied with the resolution, he/she is entitled to request an administrative review by an HLG office or administrative litigation by the court.</p>	No (No for procurement following the Tendering and Bidding Law and Yes for procurement following the Government Procurement Law, collectively No)
Annual procurement statistics	<p>The Liuyang Government Procurement Information Management Platform maintained by the Liuyang Finance Bureau is responsible for collecting and managing procurement data. In addition to the Liuyang Finance Bureau, the Liuyang Data Resources Center at the Liuyang People's Government and the Liuyang Audit Bureau have access to the data. However, data are not disclosed publicly.</p>	No

226. Since only three of the six procurement information elements are made available to the public, the score assigned under this dimension is C.

Dimension PI-24.4 Procurement complaints management

227. This dimension examines the procurement complaint handling system. It assesses whether complaints are reviewed by a body that:

- (1) Is not involved in any capacity in procurement transactions or in the process leading to contract awarding decisions.
- (2) Does not charge fees that prohibit access by concerned parties.

- (3) Follows processes for submission and resolution of complaints that are clearly defined and publicly available.
- (4) Exercises the authority to suspend the procurement process.
- (5) Issues decisions within the timeframe specified in rules/regulations, and
- (6) Issues decisions that are binding on every party (without precluding subsequent access to an external higher authority).

Table 3.40: Procurement complaints management

Element	Findings	Whether the criterion is met or not
<p>Complaints are reviewed by a body that is not involved in any capacity in procurement transactions or in the process leading to contract award decisions</p>	<p>Complaint handling for procurement following the Tendering and Bidding Law There are two tiers to complaint handling. Under the first tier, the bidder can lodge any complaint to the client. The intended contract award recommendation is required to be disclosed for at least 3 calendar days as standstill period. The complaint regarding the intended contract award recommendation must be submitted within this standstill period. The client is required to respond to the complaint within 3 calendar days. Under the second tier, the bidder can lodge any complaint to the Public Resources Transaction Administration Office under the Liuyang DRB within 10 calendar days from his awareness of the issue.</p> <p>Complaint handling for procurement following the Government Procurement Law Also here, there are two tiers. Under the first tier, the bidder can lodge any complaint to the client within 7 working days from his awareness of the issue. The client is required to respond to the complaint within 7 working days according to the Government Procurement Law. 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 Government Procurement Administration Office of the Liuyang Finance Bureau within 15 working days after receiving the response from the client or after the expiry of the required responding time, as the case is applicable.</p>	<p>Yes (No to the first tier complaint mechanism because the entity for complaint handling is the client itself. Yes to the second tier complaint mechanism because the entity for complaint handling is independent party which is not involved in any capacity in procurement transactions or in the process leading to contract award decisions. Collectively Yes to this criterion because eventually the complainant has the opportunity to refer the case to an independent party.)</p>
<p>Complaints are reviewed by a body that does not charge fees that prohibit access by concerned parties</p>	<p>No fee is charged to the complainant neither for procurement following the Tendering and Bidding Law nor for procurement following the Government Procurement Law.</p>	<p>Yes</p>
<p>Complaints are reviewed by a body that follows processes for submission and resolution of complaints that are clearly defined and publicly available</p>	<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 DRB on April 29, 2019 clearly defines the procedures and is publicly available.</p> <p>For procurement following the Government Procurement Law, the <i>Government Procurement Complaint Handling Regulation</i> as issued by the MOF on December 26, 2017 and effective as of March 1, 2018 clearly defines the procedures and is publicly available.</p>	<p>Yes</p>

Element	Findings	Whether the criterion is met or not
Complaints are reviewed by a body that exercises the authority to suspend the procurement process	For procurement following the Tendering and Bidding Law, the Public Resources Transaction Administration Office at the Liuyang DRB exercises the authority to suspend the procurement process. For procurement following the Government Procurement Law, the Government Procurement Administration Office under the Liuyang Finance Bureau exercises the authority to suspend the procurement process.	Yes
Complaints are reviewed by a body that issues decisions within the timeframe specified in the rules/regulations	For procurement following the Tendering and Bidding Law, within 3 working days, the Public Resources Transaction Administration Office under the Liuyang DRB must determine whether a complaint is valid. If the complaint is determined valid, within 30 working days, the Public Resources Transaction Administration Office must issue its decision. For procurement following the Government Procurement Law, the Government Procurement Administration Office under the Liuyang Finance Bureau is required to issue decisions within 30 working days.	Yes
Complaints are reviewed by a body that issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)	The decisions made by Public Resources Transaction Administration Office under Liuyang DRB or the Government Procurement Administration Office under Liuyang Finance Bureau is binding on both parties. If the complainant is not satisfied with the resolution, it is entitled to request administrative review by an HLG office or administrative litigation according to the laws and regulations.	Yes

228. The complaint handling system meets all six criteria. Score A.

PI-25. Internal controls on non-salary expenditure

229. 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 and EBUs.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-25. Internal controls on non-salary expenditure (M2)		B+
25.1. Segregation of duties	Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage.	A
25.2. Effectiveness of expenditure commitment controls	The double control system effectively controls expenditure commitment, but some expenditures take 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.	C
25.3. Compliance with payment rules and procedures	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

230. Tasks are clearly segregated in line with the regulations (compiled in the document named Internal Control Regulations of Liuyang Treasury Payment Center, issued in 2017) for single treasury account internal control. Different types of authorization for payment at different stages are clearly determined in the regulations.

231. The segregation of duties in the payment procedure is as follows:

- An authorized staff member 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 member 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.

232. Any unauthorized access to the payment approval system is denied. If qualified personnel leave the position from time to time, which interferes in carrying out of duties, , the temporary replacement personnel need to fill out a registration form and submit it to the director of the Payment Center for approval before taking on the position's responsibility. The password for accessing the system is changed regularly. Regular rotation of staff is practiced at the center.

233. The segregation of duties in the process of recording payments is as follows:

- A staff member at the Liuyang 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 at the center collects all payment records and is responsible for data analysis.

234. There is an office in the Finance Bureau responsible for the so-called ‘double control’ (双控, Shuangkong) online system installed at the Payment Center and all budgetary units in 2014, which monitors every transaction of all budgetary units and SOEs. Before the 5th day of each month (before the 15th day of each month for SOEs), the office checks the bank balance of the previous month with the respective unit or enterprise. After that, the reviewers at the office and the double control team of the unit or enterprise, sign the copy of a bank statement for confirmation. If the budgetary unit fails to check uniformity of transaction records between Double Control System and bank account with the payment bureau at the Treasury Payment Center, the double control office would suspend the payment request of the unit until the bank balance is checked and confirmed.

235. For reconciliation, the Treasury Payment Center:

- Checks with each budgetary unit on a monthly basis for the disbursement from 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 prepares a reconciliation form accordingly.
- Recruits a third party for reconciliation in line with the internal control regulations. 10 bank accounts are selected for the verification by a third party each month. Reconciliation forms are prepared as well.

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

Table 3.41: 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: Liuyang Finance Bureau.

Dimension PI-25.2 Effectiveness of expenditure commitment controls

237. The internal control regulations for the single treasury account require that budget execution is carried out within the approved budget and project investment estimate. When the budgetary units request payment,

the required documentation, including abstract of the contract, project investment estimate, approval documents, meeting minutes, and leader's instructions must be uploaded in the double control system.

238. However, the following weaknesses on expenditure commitment controls were noted:

- There is no valid control for monthly expenditure commitment. For example, the budget execution audit report for FY 2018 disclosed that 64 budget units spent more than 50 percent of the annual expenditure in the fourth quarter.
- In the assessed period, cash-based accounting was still used in Liuyang's financial management system, and some payables were not recorded by the budgetary units. The payables were normally generated by investment projects that were approved by the city government, but for which in-year budget adjustment caused budget a shortage or the required funds were arranged for in the next year's budget. Though payables existed, they were neither reflected in the bookkeeping nor budget execution report as is required by the city government in order to implement a balanced budget.

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

Dimension PI-25.3 Compliance with payment rules and procedures

240. 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 budgetary units and the audit reports issued by the Audit Bureau, disclosed that some payments were approved or disbursed by budgetary units not in compliance with the rules and procedures. These violations amounted to 1.29 percent of total budget expenditure in FY 2018.

241. 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 city government and are integrated into the regular expenditures either by increasing the budget or using the budget reserve. This is a basic requirement for exceptional disbursements and is being complied with.

242. Based on the above-mentioned evidence, the score for this dimension is A.

PI-26. Internal audit

243. This indicator assesses the standards and procedures applied in internal audits. 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. Both SNG budgetary units and EBUs were assessed.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-26. Internal audit (M1)		B+
26.1. Coverage of internal audit	Every budget unit has set up the internal audit function in its unit which is responsible for the auditing of its subordinate. In the assessed period, almost all budget expenditures of the subnational entities (92.69%) and 100% of the revenue collected by the subnational entities were covered by internal audit.	A
26.2. Nature of audits and standards applied	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 Liuyang City.	B
26.3. Implementation of internal audits and reporting	The internal auditors of the five largest budget units, representing 83% of total expenditure, carry out audit in accordance with the internal audit standards.	A
26.4. Response to internal audits	During FYs 2016-2018, all audited units took remedial actions to address the issues disclosed by internal auditors within 12 months and submitted the rectification report to the superior authorities.	A

Dimension PI-26.1 Coverage of internal audit

244. In Hunan Province, the Internal Audit Measures issued by the Provincial Government (Decree No. 255, 2011) required local governments and their administrative institutions to establish an internal audit function and conduct internal audits.

245. In Liuyang City, all budget units have set up an internal audit function within their units to audit their internal entities and subordinates. Under certain circumstances, accounting firms would be hired to conduct special internal audits on the subordinates. In 2018, the 7 largest budgetary units underwent internal audits. The budget allocated to these 7 units amounted to 92.69 percent of the total budget, so the score of this dimension is A.

Table 3.42: Coverage of internal audit

Budget unit	Budget allocation in FY 2018 (RMB million and %)	Set down annual audit work plan in FY 2019 (Y/N)	Internal Audit in FY 2018 (Y/N)	Internal Audit in FY 2017 (Y/N)	Internal Audit in FY 2016 (Y/N)
Health Commission	2,850.93 (33.56%)	Y	Y	Y	Y
Education Bureau	2,290.63 (26.97%)	Y	Y	Y	Y

Budget unit	Budget allocation in FY 2018 (RMB million and %)	Set down annual audit work plan in FY 2019 (Y/N)	Internal Audit in FY 2018 (Y/N)	Internal Audit in FY 2017 (Y/N)	Internal Audit in FY 2016 (Y/N)
Bureau of Natural Resources	811.83 (9.56%)	Y	Y	Y	Y
Bureau of Housing and Urban-Rural Development	557.34 (6.56%)	Y	Y	Y	Y
Transport Bureau	550.46 (6.48%)	Y	Y	Y	Y
Water Resources Bureau	287.75 (3.39%)	Y	Y	Y	Y
Agricultural Bureau	371.69 (4.38%)	Y	Y	N	Y
Forestry Administration	152.88 (1.79%)	N	Y	N	N
Bureau of Industry and Information Technology	60.34 (0.71%)	N	N	N	N
Bureau of Science and Information Technology	61.05 (0.72%)	N	N	N	N
Civil Affairs Bureau	271.24 (3.19%)	N	N	N	N
Human Resources and Social Security Bureau	42.13 (0.50%)	N	N	N	N
Commerce Bureau	29.39 (0.35%)	N	N	N	N
Culture and Tourism Administration	156.95 (1.85%)	N	N	N	N
Total	8,494.60 (100.00%)	7,720.63 (90.9%)	7,873.51 (92.69%)		

Data source: Budget units, the Audit Bureau.

Dimension PI-26.2 Nature of audits and standards applied

246. The internal audit practices of Liuyang City comply with the requirements stipulated in the Audit Law and CNAO Decree No. 11, 2018, and the main audit tasks conducted include: financial revenue and expenditure audit; accountability audit, performance audit; audit of the implementation of key policies; internal control and risk audit (Table 3.43). CNAO Decree No. 11, 2018 clearly defines the process of preparing audit work, conducting field audits, preparing audit reports and issuing audit reports to the relevant parties.

247. Internal audit is guided by the Internal Audit Standards, the Code of Professional Ethics for Internal Auditors, and the Internal Audit Quality Evaluation, issued by the China Institute of Internal Audit.

248. In addition, the Internal Audit Measures issued by Hunan Province in 2011 and internal audit work regulations issued by Changsha Municipality in 2016, provide proper guidance for the internal audit work in Liuyang City. Although the Liuyang Audit Bureau took some measures to improve the internal audit quality within the public sector of the city, an internal audit quality assurance process has not been established. Considering this fact, the score is B.

Table 3.43: Nature of internal audit

Internal audit units	Internal audit coverage	Internal audit report prepared (Y/N)	Type of audits	Quality assurance/ standards/ high risk focus (Y/N)	Management response (Complete response, implementation, and review by auditors)
Internal audit section of budget units	(1) Education Bureau (2) Water Affairs Bureau (3) Bureau of Forestry (4) Agricultural Bureau (5) Bureau of Housing (6) Urban-Rural Development	Y	Financial revenue and expenditure audit, accountability audit, performance audit, audit on the implementation of key policies, internal control audit.	Y	Y

Data source: Related budget units; the Audit Bureau.

Dimension PI-26.3 Implementation of internal audits and reporting

249. The five largest bureaus were selected (by expenditure in 2018) to assess the implementation of internal audits and reporting. The results are summarized in Table 3.44.

250. The five largest bureaus formulated an annual internal audit work plan for 2018, which clearly defined the internal audit focus, audit scope, and the time schedule for field audits and the preparation of audit reports. The score is A.

Table 3.44: Percentage of completion of internal audit work plans

Budget units	FY 2018 budget allocation (RMB million) (% of total budget)	Number of planned audits in FY 2018 (subordinate units)	Number of completed audits in FY 2018	Share of completed audits (%)	Significant audit areas of planned audits (audit or not)
Health Commission	2,850.93 (33.56)	43	43	100	1. Special Funds (Y). 2. Public expenditure and Asset management (Y). 3. Price Control (Y). 4. Internal control (Y). 5. Revenue and Expenditure Management (Y).
Education Bureau	2,290.63 (26.97)	25	25	100	1. Economic Accountability Exit Audit (Y). 2. Revenue and Expenditure (Y). 3. Special Audit (Y).
Bureau of Natural Resources	811.83 (9.56)	5	5	100	1. Internal Control System (Y). 2. Three Official Consumption (Y). 3. Outgoing Economic Responsibility Audit (Y).

Budget units	FY 2018 budget allocation (RMB million) (% of total budget)	Number of planned audits in FY 2018 (subordinate units)	Number of completed audits in FY 2018	Share of completed audits (%)	Significant audit areas of planned audits (audit or not)
Bureau of Housing and Urban-Rural Development	557.34 (6.56)	3	3	100	1. Internal Control System (Y). 2. Three Official Consumption (Y). 3. Outgoing Economic Responsibility Audit (Y).
Transport Bureau	550.46 (6.48)	1	1	100	1. Revenue and Expenditure (Y). 2. Internal Control System (Y). 3. Accounting Compliance (Y).
TOTAL	7,061.19 (83.13)	77	77	100	

Data source: Related budget units; the Audit Bureau.

Dimension PI-26.4 Response to internal audits

251. Article 24 of CNAO Decree No. 11 stipulates the establishment of an audit report follow-up system and audited entities to take required action to address issues disclosed in the audit reports. In addition, the audited entities must report to their superiors regarding their follow-up on the auditors' recommendations.

252. In Liuyang City, 93.75 percent of the audited budget units took follow-up actions on issues disclosed by internal auditors within 12 months during FY 2016-2018 and submitted the rectification reports to their superiors. Therefore, the score is A.

253. Follow-up on the auditors' findings and recommendations was as follows:

Table 3.45: Response to internal audits

FY	Number of audited units	Number of units submitting audit rectification reports	Rate (%)
2016	5	5	100.00
2017	6	5	83.30
2018	5	5	100.00
Total	16	15	93.75



PILLAR 6: Accounting and reporting

254. This pillar measures whether accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs. The assessment under this Pillar is based solely on the GPB and GFB.

PI-27. Financial data integrity

255. 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 SNG budgetary units over FY 2018.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-27. Financial data integrity (M2)		A
27.1. Bank account reconciliation	The Treasury Centralized Payment Center reconciles their balance with the PBOC on a daily basis. The Treasury Section of the City Finance Bureau reconciles the balance and details of the special accounts with the related commercial banks daily as well.	A
27.2. Suspense accounts	There are no suspense accounts.	NA
27.3. Advance accounts	There are no advance accounts.	NA
27.4. Financial data integrity processes	All financial data is recorded in a computerized system which is managed by the Information Center housed in the Liuyang FB and meets a high information security standard. Access and change to financial data are strictly restricted and recorded, and result in an audit trail.	A

Dimension PI-27.1 Bank account reconciliation

256. Under the TSA system, the zero-balance accounts of the budgetary units are settled with the TSA through the inter-bank clearing system. Liuyang City's TSA system involves accounts in 16 commercial banks and the PBOC. The Treasury Centralized Payment Centre of the Finance Bureau reconciles the balance with the PBOC (Statement of the Liuyang Finance Bureau and the Liuyang Sub-Treasury) 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 also daily (Daily Reconciliation Forms of Liuyang Financial Special Account). The score is A.

Table 3.46: Bank account reconciliation, FY 2018

All active accounts (Y/N)	Frequency (D/M/Q)	Within (1/4/8 weeks)	Aggregate and detailed level (Y/N)
Y	D	1	Y

Data source: Liuyang Finance Bureau.

Dimension PI-27.2 Suspense accounts

257. Liuyang City does not have suspense accounts. All expenditures are allocated to the appropriate account in the Integrated Financial Management Information System (IFMIS). This dimension is NA.

Dimension PI-27.3 Advance accounts

258. Liuyang City 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-27.4 Financial data integrity processes

259. The financial data in Liuyang is recorded through a computerized information system, named Integrated Financial Management Information System (IFMIS). In the IFMIS, the Liuyang Finance Bureau centralized all of its public financial databases, streamlined the business processes, and allowed for tracking of budget funds from the budget plan, appropriation and execution, to procurement, disbursement and financial reporting. This system's management reached a high standard in terms of information security, being granted a Grade III Information Security Certificate as of 2018. This confirms that the financial integrity in Liuyang is guaranteed, with appropriate infrastructure (data storage and backup), regulations and processes, well-trained professionals and management protocols, including restricted data access and modification to authorized users and an audit trail.

260. The score is A.

PI-28. In-year budget reports

261. 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 unit and completed over the last completed FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-28. In-year budget reports (M1)		B+
28.1. Coverage and comparability of reports	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
28.2. Timing of in-year budget reports	The budget execution reports are prepared monthly and mostly published on the website of the Finance Bureau within two weeks after the end of the reported month.	B
28.3. Accuracy of in-year budget reports	A set of in-year budget execution reports are prepared and data is reliable. An analysis report is prepared on a quarterly basis and covers the information of the expenditure stage, but the report is not audited.	B

Dimension PI-28.1 Coverage and comparability of reports

262. 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 3.47: 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=Exp C=Commit
Y	A	Y	M	2	N	Y	E

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

Dimension PI-28.2 Timing of in-year budget reports

263. Monthly budget execution reports are published on the website of the City Finance Bureau, mostly within two weeks after the end of each month except for slight delays in February and March (Table 3.48). Because the Chinese New Year of 2018 was in January, no monthly report was prepared in that month. The score is B.

Table 3.48: Issue dates of in-year budget reports, FY 2018

Reported month	2	3	4	5	6	7	8	9	10	11	12
Issue date	3.16	4.16	5.7	6.7	7.13	8.6	9.12	10.12	11.9	12.10	1.9

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

Dimension PI-28.3 Accuracy of in-year budget reports

264. In 2018, Liuyang prepared monthly budget execution and quarterly analysis reports based on functional classification, which were comparable with the annual budget execution report. Besides monthly reports, quarterly, semi-annual and annual budget execution reports including a narrative on the execution trends of main programs and policies were also prepared, and the data in these reports were reliable. However, different from the annual budget execution report, the in-year budget reports were unaudited, and information on expenditure was covered at payment stage not at commitment stage (required for an A score). Thus, the score is B.

PI-29. Annual financial reports

265. This indicator assesses the extent to which annual financial statements (AFS) are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains 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
PI-29. Annual financial reports (M1)		D+
29.1. Completeness of annual financial reports	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
29.2. Submission of reports for external audit	The 2018 budget execution report was submitted to the Audit Bureau within 3 months of the end of the FY.	A
29.3. Accounting standards	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

266. The budgetary units prepare their financial reports in line with the related regulations stipulated by the MOF. For the assessed time period, three accounting regulations were used by different types of government entities: the General Budget Accounting Regulation, the Accounting Regulation for GAUs and the Accounting Regulation for PSUs. While the first one is on a cash basis, the other two are on a modified accrual basis. In the assessed FYs 2016 to 2018, only the budget execution report was prepared each year, submitted to the People's Congress and audited by the County Audit Bureau. The GAUs and PSUs also prepared financial reports in line with the applying accounting regulations, and although the auditors may have also audited these financial reports during their financial audit however, no consolidated accrual basis financial report was prepared. Several years ago, the MOF initiated public accounting reform in China, and the Liuyang City Government was required to prepare an accrual-based financial report on a pilot basis, but the report was neither submitted to the People's Congress nor audited by the Audit Bureau. In 2018, 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.

Dimension PI-29.1 Completeness of annual financial reports

267. 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 City 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.

268. 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 about financial and tangible assets. The score for this dimension is C.

Table 3.49: 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	March 6, 2019	3

Data source: 2018 Budgetary Execution Report.

Dimension PI-29.2 Submission of reports for external audit

269. The 2018 budget execution report was submitted to the County Audit Bureau on March 6, 2019, which meets the requirement for score A.

Dimension PI-29.3 Accounting standards

270. 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

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

PI-30. External audit

272. 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 Liuyang budgetary units and EBUs over the last three completed FYs (2016 -2018) for 30.1, 30.2 and 30.3, and for 30.4, 'at time of assessment' (2019).

273. 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. The fourth dimension assesses the independence of the SAI. Dimension 2 examines the process and procedures once the SAI audits are completed. Dimension 3 assesses how audited entities respond to recommendations made in the audit reports.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-30. External audit (M1)		C+
30.1. Audit coverage and standards	In FYs 2016-2018, the Audit Bureau audited more than 90% of budgetary expenditures.	A
30.2. Submission of audit reports to the legislature	In FYs 2016-2018, audit reports on budget execution were submitted to the City People's Congress within 9 months upon receipt of the financial reports.	C
30.3. External audit follow-up	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
30.4. SAI independence	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

274. In the past three FYs, the budget funds audited by the Liuyang City Audit Bureau accounted for 95.27 percent of the total approved budget (Table 3.50), and 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 and medical insurance audits (Table 3.51). The Audit Bureau prepared annual audit work plans and conducted the audits in accordance with the Audit Law. The audit procedures adopted included: understanding the audited unit and its operations, assessing the risk of material misstatement, internal control assessment, substantive testing of material operations, etc.

275. According to the Audit Law, the audits conducted by the Liuyang City Audit Bureau are subject to the supervision and management of the Hunan provincial Audit Office. Meanwhile, submission of the audit reports to the Standing Committee of the People's Congress, and publishing the audit reports on the government website, also enable the public to supervise the audit quality. The score is A.

Table 3.50: External audit coverage (budget units), FYs 2016-2018

Budget units	Audit of financial reports (Y/N)			Expenditure in 2018	Expenditure covered by at least one audit (%)
	2016	2017	2018		
Education Bureau	Y			229,063	26.97
Health Commission Bureau			Y	285,093	33.56
Natural Resource Bureau	Y			81,183	9.56
Bureau of Housing	Y			55,734	6.56
Transport Bureau	Y			55,046	6.48
Agricultural Bureau	N	N	N	37,169	4.38
Water Resources Bureau		Y		28,775	3.39
Civil Affairs Bureau		Y	Y	27,124	3.19
Culture and Tourism Administration		Y	Y	15,695	1.85
Forestry Administration	Y		Y	15,288	1.79
Bureau of Science and Information Technology			Y	6,105	0.72
Bureau of Industry and Information technology		N	N	6,034	0.71
Human Resources and Social Security Bureau		Y	Y	4,213	0.50
Commerce Bureau	N	N	N	2,939	0.35
Total					95.27

Table 3.51: External audit coverage (special audit), FYs 2016-2018

FY	Coverage of Special Audit	Publishing of audit report (Y/N)
2016	Public Fund for Welfare lotteries. Accurately Targeted Poverty Alleviation Program.	Y
2017	Local government debt. Accurately Targeted Poverty Alleviation Program. Ecological environmental protection. Tax revenue. Social assistance.	Y
2018	Accurately Targeted Poverty Alleviation Program. Basic medical insurance funds. SOE. Local government debt risk.	Y

Data source: Liuyang Audit Bureau.

Dimension PI-30.2 Submission of audit reports to the legislature

276. In the assessed time period, the City 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 Liuyang 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 9 months upon receipt of the budget execution reports in all the assessed three FYs (Table 3.52). Therefore, the score is C.

Table 3.52: 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	March 2, 2016	September 2, 2016	180	Y
2017	February 6, 2017	July 27, 2017	171	Y
2018	February 2, 2018	September 27, 2018	205	Y

Data source: Liuyang Audit Bureau.

Dimension PI-30.3 External audit follow-up

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

278. In FY 2016, the annual audit report was reviewed at the meeting of the Standing Committee on September 2, 2016 (Table 3.53). By the end of June 2017, 35 out of the total 38 problems disclosed in the audit report had been rectified, the other 3 problems had been partially rectified or remained to be rectified. In addition, all audit suggestions had been adopted by the related entities. The overall rectification rate was 92.11 percent.

279. In FY 2017 the annual audit report was reviewed at the meeting of the Standing Committee on August 4, 2017. By the end of June 2018, 22 out of the total 23 problems disclosed in the audit report had been rectified, the remaining 1 problem had been partially rectified. The overall rectification rate was 95.65 percent.

280. In FY 2018, the audit report was reviewed at the meeting of the Standing Committee on September 28, 2018. By the end of June 2019, 29 out of the total 33 problems disclosed in the audit report had been rectified, the other 4 problems had been partially rectified or remained to be rectified. In addition, all audit suggestions had been adopted by the related entities. The overall rectification rate was 87.9 percent.

281. In the past three FYs, the required follow-up action on the issues disclosed by the auditors was taken effectively and in a timely manner by the budget units involved, and the follow-up reports were submitted as required. The score is A.

Dimension PI-30.4 SAI independence

282. 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 are appointed or dismissed in

accordance with statutory procedures. None of them may be dismissed or replaced unless they are found guilty of illegal acts, negligence, or no longer qualified for the position. Meanwhile, Article 13 of the Regulation on the Implementation of the Audit Law says, 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. Article 15 of the Audit Law states that auditing entities are to independently exercise their power of audit supervision in accordance with the Audit Law and be free from interference of any administrative, and social organization or individual.

283. The above-mentioned laws and regulations provide a concrete basis to secure the independence of audit entities. In Liuyang City, 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 3.53: 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 City 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 of 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.
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: Liuyang Audit Bureau.

PI-31. Legislative scrutiny of audit reports

284. 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 and EBUs.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-31. Legislative scrutiny of audit reports (M2)		B
31.1. Timing of audit report scrutiny	The time period between the issuance of the audit report and its scrutiny by the People's Congress was 11 days, 53 days and 60 days in 2017, 2018 and 2019, respectively, which was less than three months in each year.	A
31.2. Hearings on audit findings	Only the heads of the Finance Bureau and Audit Bureau attend the hearing on audit findings organized by the People's Congress. The representatives of the budget units with issues being disclosed by auditors are not required to attend the hearing.	C
31.3. Recommendations on audit by the legislature	The subnational legislature issues recommendations on actions to be implemented by the executive and systematically follows up on their implementation.	A
31.4. Transparency of legislative scrutiny of audit reports	The review process is carried out only between the members of the Standing Committee and several chiefs from the governmental departments. The Committee's reports are published in pamphlets with limited circulation.	D

Dimension PI-31.1 Timing of audit report

285. Since the People's Congress does not maintain records on the receipt of audit reports, as an alternative, the assessor team used the date of issuance of the audit reports by the Audit Bureau. Despite this, the time period for the scrutiny of the audit reports by legislature was less than three months (Table 3.54). The annual audit report was usually submitted to the Standing Committee of the City People's Congress rather than the People's Congress plenary for scrutiny. The score is A.

Table 3.54: Timing of legislative scrutiny of audit reports

Audited AFS for FY	Date of issuance of audited financial reports	Date of finalization of legislative scrutiny
2015	10, August, 2016	September 12, 2016
2016	July 27, 2017	August 7, 2017
2017	August 6, 2018	September 28, 2018
2018	August 22, 2019	October 21, 2019

Data source: Liuyang Audit Bureau.

Dimension PI-31.2 Hearing on audit findings

286. After completing its scrutiny of the annual audit report, the City People’s Congress calls for a hearing on the audit findings. Only the heads of the Finance Bureau and the Audit Bureau attend the hearing together with the members of the Standing Committee. According to the lists of persons who have participated in the hearing in the last three FYs and the minutes of the meeting, the representatives of the budgetary units for which issues had been disclosed, such as the Education Bureau or the Housing and Construction Bureau, were not required to attend the hearing. Therefore, the score for this dimension is C.

Table 3.55 and Table 3.56: 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	N	F	Y	S
2017	N	F	Y	S
2018	N	F	Y	S

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

Dimension PI-31.3 Recommendations on audit by legislature

287. 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. For instance, on September 12, 2016, the Standing Committee scrutinized the audit report on budget execution for FY 2015 and gave a number of recommendations. On August 4 of the following year, the Standing Committee listened to the presentation of the head of the Audit Bureau regarding the budget units’ follow-up on the audit findings. In all of the past three FYs, the Standing Committee systematically followed up on the rectification of the issues disclosed in the audit reports (Table 3.57).

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

Table 3.57: Recommendation on audit and review the rectification by legislature

Audited AFS for FY	Date of giving recommendation	Date of review of recommendation
2015	September 12, 2016	August 4, 2017
2016	August 7, 2017	September 27, 2018
2017	September 28, 2018	October 11, 2019
2018	October 21, 2019	--

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

Dimension PI-31.4 Transparency of legislative scrutiny of audit reports

289. 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 3.58). The score is D.

Table 3.58: 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
	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	F
2017/18	N	N	N	F
2016/17	N	N	N	F

Data source: Liuyang 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

290. Liuyang generally complies with the prescriptions of the budget process, mandated by the central and the provincial governments. However, over the three years covered by this assessment (2016-2018), the Liuyang 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+). The expenditure outturn, as a percentage of budget allocation ranged from 148 to 166 percent, and composite variances in expenditures by administrative classification were consistently at around 30 percent.

291. The low predictability of, and yet a high degree of dependence on, HLG transfers (about a quarter of Liuyang's total expenditure) was one of the main factors contributing to the high variance of expenditure. Indicator HLG-1 scored D+ given the high variation in total grants and targeted grants. The disbursement of transfers, though in compliance with the schedule prescribed in the 2014 Budget Law, was rarely on time (Score D). However, while variance of HLG transfers was high, it has improved over the years. The other factors undermining budget reliability were 1) not covering the estimate of self-revenues of hospitals in the budget plan; and 2) the high volatility of land sales revenues.

292. Liuyang has a strong capacity in projecting the tax and non-tax revenues of GPB. The outturn of GPB revenue deviated only around 3 percent from the approved budget in each of the three assessed years. But the volatile land revenues brought the total revenue outturn from 103.5 percent of the approved budget in 2016 to 115.8 percent in 2017 and 116.5 percent in 2018. The composition variance of revenue was also high, 15.9, 30.0 and 25.3 percent, respectively (Score D).

293. Lack of predictability of grants and revenue hampered the government's capacity to forecast cash or credibly allocate budget to budgetary units. Weak control of in-year budget allocation (PI-21 scored C+) 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

294. 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), though the public has limited access to fiscal information (PI-9 is rated D).

295. While only some service delivery units in Liuyang prepare performance plans, most of them release

information on their performance achievement to the public. However, coverage of performance evaluation by a third party is still low. PI-8 is hence rated B.

4.1.3 Management of assets and liabilities

296. The de jure system for asset and liabilities 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 has a computerized system to track and update information on explicit debt and explicit contingent liabilities (PI-10 scored B+ and PI-13 scored C+). With regard to major public investment projects, Liuyang has formulated Management Measures to comprehensively guide the application, prioritization, implementation, and monitoring procedures. Economic analyses are conducted for all major public investment projects and are reviewed by the Liuyang DRB. The total cost and physical progress of the projects are closely monitored by a centralized government agent throughout the entire project cycle (PI-11 scored C+).

297. An additional assessment was carried out for Liuyang’s two LGFVs. The results are presented in Annex 7. The LGFVs have 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

298. 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+.

299. 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 14 weeks to complete their detailed estimates. However, the expenditure ceilings are provided to the budget units only 3 days before they submit their final budget proposal. PI-17 is rated B.

300. 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 two 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+.

301. There are significant budget adjustments by the executive during the year (PI-21.4 rated D). 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, only part of the budget adjustment is reflected in the mid-year budget adjustment proposal that is submitted to the Standing Committee of the People’s Congress for approval.

4.1.5 Predictability and control in budget execution

302. As all taxes are administered and collected by the State Administration of Taxation and transferred to the

SNGs according to tax-sharing arrangements. PI-19 is therefore NA. Revenues due to Liuyang are transferred directly into the Treasury accounts on the day received. Units collecting non-tax revenues transfer almost all the collections daily into special accounts, and then transfer these to the Treasury 3 to 10 days later (PI-20 scored A).

303. Predictability of in-year resource allocation is low (PI-21 scored C+). Liuyang Treasury made good efforts in cash management, including consolidation of cash balances (score A) and cash forecasting and monitoring (score B). In the assessed period, more than 90 percent of the balance of all bank accounts was consolidated daily. The forecasting of tax revenues and non-tax revenues was conducted in the beginning of the FY and updated monthly. Daily expenditure payments were made according to specified standards and a time schedule; and forecasting for non-basic expenditures was conducted mainly for the holidays. On the other hand, however, as the budget is not reliable, in-year budget adjustment is frequent and not well regulated. As a result, the commitment ceiling that is up to the approved budget could not be meaningfully administered. The expenditure arrears incurred by budgetary units are not monitored. The data on the stock of expenditure arrears is not available to the Finance Bureau. PI-22 scored D.

304. Payroll control in the county is very good (PI-23 scored B+). It was assured through a shared database and centralized payment directly from the Treasury to each regular employee of the GAUs and PSUs. The approved employee list, personnel database and payroll are all directly linked to each other through an IT system and updated on a real time basis, which constitutes an effective assurance for budget control, data consistency and automatic monthly reconciliation. There is no delay in making payroll payment by the Centralized Payment Center of the Treasury. Retroactive adjustment is rare. Payroll audits were conducted regularly and covered more than 90 percent of budget units.

305. All procurements of goods and services above the thresholds are processed through the Changsha Public Resource Transaction Center or the Liuyang Public Resources Transaction Center, mostly by 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 system is in place and meets good practice criteria, while remaining to be tested in practice. Data on the resolution of procurement complaints are only partially available to the public (PI-24 scored C).

306. Liuyang 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%), and all exceptions are authorized in advance.

307. The internal audit is well developed (PI-26 scored B+). It has reasonably broad coverage, accounting for 92.69 percent of budget expenditures in 2018. Internal audit activities focus on internal control and risk audit. The internal audit work is guided by the Internal Audit Standards. However, internal audit quality assurance has not been established in Liuyang City. The internal auditors of most budget units carry out audits in accordance with the Internal Audit Standards. During 2016-2018, all audited units took remedial actions to address the issues disclosed by internal auditors within 12 months and submitted their rectification report to the superior authorities.

4.1.6 Accounting and reporting

308. Overall financial data integrity is high (PI-27 rated A). All accounts are reconciled daily. 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 the system operation is in place.

309. 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. Monthly reports of budget execution are mostly published on the website of the Finance Bureau within two weeks after the end of each month and provide useful information for analysis. However, information on expenditure is covered at payment stage and not at commitment stage. PI-28 scored B+.

310. The annual consolidated financial reports (budget execution reports) were prepared according to prevailing national standards at the time of report preparation. They covered all budgetary units and were comparable with the approved budget. They were submitted to the County Audit Office within 3 months after the end of the FY. The reports included information on revenues, expenditures and liabilities, but no information on financial assets or tangible assets. However, the accounting standards adopted were not disclosed in notes or other parts of the financial reports. PI-29 scored D+.

4.1.7 External scrutiny and audit

311. The external audit system is in place. The County Audit Office can independently carry out its audit and has unrestricted access to the required data. In the assessed period, many material issues along with systemic and control risks were detected and disclosed in the audit report. In addition, timely and effective remedial action was taken by the audited units. The audit budget is secured by the Law, but still up to the appropriation of the Finance Bureau. The head of the Audit Office, being a government unit, still reports to the mayor, although 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. The budget funds audited by the Liuyang City Audit Bureau accounted for 92.57 percent of the total approved budget in the past three years. PI-30 scored C+.

312. The auditor submits audit reports to the legislature within nine months after receiving the financial reports from the budget units. The Standing Committee of the City People's Congress provides timely approval (no more than two 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 auditees. In the assessed period, hearings on audit reports were not accessible to the public, only the audit reports for FY 2017 and 2018 were published on the government website. PI-31 scored B.

4.2 Strengths and weaknesses of the PFM systems

313. The main strengths of PFM in Liuyang City are related to the budget reporting and control system. Its main weaknesses are related to budget reliability, the medium-term budget strategy, transparency and fiscal risk control.

4.2.1 Fiscal discipline

314. The budget fails to impose much fiscal discipline in Liuyang. The variation between outturn and budget estimates for both aggregate expenditure (PI-1.1) and expenditure composition (PI-2.1) is rated D, and there are significant budget adjustments for expenditure with information shortage (PI-21.4, rated D). Lack of predictability of HLG transfers (HLG-1 rated D) and land revenues (PI-3 rated D+) are the main factors. The in-year resource allocation is frequent and unpredictable (PI-21, rated C+), and monitoring for expenditure arrears is missing (PI-22.2, rated D).

315. Effective control over expenditures by budgetary units helps to enhance fiscal discipline. No government operations take place outside the financial reports (PI-6, rated A). Liuyang made good effort in cash management, including consolidation of cash balances (scored A) and cash forecasting and monitoring (scored B). Payroll control is effective and supported with centralized payment arrangement and auto-reconciliation through an IT system (the first three dimensions of PI-23 rated A). Strong internal control for non-salary expenditure (PI-25, rated B+) and the internal audit system (PI-26, rated B+) have ensured strict control over spending during budget execution. Moreover, there is a good reporting and recording system for debts (PI-13.1, rated C) and contingent liabilities (PI-10.3, rated A).

316. Liuyang City recognizes the role of enhanced management over SOEs to the success of imposing fiscal discipline. It has taken its own initiative to establish a double-control system to enhance its scrutiny over financial transactions and operations of a broad range of SOEs including LGFVs. The system, together with the government debt management system, has enhanced the government's monitoring of contingent liabilities. However, there is no evidence that the Liuyang 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

317. The main PEFA indicator concerned with medium-term fiscal strategy (PI-14) is rated C. Budget preparation includes estimates of revenue, expenditure and transfers, but no forecasts based on macroeconomic or demographic indicators. Moreover, costing information of major investment projects is not included in the budget documents (PI-11.3, rated D).

318. 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 B and PI-18, rated C+).

319. Some other indicators that relate to the strategic allocation of resources have been rated satisfactory. Clear rules for the prioritization of major investment projects are in place (PI-11.2, rated A). Budget documentation is considered to meet all basic requirements (PI-5, rated C), though budget classification is not fully in accord with international standards (PI-4, D).

4.2.3 Efficient use of resources for service delivery

320. Liuyang's PFM system encourages the efficient use of resources for service delivery. The share of the budgetary units which publish performance targets is not high (PI-8.1, rated C), but they regularly conduct performance evaluation (PI-8.4, rated C) and report available resources (PI-8.3, rated A). However, the low budget reliability and predictability of in-year resource allocation (PI-21, rated C+) may adversely affect the

capacity of service delivery units in making efficient use of resources.

321. 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, B+) and non-salary expenditure (PI-25, B+). As for the procurement management system, there is strong monitoring of large value contracts, and most large contracts adopt competitive methods. But there is no monitoring of, and no procurement methods for, small-value contracts. (both PI-24.1 and PI-24.2 are rated D*).

322. Ratings of the oversight arrangements are mixed (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 nine months. Effective and timely required follow-up actions are taken by the concerned entities. However, the representatives of the budgetary units, with issues disclosed by the auditors, are not required to attend the hearings, and hearings on audit reports are not accessible to the public.

323. In summary, the Liuyang PFM system performs well, given the context that its budget operates within, but there is great potential for improvement if the regulatory framework of the central and provincial government allows. The ongoing reforms, promoted by the CG and fully embraced by Hunan Province, provide a good opportunity and foundation for the city government to carry out the necessary PFM reforms.

324. 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 PI-6, D). The Liuyang government has basic monitoring obligations over the investment project that LGFVs implement (Annex PI-11.4, C) and their liabilities (Annex PI-13.1, A). A comprehensive assessment for LGFVs is warranted to reveal the impact of LGFVs on the PFM performance of Liuyang City.

4.3 Performance changes since a previous assessment

325. This is the first assessment of Liuyang City.

5 GOVERNMENT PFM REFORMS

5.1 Approach to PFM reforms

326. 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.

327. 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

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

Division of expenditure responsibility

329. 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.

330. 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

331. 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

332. 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

333. 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

334. 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

335. 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.

336. 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.

337. 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

338. 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

339. 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

340. 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.

5.4 Key aspects of the City's economic and fiscal reforms

341. In addition to implementing the fiscal reforms mandated by Hunan Province, Liuyang has been taking its own initiative to reform its PFM. The most notable initiatives include the double-control system for reviewing and monitoring the financial transactions of PCs, the IFMIS, and program-based performance evaluation. In the IFMIS, the Liuyang Finance Bureau centralized all of its public financial databases, streamlined the business processes, and allowed for tracking of budget funds from budget plan, appropriation, and execution, to procurement, disbursement and financial reporting. In the area of performance evaluation, Liuyang introduced the cost-effectiveness assessment in performance evaluation, piloted whole-department performance evaluations in five sectors, promoted the disclosure of performance plans and results, and used performance results to inform budget allocation.

ANNEX 1. PERFORMANCE INDICATOR SUMMARY

Indicator/dimension	Score	Description of requirements met
SNG pillar: Intergovernmental fiscal relations		
HLG-1. Transfers from an HLG	D+	Scoring Method M2
HLG-1.1 Outturn of transfers from higher-levels of government	D	The outturns for FY 2016, 2017 and 2018 were 177.5%, 162.7% and 131.7%, respectively. While the deviation of actual grants from the original budgeted grants steadily declined, it was still above 116% in all three FYs.
HLG-1.2 Earmarked grants outturn	D	The composition variance of earmarked grants in FY 2016, 2017 and 2018 was 54.0%, 47.4% and 6.8%, respectively. The composition variance was above 15% in two of the last three years.
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 City Government. In all of the last three completed FY, more than 75% of actual transfers were on time.
HLG-1.4 Predictability of transfers and new expenditure assignments	D	The HLG provides no information on transfers for the current FY and the following FY, and there is no explanation for changes between the current and the previous FY.
HLG-2. Fiscal rules and monitoring of fiscal position	NU	HLG-2 is a pilot indicator. Liuyang city government chose not to use this indicator in this assessment.
Pillar I. Budget Reliability		
PI-1. Aggregate expenditure outturn	D	Scoring Method M1
PI- 1.1 Aggregate expenditure outturn	D	Aggregate expenditure outturn deviated significantly from the budgeted amounts in the last three FYs. The outturn was 148.4%, 165.6% and 161.2% of the approved budget, respectively.
PI-2. Expenditure composition outturn	D+	Scoring Method M1
PI- 2.1 Expenditure composition outturn by function	D	Variance in expenditure composition by functional classification was more than 15% in each of the last three FYs. Variance of the three years was 30.9%, 29.2%, and 28.8%, respectively.
PI- 2.2 Expenditure composition outturn by economic type	NA	There was no economic classification for the GFB in FYs 2016-2018.
PI- 2.3 Expenditure from contingency reserves	A	In FYs 2016-2018, actual expenditure charged to a contingency vote was on average 0.7% of the original budget (i.e. less than 3% of the original budget).
PI-3. Revenue outturn	D+	Scoring Method M2
PI- 3.1 Aggregate revenue outturn	C	In FY 2016 - 2018, the variance in aggregate revenue was 103.5%, 115.8% and 116.5%, respectively. The actual revenues were between 92% and 116% 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 15.9%, 30.0% and 25.3%, respectively, all more than 15%.
Pillar II. Transparency of public finances		
PI-4. Budget classification	D	Scoring Method M1
PI- 4.1 Budget classification	D	Budget documentation is nationally consistent. The GPB is based on functional and economic classification, but the GFB is only based on functional classification.

Indicator/dimension	Score	Description of requirements met
PI-5. Budget documentation	C	Scoring Method M1
PI- 5.1 Budget documentation	C	Budget documentation contains three basic elements and one additional elements.
PI-6. Central government operations outside financial reports	A	Scoring Method M2
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 security fund budget is included in the budget execution report and submitted to the government within three months of the end of the FY.
PI-7. Transfers to subnational governments	NA	Scoring Method M2
PI- 7.1 System for allocating transfers	NA	There are no separate lower-level SNGs, rather deconcentrated units of the City Government.
PI- 7.2 Timeliness of information on transfers	NA	There are no separate lower-level SNGs, rather deconcentrated units of the City Government.
PI-8. Performance information for service delivery	B	Scoring Method M2
PI- 8.1 Performance plans for service delivery	C	The published performance plans or work plans for activities under the policy objectives accounted for about 77.55% of the total expenditure on the provision of these public services in FY 2019.
PI- 8.2 Performance achieved for service delivery	B	9 of the 14 public service departments in Liuyang published their performance achieved in FY 2018. 7 of the 14 service delivery departments conducted self-assessments of their overall expenditure performance, the other departments carried out self-assessments of project expenditure performance. The disclosed performance achievement measured by quantitative outputs/outcomes covered 87.12% of total service delivery expenditures.
PI- 8.3 Resources received by service delivery units	A	Information on the resources received by the service providers at spending units is available, and the public service departments in the sample have established a financial account, recording the details of the funds allocated to each service delivery unit.
PI- 8.4 Performance evaluation for service delivery	C	The evaluation of the efficiency or effectiveness of service delivery covered 26.14% of total service delivery expenditures in FY 2018, but they were not published.
PI-9. Public access to fiscal information	D	Scoring Method M1
PI- 9.1 Public access to fiscal information	D	The Liuyang Government makes available to the public three basic elements within the specified time frame.
PI-9bis. SNG public consultation	NU	This is a pilot indicator. Liuyang city government chose not to use this indicator in this assessment.

Indicator/dimension	Score	Description of requirements met
Pillar III. Management of assets and liabilities		
PI-10. Fiscal risk reporting	B+	Scoring Method M2
PI- 10.1 Monitoring of public corporations	B	6 out of the 10 largest SOEs (accounting for 78.63 percent of total assets) published their audited financial reports within 6 months of the end of the FY. A consolidated report on the financial performance of the PC sector is published by the SNG annually.
PI- 10.2 Monitoring of subnational governments	NA	There are no lower-tier SNGs in Liuyang.
PI- 10.3 Contingent liabilities and other fiscal risks	A	The contingent liabilities and other financial risks of Liuyang City are recorded in the government debt management system. In 2018, a report including contingent liabilities was published.
PI-11. Public investment management	C+	Scoring Method M2
PI- 11.1 Economic analysis of investment proposals	C	In FY 2018, economic analyses of all major investment projects were conducted according to national guidelines by professional institutes and reviewed by experts from universities and government departments other than the sponsoring department. However, results of the reports were not published.
PI- 11.2 Investment project selection	A	The Major Investment Project Office (MIPO) of the DRC is responsible for selecting the investment projects and making proposals to the County Committee. There are clearly stipulated criteria for prioritizing investment projects.
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 the total cost and physical progress monthly and publicizes the result biannually on the government website. Standard procedures and rules governing project implementation are available.
PI-12. Public asset management	B	Scoring Method M2
PI- 12.1 Financial asset monitoring	B	Liuyang maintains records of its holdings in all categories of financial assets, which are recognized at their acquisition cost and in rare cases at real (market) value. Information on the performance of the major categories of financial assets is published annually.
PI- 12.2 Nonfinancial asset monitoring	C	Liuyang maintains records of its holdings of fixed assets and collects partial information on their usage and age. The information is mostly not available to the public.
PI- 12.3 Transparency of asset disposal	A	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Information on asset disposal is included in the state-owned assets management report submitted to the People's Congress.
PI-13. Debt management	C+	Scoring Method M2
PI- 13.1 Recording and reporting of debt and guarantees	C	Debt records are complete, accurate, and updated when transactions are made. They are updated monthly via the debt management system and reconciled annually. Comprehensive reports are issued by the Liuyang Government annually.
PI- 13.2 Approval of debt and guarantees	A	The Liuyang Bureau of Finance is the responsible debt management entity and is authorized to borrow on behalf of the City Government, and monitor the debt transactions according to the debt management rules. Annual borrowing undergoes approval by the Liuyang City People's Congress.

Indicator/dimension	Score	Description of requirements met
PI- 13.3 Debt management strategy	D	There is no medium-term DMS indicating risk indicators such as interest rates and refinancing, and foreign currency risks.
Pillar IV. Policy-based fiscal strategy and budgeting		
PI-14. Medium-term budget strategy	D+	Scoring Method M2
PI- 14.1 Preparation of the budget	C	Budget preparation is based on information of transfers, revenue and expenditure, 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 fiscal impact about 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.
PI-15. Fiscal strategy	NU	Scoring Method M2
PI-16. Medium term perspective in expenditure budgeting	NU	Scoring Method M2
PI-17. Budget preparation process	B	Scoring Method M2
PI- 17.1 Budget calendar	A	Date of the 2019 budget circular was September 18, 2018. Deadline for submission of the budget drafts was January 3, 2019. I.e., there is more than 6 weeks from receipt of the budget circular to meaningfully complete detailed estimates.
PI- 17.2 Guidance on budget preparation	B	The expenditure ceilings were provided on January 1, 2019, after the distribution of the budget circular to the budget units (September 18, 2018), but before the budget units submitted their revised budget on January 3, 2019.
PI- 17.3 Budget submission to the legislature	D	Budget submission to the legislature was after the start of the FY for two of the three FYs.
PI-18. Legislative scrutiny of budgets	C+	Scoring Method M1
PI- 18.1 Scope of budget scrutiny	B	Budget scrutiny by the Liuyang 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 City 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.
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. However, these rules are adhered to only in instances.

Indicator/dimension	Score	Description of requirements met
Pillar V. Predictability and control in budget execution		
PI-19. Revenue administration	NA	Scoring Method M2
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	
PI-20. Accounting for revenue	A	Scoring Method M1
PI- 20.1 Information on revenue collections	A	The Liuyang 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 designated agency, and to the Treasury 3 to 10 days later.
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 to Liuyang City.
PI-21. Predictability of in-year resource allocation	C+	Scoring Method M2
PI- 21.1 Consolidation of cash balances	A	More than 90% of the balance of all bank accounts are consolidated daily.
PI- 21.2 Cash forecasting and monitoring	B	The forecasting of tax revenues and non-tax revenues is conducted at the beginning of the FY and updated monthly. Daily expenditure payments are made according to specified standards and a time schedule, forecasting for non-basic expenditures is conducted mainly for the holidays.
PI- 21.3 Information on commitment ceilings	D	The budgetary units can largely make payment within the approved budget, and there are no restrictions like commitment ceilings. But original approved budget expenditure accounts for less than one third of the actually executed expenditure. The expenditure ceilings for the budgetary units are largely unpredictable.
PI- 21.4 Significance of in-year budget adjustments	D	Significant in-year budget adjustments occur, but information on timing, amount and process for each budget adjustment is not available.
PI-22. Expenditure arrears	D	Scoring Method M1
PI- 22.1 Stock of expenditure arrears	D*	Since Liuyang City has not set up a monitoring system for expenditure arrears, data on stock of arrears are not available.
PI- 22.2 Expenditure arrears monitoring	D	The City did not systematically register and monitor possible payment arrears.
PI-23. Payroll controls	B+	Scoring Method M1
PI- 23.1 Integration of payroll and personnel records	A	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.

Indicator/dimension	Score	Description of requirements met
PI- 23.2 Management of payroll changes	A	Changes to the personnel records and payroll are updated monthly. Retroactive changes to the existing payroll records are not allowed in the e-financial management system.
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.
PI- 23.4 Payroll audit	B	In the assessed FYs, payroll-related audits were conducted for more than 90% of the budgetary units and a special inspection of 'ghost employees' covered all budgetary units.
PI-24. Procurement management	C	Scoring Method M2
PI- 24.1 Procurement monitoring	D*	Databases or records are maintained for contracts above the threshold, but data for small contracts are not available.
PI- 24.2 Procurement methods	D*	In the last FY, 98.6% of the total value of recorded contracts were awarded through competitive methods. However, procurement data for small contracts are generally not available.
PI- 24.3 Public access to procurement information	C	Three out of six criteria are met.
PI- 24.4 Procurement complaints management	A	All six criteria are met.
PI-25. Internal controls on non-salary expenditure	B+	Scoring Method M2
PI- 25.1 Segregation of duties	A	Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage.
PI- 25.2 Effectiveness of expenditure commitment controls	C	The double control system effectively controls expenditure commitment, but some expenditures take 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.
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.
PI-26. Internal audit	B+	Scoring Method M1
PI- 26.1 Coverage of internal audit	A	Every budget unit has set up the internal audit function in its unit which is responsible for the auditing of its subordinate. In the assessed period, almost all budget expenditures of the subnational entities (92.69%) and 100% of the revenue collected by the subnational entities were covered by internal audit.
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 Internal Audit Standards. However, internal audit quality assurance is not established in Liuyang City.
PI- 26.3 Implementation of internal audits and reporting	A	The internal auditors of the five largest budget units, representing 83% of total expenditure, carry out audit in accordance with the internal audit standards.
PI- 26.4 Response to internal audits	A	During FYs 2016-2018, all audited units took remedial actions to address the issues disclosed by internal auditors within 12 months and submitted the rectification report to the superior authorities.

Indicator/dimension	Score	Description of requirements met
Pillar VI. Accounting, Recording and Reporting		
PI-27. Financial data integrity	A	Scoring Method M2
PI- 27.1 Bank account reconciliation	A	The Treasury Centralized Payment Center reconciles the balance with the PBOC on a daily basis. The Treasury Section of the City Finance Bureau reconciles the balance and details of the special accounts with the related commercial banks daily as well.
PI- 27.2 Suspense accounts	NA	There are no suspense accounts.
PI- 27.3 Advance accounts	NA	There are no advance accounts.
PI- 27.4 Financial data integrity processes	A	All financial data are recorded in a computerized system which is managed by the Information Center housed in the Liuyang FB and meets a high information security standard. Access and change to financial data are strictly restricted and recorded and result in an audit trail.
PI-28. In-year budget reports	B+	Scoring Method M1
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 to the original budget.
PI- 28.2 Timing of in-year budget reports	B	The budget execution reports are prepared monthly and mostly published on the website of the Finance Bureau within two weeks after the end of the reported month.
PI- 28.3 Accuracy of in-year budget reports	B	A set of in-year budget execution reports are prepared and data are reliable. However, information on expenditure is covered at payment and not at commitment stage.
PI-29. Annual financial reports	D+	Scoring Method M1
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.
Pillar VII. External Scrutiny and Audit		
PI-30. External audit	C+	Scoring Method M1
PI- 30.1 Audit coverage and standards	A	In FYs 2016-2018, the Audit Bureau audited more than 90% of budgetary expenditures.
PI- 30.2 Submission of audit reports to the legislature	C	In FYs 2016-2018, audit reports on budget execution were submitted to the City People's Congress within 9 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 of executive procedure for budget request submission and execution, the executives do not interfere in the budget approved by the People's Congress for the SAI.
PI-31. Legislative scrutiny of audit reports	B	Scoring Method M2
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 11 days, 53 days and 60 days in 2017, 2018 and 2019, respectively, which was less than three months in each year.
PI- 31.2 Hearings on audit findings	C	Only the heads of the Finance Bureau and Audit Bureau attend the hearing on audit findings organized by the People's Congress. The representatives of the budget units with issues being disclosed by auditors are not 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 review process is carried out only between the members of the Standing Committee and several chiefs from the governmental departments. The Committee's reports are published in pamphlets with limited circulation.

ANNEX 2. SUMMARY OF OBSERVATIONS ON THE INTERNAL CONTROL FRAMEWORK

Internal Control Components and Elements	Summary of Observations
1. Control Environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	The regulation issued by MOF in 2012, which is quite convergent with COSO internal control framework, provides detailed instruction and guidance to all budgetary units on strengthening their internal control. The decree issued by MOF in 2015 requires that all budgetary units should complete the establishment and implementation of internal control by the end of 2016. All the documents issued by MOF regarding public sector internal control develop and promote the personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization.
1.2 Commitment to competence	A set of internal control documents issued by MOF and the establishment of internal audit function in most budgetary units indicates a commitment to competence in implementing internal controls and is evidenced by the scores in PIs 23, 25 and 26.
1.3 The 'tone at the top' (i.e. management's philosophy and operating style)	The budgetary units strictly follow related regulations stipulated by MOF, the anti-corruption activities initiated by top leaders in recent years make the units' management take the internal control very seriously and the internal audit function is strengthened in public sectors.
1.4 Organizational structure	The Ministry of Finance of China is an authorized body which promotes the establishment and development of public internal financial control systems and carries out coordination and harmonization policies and procedures. The "Guiding Opinions on Comprehensively Promoting the Construction of Internal Control in Administrative and Public Service Units" issued by MOF in 2015 requires that all budgetary units to: a) improve internal control system and strengthen internal process control. It requires units whose internal control has not been established or whose internal control system is not sound must complete the establishment and implementation of internal control by the end of 2016; b) strengthen internal power checks and balances, regulate internal power operations; c) establish an internal control reporting system to promote the disclosure of internal control information. The self-evaluation of the internal control of the unit shall be reported as an important component of the departmental final report and financial report; d) strengthen supervision and inspection work, and integrate internal control assessment with staff performance evaluation.
1.5. Human resource policies and practices	A cadre of professional in internal audit and financial control is in place and follows standard public sector policies and practices.

Internal Control Components and Elements	Summary of Observations
2. Risk Assessment	
2.1 Risk identification	<p>Several PIs are related to the extent to which risks are identified, notably:</p> <p>Economic Analysis of Investment Proposals is rated C in 11.1 – Economic analyses are conducted according to national guidelines to assess all major investment projects and are reviewed by experts from universities and government departments other than the sponsoring department; but they are not published. Debt Management Strategy is rated ‘D’ in 13.3 – There is no mid-term DMS indicating the risk indicators such as interest rates and refinancing, and foreign currency risks. Macro-fiscal sensitivity analysis is rated ‘D’ in 14.3– No Medium-term expenditure and revenue estimates are prepared. Cash Flow Forecasting and Monitoring is rated ‘B’ in 21.2 - The forecasting of tax revenues and non-tax revenues is conducted at the beginning of the FY and updated monthly; Daily expenditure payments are made according to specified standards and a time schedule, forecasting for non-basic expenditures is conducted mainly for the holidays.</p>
2.2 Risk assessment (significance and likelihood)	See risk identification (2.1 above)
2.3 Risk evaluation	<p>The internal auditors of the five largest budget units, representing 83% of total expenditure, carry out audit in accordance with the internal audit standards (Implementation of internal audits and reporting – 26.3 rated ‘A’). Internal audit activities focus on internal control and risk audit. The internal audit work is guided by the Internal Audit Standards. However, internal audit quality assurance is not established in Liuyang City (Nature of internal audits and standards applied – 26.2 rated ‘B’).</p>
2.4 Risk appetite assessment	<p>The development and implementation of identification and assessment of risk indicates a positive risk appetite which will grow as these become more mature.</p>
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	<p>MOF’s document requires to strengthen supervision and inspection on internal control and integrate internal control assessment with staff performance evaluation.</p>
3. Control Activities	
3.1 Authorization and approval procedures	<p>Financial data integrity processes are rated ‘A’ in 27.4. All financial data are recorded in a computerized system which is managed by the Information Center housed in the Liuyang FB and meets a high information security standard. Access and change to financial data are strictly restricted and recorded, and result in an audit trail.</p> <p>Recording and reporting of debt and guarantees are rated ‘C’ in 13.1. Debt records are complete, accurate, and updated when transactions are made. They are updated monthly via the debt management system and reconciled annually. Comprehensive reports are issued by the Liuyang Government annually.</p> <p>Approval of debt and guarantees are rated ‘A’ in 13.2. The Liuyang Bureau of Finance is the responsible debt management entity. It is authorized to borrow on behalf of the City Government and monitor the debt transactions according to the debt management rules. Annual borrowing undergoes approval by the Liuyang City People’s Congress.</p>

Internal Control Components and Elements	Summary of Observations
3.1 Authorization and approval procedures	<p>Effectiveness of expenditure commitment controls is rated 'C' in 25.2. The double control system effectively controls expenditure commitment, but some expenditures take 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>Integration of payroll and personal records is rated 'A' in 23.1. 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>Management of payroll changes is rated 'A' in 23.2. Changes to the personnel records and payroll are updated monthly. Retroactive changes to the existing payroll records are not allowed in the e-financial management system.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p>Compliance with payroll payment rules and procedures is rated 'A' in 23.3. 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>Segregation of duties is rated 'A' in 25.1. Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage.</p>
3.3 Controls over the access to resources and records	<p>Compliance with payment rules and procedures is rated 'A' in 25.3. Compliance with payment rules and procedures is very high (more than 90%), and all exceptions are authorized in advance.</p> <p>Financial data integrity processes are rated 'A' in 27.4. All financial data are recorded in a computerized system which is managed by the Information Center housed in the Liuyang FB and meets a high information security standard. Access and change to financial data are strictly restricted and recorded, and result in an audit trail.</p>
3.4 Verifications	<p>Accuracy of in-year budget reports is rated 'B' in 28.3. A set of in-year budget execution reports are prepared and data are reliable. An analysis report is prepared on a quarterly basis and covers the information of the expenditure stage, but the report is not audited.</p>
3.5 Reconciliations	<p>Banks account reconciliations is rated 'A' in 27.1. The Treasury Centralized Payment Center reconciles the balance with the PBOC on a daily basis. The Treasury Section of the City Finance Bureau reconciles the balance and details of the special accounts with the related commercial banks daily as well.</p> <p>Suspense account reconciliations is rated 'NA' in 27.2. There are no suspense accounts.</p>
3.6 Reviews of operating performance	<p>Revenue audit and investigations are rated 'NA' in 19.3. PI-19 is not applicable to China's local governments.</p>
3.7 Reviews of operations, processes and activities	<p>Procurement monitoring is rated 'D*' in 24.1. Databases or records are maintained for contracts above the threshold, but data for small contracts are not available.</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>

Internal Control Components and Elements	Summary of Observations
4. Information and Communication	
5. Monitoring	
5.1 Ongoing monitoring	<p>The Assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p>Resources received by service delivery units is rated 'A' in 8.3. Information on the resources received by the service providers at spending units is available, and the public service departments in the sample have established a financial account, recording the details of the funds allocated to each service delivery unit.</p> <p>Monitoring of public corporations is rated 'B' in 10.1. 6 out of the 10 largest SOEs (accounting for 78.63 percent of total assets) published their audited financial reports within 6 months of the end of the FY. A consolidated report on the financial performance of the PC sector is published by the SNG annually.</p> <p>Contingent liabilities and other fiscal risks is rated 'A' in 10.3. The contingent liabilities and other financial risks of Liuyang City are recorded in the government debt management system. In 2018, a report including contingent liabilities was published.</p> <p>Investment project monitoring is rated 'C' in 11.4. The MIPO monitors the total cost and physical progress monthly and publicizes the result biannually on the government website. Standard procedures and rules governing project implementation are available.</p> <p>Procurement monitoring is rated 'D*' in 24.1. Databases or records are maintained for contracts above the threshold, but data for small contracts are not available.</p> <p>Implementation of internal audits and reporting is rated 'A' in 26.3. The internal auditors of the five largest budget units, representing 83% of total expenditure, carry out audit in accordance with the internal audit standards.</p>
5.2 Evaluations	<p>Performance evaluation for service delivery is rated 'C' in 8.4. The evaluation of the efficiency or effectiveness of service delivery covered 26.14% of total service delivery expenditures in FY 2018, but they were not published.</p> <p>Investment project selection is rated 'A' in 11.2. The Major Investment Project Office (MIPO) of the DRC is responsible for selecting the investment projects and making proposals to the County Committee. There are clearly stipulated criteria for prioritizing investment projects.</p>
5.3 Management responses	<p>Response to internal audits is rated 'A' in 26.4. During FYs 2016-2018, all audited units took remedial actions to address the issues disclosed by internal auditors within 12 months and submitted the rectification report to the superior authorities.</p> <p>External audit follow-up is rated 'A' in 30.3. 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
Budget units	GAUs	54 major GAUs (1) The Education Bureau; (2) the Health Bureau; (3) the Human Resources and Social Security Bureau; (4) the Land and Resources Bureau; (5) the Housing and Urban-Rural Development Bureau; (6) the Transportation Bureau; (7) the Civil Affairs Bureau; (8) the Natural Resources Bureau; (9) the Agricultural Bureau; (10) the Grain Bureau; (11) the Municipal Bureau of Culture, Sports, Radio and Television; (12) the Medical Security Bureau; (13) the Water Bureau; (14) the Forestry Bureau; (15) the Science and Technology Bureau; (16) the DRC; (17) the Housing Security Bureau; (18) the Municipal Administration of Landscape Architecture; (19) the Urban and Rural Planning Bureau; (20) the Environmental Protection Bureau; (21) the Municipal Public Works Bureau; (22) the Highway Administration Bureau; (23) the Animal Husbandry, Veterinary and Aquaculture Bureau; (24) the Finance Bureau; (25) the Audit Office; (26) the Bureau of Statistics; (27) the Administration of Work Safety; (28) the Economic and Information Bureau; (29) the Bureau of Commerce and Cooperation; (30) the Data Resources Bureau; (31) the Public Security Bureau; (32) the Investment Promotion Service Center; (33) the Tourism Bureau; (34) the Judicial Bureau; (35) the Immigration Development Administration; (36) the Civil Affairs Bureau; (37) the Municipal People's Government Office; (38) the Office of the Standing Committee of the Liuyang City People's Congress; (39) the Letters and Calls Bureau; (40) the City Administration and Administrative Law Enforcement Bureau; (41) the Forest Public Security Bureau; (42) the Fireworks Administration; (43) the Food and Drug Industry and Commerce Quality Supervision and Management; (44) the Municipal Government Affairs Service Center; (45) the Municipal Bureau of Organ Affairs; (46) the Financial Work Office; (47) the Reception Office; (48) the Civil Air Defense Office; (49) the Municipal People's Government Land Acquisition and Demolition Management Office; (50) the Liuyang Daily; (51) the Municipal Archives Bureau; (52) the Former Residence Management Office of Hu Yaobang; (53) the Agricultural Science and Education Office; (54) the Infrastructure Construction Investment Management Center.
		32 others
		28 Townships, 4 streets and 2 economic development zones Chengchong, Gejia, Gugang, Gaoping, Yonghe, Yanxi, Guandu, Dahu, Daweishan, Zhangfang, Xiaohe, Dayao, Jingang, Chengtanjiang, Wenjia, Zhonghe, Zhentou, Puji, Guanqiao, Baijia, Yong'an, Beisheng, Dongyang, Jiaoxi, Shashi, Chunkou, Shegang, Longfu, Huaichuan, Jili, Guankou, Hehua, Economic and Technological Development Zone, and High-tech Development Zone
	PSUs	5 largest in education sector Liuyang Jili Junior Middle School Liuyang River Middle School Liuyang No.1 Middle School Liuyang Dayao town Dayao Junior High School Liuyang Lotus Street Junior High School
	Five largest in health sector Liuyang People's Hospital Liuyang Hospital of Traditional Chinese Medicine Liuyang Jili Hospital Liuyang Orthopedic Hospital Liuyang Maternal and Child Health Hospital	
	910 Others	

Type		Units
EBUs		None ¹
PCs	Five largest	Liuyang City Construction Group Co., Ltd
		Hunan Jinyang Investment Group Co., Ltd
		Liuyang Economic Development Zone Investment Development Co., Ltd
		Liuyang Huiyuan Industry Co., Ltd
		Liuyang Xinneng Power Distribution Co., Ltd
	64 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 EBUs in China, some budget units (such as some hospitals and schools) have extra budgetary revenue and expenditure activities. These units will submit financial reports to the responsible departments and the Finance Bureau.

ANNEX 4. EVIDENCE FOR SCORING INDICATORS

Indicators (PEFA 2020 frame- work)	Evidence
HLG-1. Transfers from an HLG	<ol style="list-style-type: none"> 1. Liuyang budget documentation for FYs 2016, 2017 and 2018. 2. Data of all transfers from the HLG for FYs 2016, 2017 and 2018. 3. Release schedule of transfers for FYs 2016, 2017 and 2018.
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"> 1. GPB document for FYs 2016, 2017, 2018 2. Government budget documentation and fiscal reports of FYs 2016, 2017, 2018.
3. Revenue out-turn	<ol style="list-style-type: none"> 1. GPB document from FYs 2016, 2017, 2018. 2. Government budget documentation and fiscal reports of FYs 2016, 2017, 2018.
4. Budget classification	1. The GPB and the GFB of Liuyang, FY 2018.
5. Budget documentation	1. Liuyang annual budget documentation of FY 2018.
6. SNG operations outside financial reports	<ol style="list-style-type: none"> 1. The annual budget documentation of FYs 2016, 2017 and 2018 (including social security funds). 2. The budget documents of 5 self-funding units, FY 2018.
7. Transfers to SNGs	NA.
8. Performance information for service delivery	<p>Liuyang annual budget documentation for FYs 2016, 2017 and 2018. Financial reports of the service delivery units for FYs 2016, 2017, 2018 collected from the Finance Bureau of Liuyang.</p> <p>8.1 Website of department budget of education system in 2019, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lyczyjsgk7/bmyjs9662/lysjyj/42239322/index.html</p> <p>Website of department budget of Liuyang Civil Affairs Bureau in 2019, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lyczyjsgk7/bmyjs9662/lysmzj/42238310/index.html</p> <p>Website of department budget statement of Liuyang housing and Urban Rural Development Bureau in 2019, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/szfhcxsj/czxx/czyjs/2077291/42238339/index.html</p> <p>Website of department budget statement of Liuyang science and Technology Bureau in 2019, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/skxjsj/czxx/czyjs/2077289/42240042/index.html</p> <p>Website of department budget statement of Liuyang economic and Information Bureau in 2019, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sjjhxxhj/czxx/czyjs/2077285/42241556/index.html</p> <p>Website of department budget of Liuyang human resources and Social Security Bureau in 2019, time of access: 2020/1/16</p>

Indicators (PEFA 2020 frame- work)	Evidence
8. Performance information for service delivery	<p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/srlzyhshbj/czxx/czyjs/2077301/42236046/index.html Website of department budget statement of Liuyang Transportation Bureau in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lyczyjs7/bmyjs9662/lysjtysj/42234602/index.html Website of department budget statement of Liuyang Water Bureau in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lyczyjs7/bmyjs9662/lysswj/42235194/index.html Website of department budget statement of Liuyang Agriculture Bureau in 2019, time of access: 2020/1/16</p> <p>www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lyczyjs7/bmyjs9662/lysnj/42239787/index.html Website of department budget statement of Liuyang agricultural technology promotion center in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/snyj/czxx/czyjs/2077309/42235252/index.html Website of department budget statement of Liuyang Forestry Bureau in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/slyj/czxx/czyjs/2077311/42236793/index.html Website of department budget statement of Liuyang forest seedling management station in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/slyj/czxx/czyjs/2077311/42234985/index.html Website of department budget statement of Liuyang forestry investigation, planning and Design Institute in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/slyj/czxx/czyjs/2077311/42234998/index.html Website of department budget statement of Liuyang Bureau of Commerce and cooperation in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sswhzj/czxx/czyjs/2077329/42243732/index.html Website of department budget statement of Liuyang culture, sports, radio and Television Bureau in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swhtygbdsj/czxx/czyjs/2077313/42238136/index.html Website of department budget statement of Liuyang sports administration in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swhtygbdsj/czxx/czyjs/2077313/42236689/index.html Website of department budget statement of Liuyang Tourism Bureau in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swhtygbdsj/czxx/czyjs/2077313/42350865/index.html Website of department budget statement of comprehensive law enforcement bureau of Liuyang cultural market in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swhtygbdsj/czxx/czyjs/2077313/42236616/index.html Website of department budget statement of Liuyang Huagu Opera Troupe in 2019, time of access: 2020/1/16</p>

Indicators (PEFA 2020 frame- work)	Evidence
8. Performance information for service delivery	<p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swhtygbdsj/czxx/czyjs/2077313/42236551/index.html Website of department budget of Liuyang Library in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swhtygbdsj/czxx/czyjs/2077313/42236487/index.html Website of department budget statement of Liuyang Museum in 2019, time of access: 2020/1/16</p> <p>www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swhtygbdsj/czxx/czyjs/2077313/42236126/index.html Website of department budget statement of Liuyang administration of cultural relics in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swhtygbdsj/czxx/czyjs/2077313/42238016/index.html Website of department budget statement of Liuyang Cultural Museum in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swhtygbdsj/czxx/czyjs/2077313/42236408/index.html Website of department budget statement of Liuyang health and Family Planning Bureau in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swshjhsyj/czxx/czyjs/2077315/42237089/index.html Website of department budget statement of Liuyang CDC in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swshjhsyj/czxx/czyjs/2077315/42238723/index.html Website of department budget statement of Liuyang health and family planning comprehensive supervision and Law Enforcement Bureau in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swshjhsyj/czxx/czyjs/2077315/42239002/index.html Website of department budget of Liuyang Bureau of land and resources in 2019, time of access: 2020/1/16</p> <p>www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sgdzyj/czxx/czyjs/2077303/42234610/index.html 8.1 2019Work plan</p> <p>Website of working ideas of Liuyang Education Bureau in 2019, time of access: 2020/1/16 http://www.liuyang.gov.cn/wapsite/xxgk72/2211762/gzjh60/42236136/index.html</p> <p>Website of 2019 work plan of Liuyang Civil Affairs Bureau, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/smj/ghjh/jhzj/42222587/index.html</p> <p>Website of working ideas of Liuyang science and Technology Bureau in 2019, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/skxjsj/ghjh/jhzj/42181468/index.html</p> <p>Website of work plan of Liuyang human resources and Social Security Bureau in 2019, time of access: 2020/1/16 http://www.liuyang.gov.cn/wapsite/xxgk72/2211762/gzjh60/42181255/index.html</p> <p>Website of 2019 work plan of Liuyang Transportation Bureau, time of access: 2020/1/16 http://www.liuyang.gov.cn/wapsite/xxgk72/2211762/gzjh60/42192905/index.html</p> <p>Website of work summary of the Bureau of agriculture in 2018 and work ideas in 2019, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/snyj/ghjh/jhzj/42220341/index.html</p> <p>Website of work plan of Liuyang Forestry Bureau in 2019, time of access: 2020/1/16 http://www.liuyang.gov.cn/wapsite/xxgk72/2211762/gzjh60/42197554/index.html</p> <p>Website of work plan for the second half of 2019 of Liuyang Bureau of Commerce, time of access: 2020/1/16</p>

Indicators (PEFA 2020 frame- work)	Evidence
8. Performance information for service delivery	<p>http://www.liuyang.gov.cn/eportal/ui?pagelId=300507&articleKey=42396770&columnId=306881 Website of working ideas of Liuyang culture, sports, radio and Television Bureau in 2019, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swhtygbdsj/ghjh/jhzj/42233883/index.html Website of 2018 work plan of Liuyang Tourism Bureau, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/wapsite/xxgk72/2211762/gzjh60/3934445/index.html Liuyang Municipal Bureau of Land and Resources 2019 Work Plan, time of access: 2020/5/12</p> <p>http://www.liuyang.gov.cn/lyszf/xxgkml/szfgzbm/sgdzyj/ghjh/jhzj/202004/t20200423_7727135.html Work Key Points of Health Care in Liuyang City in 2019, time of access: 2020/5/12</p> <p>http://www.liuyang.gov.cn/lyszf/xxgkml/szfgzbm/swshjhsyj/ghjh/jhzj/201911/t20191106_6421875.htm</p> <p>8.2 Work summary: Website of work summary of Liuyang Education Bureau in 2018, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/syj/ghjh/jhzj/42235121/index.html Website of work summary of Liuyang housing and Construction Bureau in 2018, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/szfhcxsj/ghjh/jhzj/42226290/index.html Website of department final accounts of Liuyang science and Technology Bureau in 2018, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/skxjsj/czxx/czyjs/2077289/42421523/index.html Website of self evaluation report on overall expenditure performance of Liuyang Bureau of economy and information technology in 2018, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sjhxxhj/czxx/czyjs/yszx83/42453490/index.html Website of work summary of Liuyang economic and Information Bureau in 2018, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sjhxxhj/ghjh/jhzj/42472246/index.html Website of 2018 work summary of Liuyang human resources and Social Security Bureau, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/srlzyhshbzj/ghjh/jhzj/42471815/index.html Website of work summary of the Bureau of agriculture in 2018 and work ideas in 2019, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/snyj/ghjh/jhzj/42220341/index.html Website of work summary of Liuyang Bureau of Commerce and cooperation in 2018 and work ideas in 2019, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sswhzj/ghjh/jhzj/42200104/index.html Website of work summary of Liuyang health and Family Planning Bureau in 2018, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swshjhsyj/ghjh/jhzj/42232123/index.html Website of Liuyang Bureau of land and resources actively plans the work in 2019, time of access: 2020/1/16</p>

Indicators (PEFA 2020 frame- work)	Evidence
8. Performance information for service delivery	<p>http://www.liuyang.gov.cn/eportal/ui?pagelId=300507&articleKey=42220762&columnId=305205 Website of work summary and work plan for 2018 of Liuyang Bureau of land and resources, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sgdzyj/ghjh/jhzj/42471741/index.html 8.2, 8.4 self-assessment report:</p> <p>Website of funding performance evaluation report of Liuyang Education Bureau, 2018, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sjyj/czxx/czzxzj/42454917/index.html Website of self evaluation report on the performance of special financial expenditure for the elderly allowance of Liuyang Civil Affairs Bureau in 2018, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/smjz/czxx/czzxzj/42454372/index.html Website of self evaluation report on the performance of the special financial expenditure of living subsidy for the retired village cadres of Liuyang Civil Affairs Bureau in 2018, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/smjz/czxx/czzxzj/42454375/index.html Website of self evaluation report on the performance of special financial expenditure of "two subsidies" for disabled people in 2018 by Liuyang Civil Affairs Bureau, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/smjz/czxx/czzxzj/42454255/index.html Website of Liuyang Civil Affairs Bureau 2018 special financial expenditure performance self-assessment report on basic living expenses of orphans, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/smjz/czxx/czzxzj/42454222/index.html Website of Announcement of the annual performance self-assessment report of the special financial expenditure for Liuyanghe market upgrading, 2018, time of access: 2020/1/16</p> <p>www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/szfhcxsj/czxx/czzxzj/42454903/index.html Website of Publicity of the annual self-assessment report on the performance of special expenditure for public rental housing maintenance and management, 2018, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/szfhcxsj/czxx/czzxzj/42454895/index.html Website of publicity of the self-assessment report on the expenditure performance of public bicycle system project in 2018, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/szfhcxsj/czxx/czzxzj/42454638/index.html Website of performance evaluation report of 2018 department overall expenditure of Liuyang science and Technology Bureau, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/skxjsj/czxx/czzxzj/42454767/index.html Website of self evaluation report on overall expenditure performance of Liuyang Bureau of economy and information technology in 2018, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sjjhxxhj/czxx/czyjs/yszx83/42453490/index.html Website of self evaluation report on department overall expenditure performance evaluation of Liuyang human resources and Social Security Bureau in 2018, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn:8081/eportal/ui?columnId=2217800&pagelId=2217138&viewTemplateId=be9fc428e66043b5b0e90b8ac41dda70&articleKey=42455165&version=5 Website of self evaluation report on overall expenditure performance of Liuyang Transportation Bureau in 2018, time of access: 2020/1/16</p>

Indicators (PEFA 2020 frame- work)	Evidence
8. Performance information for service delivery	<p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sjtysj/czxx/czzxzj/42453383/index.html Website of performance evaluation of special fiscal expenditure of Liuyang Water Conservancy Bureau in 2018, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn:8081/eportal/ui?columnId=374048&pageId=300507&viewTemplateId=b9ef3e056c33482a8d77408aa30b7cf1&articleKey=42453675&version=1 Website of self evaluation report on the overall expenditure performance of Liuyang agricultural and rural Bureau, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn:8081/eportal/ui?columnId=374080&pageId=300507&viewTemplateId=b9ef3e056c33482a8d77408aa30b7cf1&articleKey=42453637&version=1 Website of self evaluation report on special expenditure performance of forestry law enforcement and supervision of Liuyang Forestry Bureau, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/slyj/tzgg/42454010/index.html Website of performance evaluation report on special funds for forestry production and afforestation in 2018 in Liuyang City, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/slyj/tzgg/42453993/index.html Website of self evaluation report on overall expenditure performance of Liuyang Bureau of Commerce in 2018, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn:8081/eportal/ui?columnId=2077329&pageId=300507&viewTemplateId=b9ef3e056c33482a8d77408aa30b7cf1&articleKey=42455877&version=1 Website of performance evaluation report of the Department & apos; overall expenditure in 2018 of the former Liuyang culture, sports, radio and Television Bureau, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swhtygbdsj/czxx/czyjs/2077313/42454756/index.html Website of Liuyang City 2016-2018 three year action special fund performance evaluation report of beautiful rural construction, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swhtygbdsj/czxx/czyjs/2077313/42454682/index.html Website of self-evaluation report on the performance evaluation of family planning operation and complication relief funds of Liuyang Health Bureau in 2018, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swshjhsyj/czxx/czyjs/2077315/42454784/index.html Website of capital performance evaluation of basic public health service project of Liuyang Health Bureau in 2018, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swshjhsyj/czxx/czyjs/2077315/42454652/index.html Website of financial expenditure performance evaluation report (village health office construction project), time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/swshjhsyj/czxx/czyjs/2077315/42454597/index.html Website of Liuyang natural resources bureau & apos; self-assessment report on the performance of special fiscal expenditure in 2018, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/lysgtzyj/zwgk110/czxx91/czzxzj42/42328435/index.html</p> <p>8.4 Third-party assessment report: Website of Canteen Construction Fund Project, time of access: 2020/1/16</p> <p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sczj/tzgg/3885264/index.html</p> <p>Website of City Facilities Construction and Greening Improvement Project, time of access: 2020/1/16</p>

Indicators (PEFA 2020 framework)	Evidence
8. Performance information for service delivery	<p>http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sczj/tzgg/3885177/index.html</p> <p>Website of Annual Industrial Technological Transformation Fund of the Same Level, 2016, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sczj/tzgg/3885113/index.html</p> <p>Website of Special Funds for Poverty Alleviation in the First Half of the Year, 2017, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sczj/tzgg/3885133/index.html</p> <p>Website of Forestry Production and Afforestation, 2017, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sczj/tzgg/2144263/index.html</p> <p>Website of Campaign Funds for eliminating pornography and illegal publications, 2016, time of access: 2020/1/16 http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sczj/tzgg/3885221/index.html</p> <p>Internal website of Liuyang Government, which contains information of funds and projects of all special public services. We found High School Public Funds of 2018, Security Guard Funds of 2018, Subsidy for Boarding Administrators in Compulsory Education Stage of 2018, Training Fee 2018, Tuition Free for Secondary School of 2018, School Overall Relocation Project of 2018, Special living Allowance for the Elderly of 2018, Special Funds for Science and Technology of 2018, Reconstruction Project of Rural Dilapidated Houses of 2018, Annual Department Overall Expenditure of 2017, Rural Road Triennial Action of 2017, 2016-2017 Rural Tap Water, 2017- 2018 Winter and Spring Water conservancy construction project, 2017 Annual Targeted Poverty Alleviation Project, Supporting Funds for the Development of Ecommerce Industry of 2018, Digital HD Reconstruction of the Whole Process of Production, Broadcasting and Performance Room and Subsidy for Family Planning Operation and Complications Relief, time of access: 2020/1/16 Http://10.105.39.83/newitem.htm? Id = 6952 (intranet site)</p>
9. Public access to fiscal information	<ol style="list-style-type: none"> 1. Government website for the enacted budget, FY 2018, time of access: 2020/1/8: http://www.liuyang.gov.cn/xxgk/fdzdgknr/qtfdxx/ztzl/dwzt/czj39/lyczyjsgk7/zfyjs18/201903/t20190305_6432662.html. 2. Government website for the annual budget execution report, FY 2018, time of access: 2020/1/8: http://www.liuyang.gov.cn/xxgk/fdzdgknr/qtfdxx/ztzl/dwzt/czj39/lyczyjsgk7/zfyjs18/201910/t20191028_6432664.html. 3. Government website for the audited annual financial report, 2018, time of access: 2020/1/8: http://www.liuyang.gov.cn/xxgk/fdzdgknr/qtfdxx/ztzl/dwzt/czj39/lyczyjsgk7/zfyjs18/201902/t20190218_6432665.html.
10. Fiscal risk reporting	<ol style="list-style-type: none"> 1. The 2014 Budget Law. 2. Data of the total value of equity which is weighted by the percentage of shares owned by the SNG, date of submission to Bureau of Finance and date of publication of the annual financial statements of each public corporation for FY 2018 (including information on whether each one is audited) collected from Liuyang Finance Bureau. 3. The debt management system of Liuyang City. 4. The Comprehensive Report on State-owned Assets Management for FY 2018. 5. Interview with the director of the PPP Center, Liuyang Finance Bureau, about how many PPP projects there are in Liuyang and their impact on Liuyang's finance, on December 11, 2019.

Indicators (PEFA 2020 framework)	Evidence
11. Public investment management	<ol style="list-style-type: none"> 1. Liuyang Major Investment Project Management Methods, upgraded in 2017 by Liuyang City Government. 2. Information on the 10 largest major investment programs received from the DRB and the MIPO, Liuyang City. 3. Website on the implementation of major investment projects from January to June FY 2018, time of access: 2020/1/29: http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sfzhggj/tjxx/jjshfztj/4227525/index.html. 4. Website on the implementation of major investment projects from July to December FY 2018, time of access: 2020/1/29: http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/sfzhggj/tjxx/jjshfztj/42231786/index.html.
12. Public asset management	<ol style="list-style-type: none"> 1. The Summary Table of State-owned Assets of GAUs and PSUs in FY 2018. 2. Statistics of SOEs, Liuyang City. 3. The asset register system of Liuyang City. 4. The Regulation on Disposal of State-owned Assets of Liuyang City, issued by Liuyang City People's Government Office on October 20,2011. 5. The Provisional Regulation on Asset Administration and Management in Liuyang, issued by Liuyang City People's Government Office on October 20, 2011. 6. The Regulation on the Administration of Reporting on Major Issues of SOEs owned by Liuyang, issued by Liuyang City People's Government Office on May 17,2015. 7. The statement of disposition of assets and summary statement of return on assets in Liuyang, issued by State owned assets affairs center which published in, time of access: 2020/1/4 http://www.liuyang.gov.cn/liuyanggov/xxgk/fdzdgnr/tzgg/42472723/index.html
13. Debt management	<ol style="list-style-type: none"> 1. The 2014 Budget Law. 2. Detailed Rules for the Implementation of Government Debt Management in Liuyang, the annual 10th official document issued by Liuyang City Government in 2018. 3. Government budget documentation and fiscal reports for FY 2018 and 2019. 4. Liuyang government debt statistics in FY2018. 5. Screenshot of the Debt Management IT system, captured on January 16, 2020 .
14. Macroeconomic and fiscal forecasting	<ol style="list-style-type: none"> 1. Interview with the Budget Department of the Liuyang Finance Bureau about the process of budget preparation December 11, 2019. 2. The Budget Preparation Compilation Book of the Liuyang Finance Bureau, issued by Liuyang Finance Bureau on August 3, 2018.
17. Budget preparation process	<ol style="list-style-type: none"> 1. Notice on Preparation of department budget in 2019, released by Liuyang Finance Bureau on 2018/9/18. This document contains detailed budget calendar information.
18. Legislative scrutiny of budgets	<ol style="list-style-type: none"> 1. Annual budget proposals of FY 2016, 2017 and 2018 from the Liuyang Finance Bureau, time of access: 2019/12/11: http://www.liuyang.gov.cn/xxgk/fdzdgnr/qtdxx/ztzl/dwzt/czj39/lyczyjsgk7/zfyjs18/ 2. Budget adjustment report of FY 2018, time of access: 2019/12/11: http://www.liuyang.gov.cn/liuyanggov/dwzt/czj39/lyczyjsgk7/zfyjs18/42165898/index.html.
19. Revenue administration	NA.
20. Accounting for revenue	<ol style="list-style-type: none"> 1. Screenshot of transaction between collecting entities and specialized account, and the transaction and reconciliation record between specialized account and treasury account.

Indicators (PEFA 2020 framework)	Evidence
21. Predictability of in-year resource allocation	<ol style="list-style-type: none"> 1. The daily balance report of the STA from the Liuyang Branch of the PBOC for three consecutive days in 2019. 2. Government budget documentation and fiscal reports, FY 2018. 3. Interview with the Treasury Department of the Liuyang Finance Bureau, about how many accounts are there and how often these account cash balances are consolidated, on December 10, 2019. 4. Daily reconciliation forms of the Liuyang financial special account. 5. Daily reconciliation forms of the Liuyang Treasury. 6. The monthly payment schedule of the Liuyang Branch of the PBOC. 7. Reply from the Finance Bureau to the Budget Department of the Education Bureau (Document No. 3, 2018 of Liuyang Finance Bureau). 8. The final statement of GPB expenditures, FY 2018.
22. Expenditure arrears	<ol style="list-style-type: none"> 1. Interviews records of the Payroll Bureau of Liuyang City, about how to monitoring the expenditure progress of key projects. 2. Balance sheets (sample as of November 2018).
23. Payroll controls	<ol style="list-style-type: none"> 1. The Salary Welfare and Retirement Working Manual of Hunan Province, on December 18, 2017. 2. The register/ record of examination and approval of wage changes. 3. The personnel information system of the Human Resources and Social Security Bureau (including the module for automatic payroll generation), on December 10, 2019. 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 October 3, 2018. 5. The application guide to wage payment matters of the Liuyang City organs' and units' personnel. 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). 7. Screenshot of the preparation management system of the Government Employees Staff Office, on December 10, 2019. 8. Screenshot of the payroll management system, on December 10, 2019. 9. The internal control system of the Treasury Centralized Payment Bureau, published on July 23, 2011. 10. Document No. 50, 2017 of the Liuyang Human Resources and Social Security Bureau, Notice on the implementation of prevention and control of "Ghost staff" in all budget units. 11. Changsha Platform for the Comprehensive Management of Information of Administrative Institution Personnel. 12. Payroll audit system permissions. 13. Liuyang Human Resources and Social Security Notice No. 22, 2017, On the specific measures to deal with "Ghost staff" in all budget units. 14. Evidence (Statistical table of "Ghost staff" checked by budget unit) in FYs 2016, 2017 and 2018.
24. Procurement management	<ol style="list-style-type: none"> 1. Government procurement information statistics maintained by the Liuyang Finance Bureau. 2. The Liuyang Government Procurement Information Management Platform. 3. Funding sources statistics of government procurement maintained by the Liuyang Finance Bureau. 4. Website of the Hunan Provincial Tendering and Bidding Supervision (http://www.bidding.hunan.gov.cn, with the new website http://218.76.24.90/flow effective from Dec. 9, 2019). 5. Website of the Changsha Public Resources Transaction Electronic Service Platform (http://csggzy.changsha.gov.cn). 6. Special column of the public resources transaction service on the website of the Liuyang People's Government (http://www.liuyang.gov.cn).

Indicators (PEFA 2020 frame- work)	Evidence
24. Procurement management	<ol style="list-style-type: none"> 7. Website of Changsha Government Procurement (http://changs.ccgp-hunan.gov.cn). 8. Changsha Good Faith Net (http://fgw.changsha.gov.cn/xycs). 9. The Liuyang Government Procurement Information Management Platform. 10. The Tendering and Bidding Law of the PRC effective as of January 1, 2000. 11. The Implementation Regulation for the Tendering and Bidding Law of PPRC issued by the State Council effective as of March 2, 2019 12. The Government Procurement Law of the PRC effective as of January 1, 2003. 13. The Implementation Regulation for the Government Procurement Law of the PRC issued by the State Council effective as of March 1, 2015. 14. 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. 15. The Complaint Handling Procedure and Guidance for Procurement following the Government Procurement Law issued by the MOF on December 26, 2017 and effective as of March 1, 2018. 16. The flow chart of government procurement complaint handling. 17. The general complaint record maintained by the Public Resources Transaction Administration Office under the Liuyang Development Reform Bureau. 18. The general complaint record maintained by the Government Procurement Administration Office under the Liuyang Finance Bureau. 19. Sample review of a complaint resolution dated June 11, 2019 for a complaint regarding the procurement of medical furniture for a new hospital branch of Liuyang People's Hospital. 20. Sample review of a complaint resolution for a complaint regarding the procurement of construction supervision services for the 2019 Liuyang Basic Farmland Construction and Development Project (Official Document No. 50, 2019 of the Liuyang DRB).
25. Internal controls on non-salary expenditure	<ol style="list-style-type: none"> 1. Screenshot of the double control system, captured on December 12,2019. 2. Internal Control Regulations of Liuyang Treasury Payment Centre, issued in 2017 by Liuyang Finance Bureau.
26. Internal audit	<ol style="list-style-type: none"> 1. Provisions of the audit office on the work of internal audit,published on March 1,2018. http://www.gov.cn/gongbao/content/2018/content_5288830.htm.(December 12,2019) 2. The Internal Audit Report of the Education Bureau. 3. The Working Guidance for the Internal Audit Section of the Liuyang Audit Bureau for the FYs 2017 to 2021. 4.Copies of some audit manuscripts of the internal audit work of the sampled bureaus(Education Bureaus,Water Affairs Bureau,Housing and Urban Construction Bureau,Forestry Bureau,Department of Transportation internal audit from 2016 to 2018). 5. Internal audit work plans of the GAUS(FYs 2016 to 2018). 6. Internal audit reports of GAUS(FYs 2016 to 2018). 7. Internal audit summary of GAUs(FYs 2016 to 2018). 8. Reports on the rectification corresponding the audit report(FYs 2016 to 2018). 9. The certificate of service of audit document(Education Bureaus,Water Affairs Bureau,Housing and Urban Construction Bureau,Forestry Bureau,Department of Transportation internal audit from 2016 to 2018).
27. Financial data integrity	<ol style="list-style-type: none"> 1. The internal control system for Liuyang Treasury Centralized Payment (reconciliation part),published in August 2011. 2. Statement of the Liuyang Finance Bureau and Liuyang Sub-Treasury for two consecutive months in 2019. 3. Statement of the Liuyang Finance Bureau and Treasury Payment for two consecutive months in 2019. 4. Monthly statements on the Treasury Section and special financial accounts of the Liuyang Finance Bureau for two consecutive months in 2019. 5. The information security authentication process of the Ministry of Public Security,Certified since 2007.

Indicators (PEFA 2020 framework)	Evidence
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 Liuyang City for FY 2018.
30. External audit	<p>1. The annual audit reports and corresponding audit rectification reports of FYs 2016, 2017 and 2018, published on the official website of the Standing Committee of the City People's Congress, as follows: http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/ssjj/ghjh/jhzj/42301088/index.html http://www.liuyang.gov.cn/liuyanggov/xxgk/zwgkgzyd2017/zlwzz/yqyd/sjxx/42180524/index.html http://www.gov.cn/zhengce/2015-12/08/content_5021393.htm http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/ssjj/ghjh/jhzj/42301088/index.html http://www.liuyang.gov.cn/liuyanggov/xxgk/xxgkml/szfgzbm/ssjj/ghjh/jhzj/42404864/index.html http://www.liuyang.gov.cn/liuyanggov/xxgk/zwgkgzyd2017/zlwzz/yqyd/sjxx/42180502/index.html</p> <p>2. Bulletins of the Standing Committee of the People's Congress of Liuyang City for FYs 2016, 2017 and 2018 (September 11, 2017; December 3, 2018; November 4, 2019).</p> <p>3. Reports on budget implementation and other financial revenue and expenditure audit reports for FYs 2016, 2017 and 2018.</p> <p>4. Lists of participants of the meetings of the Standing Committee of the City People's Congress.</p>
31. Legislative scrutiny of audit reports	1. The scrutiny record of the City People's Congress, as well as recommendations of remediation, time of access: 2019/12/13: http://www.liuyang.gov.cn/liuyanggov/xxgk.html .

ANNEX 5. LIST OF PERSONS INTERVIEWED

Name	Position	Institution	Telephone
Jihong Zhou	Deputy director	Hunan Provincial DOF, Foreign Economic Office	Not available.
Shuangfei Yi	Investigator	Hunan Provincial DOF, City/County Finance Department	13973198718
Yiqiu Liu	Deputy director	Liuyang Finance Bureau	13637487953
Yidi Huang	Deputy section chief	Liuyang Finance Bureau, Budget Section	15111415192
Jiaojiao Wu	Clerk	Liuyang Finance Bureau, Budget section	18773199712
Huadong Liu	Section chief	Liuyang Finance Bureau, Treasury Department	13874861318
Li Zhang	director	Liuyang Finance Bureau, Internal Control Center	13507427888
Jing Xia	Clerk	Liuyang Finance Bureau, Tax Source Office	
Hongying Huang	Section chief	Liuyang Finance Bureau, Social Security Department	13507428868
Tianru Zhou	Deputy section chief	Liuyang Finance Bureau, Education, Science and Arts	
Yan Huang	Director	Liuyang Finance Bureau, Xiangcai Center	13975839588
Gaobo Su	Deputy director	Liuyang Finance Bureau, Government Procurement Center	
Ying Wang	Section chief	Liuyang Finance Bureau, Financial Debt Section	13507413303
Wei Luo	Section chief	Liuyang Finance Bureau, External Economic Department	13975839299
Hui Zhou	Deputy director	Liuyang DRB	Not available.
Xinyu Yan	Deputy section chief	Liuyang DRB, Public Administration Center	Not available.
Juan Liu	Deputy director	Liuyang DRB, Hunan Jiangxi Border Regional Cooperation Office	Not available.
Pingting Zhong	Clerk	Hunan Provincial DOF, City/County Finance Department	18774845366
Juan Wang	Section chief	Liuyang Finance Bureau, Education, Science and Arts	83601036
Jialian Huang	Deputy section chief	Liuyang Finance Bureau, Economic and Construction Department	13875932598
Meilin Fu	Deputy section chief	Liuyang Finance Bureau, Social Security Department	18874155148
Hao Jie	Section chief	Liuyang State-Owned Assets Center	13974822253
En Deng	Director	Liuyang DRB, Investment Center	13507450802
Meiying Wang	Deputy director	Liuyang DRB, Investment Center	18627594274
Li Tang	Section chief	Liuyang City Payroll Department	13973149146
Zhanghong Huang	Deputy section chief	Liuyang Finance Bureau, Treasury Department	13975836149
Hong Xiao	Deputy section chief	Liuyang Human Resources and Social Security Bureau, Wage Department	13548556556
Jiao Chen	Director	Liuyang Audit Bureau Office	13874874626
Feng Yuan	Section chief	Liuyang Finance Bureau, Performance Management Department	18874256288
Hao Zhou	Section chief	Liuyang State-Owned Assets Management Center	13974963403
Zhiqi Liu	Section chief	Liuyang Finance Bureau, Budget Section	13507480304

Name	Position	Institution	Telephone
Xiaocong Wu	Section chief	Liuyang Finance Bureau, Comprehensive Department	13787410660
Xiaofang Liu	Section chief	Liuyang Finance Bureau, Administrative Politics and Law Section	13637480648
Huiming Zhang	Section chief	Liuyang Finance Bureau, Economic and Construction Department	15874895188
Dan Xiao	Director	Liuyang Finance Bureau, Tax Source Office	15874910610
Peng Zhou	Director	Liuyang Finance Bureau, Payment Center	13974975099
Xianyu Liu	Director	Liuyang Finance Bureau, Current Settlement Center	13874981795
Lisheng Lu	Deputy director	Liuyang DRB	13973191210
Xuexian Luo	Deputy director	Liuyang Highway Bureau	13787003488

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
Non-earmarked grants						
Income tax rebate	82.69	82.69				
VAT rebate	219.00	215.27				
Income from excise tax rebate	0.00	0				
Income from VAT 50:50 sharing rebate	84.83	44.73				
Other tax rebate	109.01	0				
Institutional adjustment subsidies	0.00	193.29				
Equalization transfer	22.00	76.47				
Awarding transfer under basic financial support mechanism for counties	62.00	106.33				
Settlement subsidies	2.48	2.48				
Subsidies for budget-level adjustment of enterprises and institutions	298.22	270.73				
Fixed amount subsidies	14.97	0				
Transfers for old revolutionary base areas	0.00	28.42				
Transfers for poor areas	82.69	23.15				
Other general transfers	1.23	1043.56				
Total non-earmarked grants	896.43	82.69	1,591.1	-547.6	547.6	34.4%
Earmarked grants						
Tax rebate for fuel tax reform	0	22.94	0	22.9	22.9	
Transfer for resource exhausted cities	0	0	0	0	0	
Transfers for Public Security, Prosecution and Legal Department	13.08	11.65	23.2	-11.6	11.6	49.8%
Transfers for compulsory education	99.19	123.32	176.1	-52.7	52.7	30.0%
Transfers for basic old-age insurance	202.41	234.18	359.3	-125.1	125.1	34.8%
Transfers for urban and rural basic medical insurance	384.36	464.06	682.2	-218.2	218.2	32.0%
Transfer for rural comprehensive reform	22.76	54.01	40.4	13.6	13.6	33.7%
Rewarding fund for large grain (oil) producing counties	3.50	40.99	6.2	34.8	34.8	559.8%
Transfer for key ecological functional areas						

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Special transfers	371.06	1,542.38	658.6	883.8	883.8	134.2%
Total Grants	1992.79	3537.09	3,537.1		1,910.2	
Overall variance						177.5
Composition variance						54.0

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
Non-earmarked grants						
Income tax rebate	82.69	82.69				
VAT rebate	215.27	152.62				
Income from excise tax rebate		62.65				
Income from VAT 50:50 sharing rebate		-54.40				
Other tax rebate	51.22	105.62				
Institutional adjustment subsidies	0	0				
Equalization transfer	156.08	243.73				
Awarding transfer under basic financial support mechanism for counties	59.75	44.82				
Settlement subsidies	93.51	96.66				
Subsidies for budget-level adjustment of enterprises and institutions	0.19	10.21				
Fixed amount subsidies	270.73	250.57				
Transfers for old revolutionary base areas	12.05	13.65				
Transfers for poor areas	0	24.54				
Other general transfers	6.38	84.69				
Total non-earmarked grants	947.87	1118.05	1,542.3	-424.3	424.3	27.5%
Earmarked grants						
Tax rebate for fuel tax reform	22.94	22.94	37.3	-14.4	14.4	38.5%
Transfer for resource exhausted cities	0	2.50	0	2.5	2.5	0
Transfers for Public Security, Prosecution and legal department	10.81	20.28	17.6	2.7	2.7	15.3%
Transfers for compulsory education	115.50	137.36	187.9	-50.6	50.6	26.9%
Transfers for basic old-age insurance	224.38	229.08	365.1	-136.0	136.0	37.3%
Transfers for urban and rural basic medical insurance	387.36	460.97	630.3	-169.3	169.3	26.9%

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Transfers for rural comprehensive reform	59.61	50.77	97.0	-46.2	46.2	47.7%
Rewarding fund for large grain (oil) producing counties	29.38	51.73	47.8	3.9	3.9	8.2%
Transfers for key ecological functional areas	0	0	0	0	0	
Special transfers	381.42	1452.33	620.6	831.7	831.7	134.0%
Total Grants	2179.27	3546.01	3,546.0		1,681.6	
Overall variance						162.7
Composition variance						47.4

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
Non-earmarked grants						
Income tax rebate	82.69	82.69				
VAT rebate	215.27	152.62				
Income from excise tax rebate		62.65				
Income from VAT 50:50 sharing rebate	0	-54.40				
Other tax rebate	51.22	105.62				
Institutional adjustment subsidies	0	0				
Equalization transfer	215.07	259.98				
Awarding transfer under basic financial support mechanism for counties	31.00	24.64				
Settlement subsidies	93.50	94.22				
Subsidies for budget-level adjustment of enterprises and institutions	2.48	9.98				
Fixed amount subsidies	245.00	261.16				
Transfers for old revolutionary base areas	13.00	16.83				
Transfers for poor areas	0	33.99				
Other general transfers	28.50	232.99				
Total non-earmarked grants	977.73	1282.97	1,288.0	-5.0	5.0	0.4%
Earmarked grants						
Tax rebate for fuel tax reform	22.94	22.94	30.2	-7.3	7.3	24.1%
Transfer for resource exhausted cities	0	4.00	0	4.0	4.0	
Transfers for Public Security, Prosecution and legal department	10.80	9.00	14.2	-5.2	5.2	36.7%

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Transfers for compulsory education	125.50	182.21	165.3	16.9	16.9	10.2%
Transfers for basic old-age insurance	223.00	259.98	293.8	-33.8	33.8	11.5%
Transfers for urban and rural basic medical insurance	420.00	487.38	553.3	-65.9	65.9	11.9%
Transfer for rural comprehensive reform	50.00	51.45	65.9	-14.4	14.4	21.9%
Rewarding fund for large grain (oil) producing counties	37.00	60.17	48.7	11.4	11.4	23.4%
Transfer for key ecological functional areas	0	0	0	0	0	
Special transfers	1068.18	1506.41	1,407.1	99.3	99.3	7.1%
Total Grants	2935.15	3866.51	3,866.5	0.0	263.2	
Overall variance						131.7
Composition variance						6.8

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	533.20	820.84	792.5	28.4	28.4	3.6%
Defense expenditure	0.00	0.74	0.0	0.7	0.7	0.0%
Public security expenditures	214.21	331.28	318.4	12.9	12.9	4.1%
Expenditures on education	1676.43	2013.39	2,491.6	-478.2	478.2	19.2%
Expenditures on science and technology	72.74	103.01	108.1	-5.1	5.1	4.7%
Cultural Sports and media expenditure	55.00	222.73	81.7	141.0	141.0	172.5%
Social security and employment expenditure	710.70	874.24	1,056.3	-182.0	182.0	17.2%
Health and family planning expenditure	258.48	819.51	384.2	435.3	435.3	113.3%
Energy saving and environmental protection expenditure	72.26	259.87	107.4	152.5	152.5	142.0%
Urban and rural community expenditure	3407.65	4396.13	5,064.7	-668.5	668.5	13.2%
Agricultural, forestry and water expenditure	443.26	1518.99	658.8	860.2	860.2	130.6%
Transportation expenditure	500.61	406.90	744.0	-337.1	337.1	45.3%
Expenditure for resources exploration information	297.51	445.01	442.2	2.8	2.8	0.6%
Business services and other expenditures	13.77	74.19	20.5	53.7	53.7	262.5%
Financial expenditure	11.20	10.68	16.6	-6.0	6.0	35.8%
Expenditure on land, ocean and meteorology	64.67	109.02	96.1	12.9	12.9	13.4%
Housing security expenditure	6.40	210.02	9.5	200.5	200.5	2107.9%

Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Expenditure on stockpiling grain	5.85	36.40	8.7	27.7	27.7	318.6%
Other GPB expenditure	247.97	116.90	368.5	-251.6	251.6	68.3%
Allocated expenditure	8591.91	12769.85	12,769.9	0.0	3,857.3	30.2%
Interests	0.00	67.86				
Contingency	61.00	0.00				
Total expenditure	8652.91	12837.71				
Aggregate outturn (PI-1)						148.4
Composition (PI-2) variance						30.2
Contingency share of budget						0.70

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	581.70	1197.29	957.5	239.8	239.8	25.0%
Defense Expenditure	0.00	2.36	0.0	2.4	2.4	0.0%
Public security expenditures	274.97	425.45	452.6	-27.1	27.1	6.0%
Expenditures on education	2187.12	2304.01	3,599.9	-1,295.9	1,295.9	36.0%
Expenditures on science and technology	75.75	133.02	124.7	8.3	8.3	6.7%
Cultural Sports and media expenditure	67.71	214.03	111.4	102.6	102.6	92.0%
Social security and employment expenditure	740.86	1071.66	1,219.4	-147.8	147.8	12.1%
Health and family planning expenditure	270.39	958.51	445.1	513.5	513.5	115.4%
Energy saving and environmental protection expenditure	80.21	267.80	132.0	135.8	135.8	102.8%
Urban and rural community expenditure	3453.41	5711.27	5,684.2	27.1	27.1	0.5%
Agricultural, forestry and water expenditure	477.80	1704.83	786.4	918.4	918.4	116.8%
Transportation expenditure	584.73	418.04	962.4	-544.4	544.4	56.6%
Expenditure for resources exploration information	306.30	460.85	504.2	-43.3	43.3	8.6%
Business services and other expenditures	14.67	89.29	24.1	65.1	65.1	269.8%
Financial expenditure	11.60	7.45	19.1	-11.6	11.6	61.0%
Expenditure on land, ocean and meteorology	67.35	310.88	110.9	200.0	200.0	180.4%
Housing security expenditure	46.43	218.77	76.4	142.3	142.3	186.3%
Expenditure on stockpiling grain	6.93	47.62	11.4	36.2	36.2	317.5%
Other GPB expenditure	261.04	108.35	429.7	-321.3	321.3	74.8%

Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Allocated expenditure	9508.97	15651.48	15,651.5	0.0	4,783.0	30.6%
Interests	0.00	213.25				
Contingency	70.30	0.00				
Total expenditure	9579.27	15864.73				
Aggregate outturn (PI-1)						165.6
Composition (PI-2) variance						30.6
Contingency share of budget						0.71

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	603.47	1073.35	960.9	112.4	112.4	11.7%
Defense expenditure	2.58	2.33	4.1	-1.8	1.8	43.3%
Public security expenditures	283.10	351.47	450.8	-99.3	99.3	22.0%
Expenditures on education	2247.35	2528.22	3,578.4	-1,050.2	1,050.2	29.3%
Expenditures on science and technology	78.24	229.70	124.6	105.1	105.1	84.4%
Cultural Sports and media expenditure	69.16	214.63	110.1	104.5	104.5	94.9%
Social security and employment expenditure	820.80	1141.39	1,307.0	-165.6	165.6	12.7%
Health and family planning expenditure	321.98	906.02	512.7	393.3	393.3	76.7%
Energy saving and environmental protection expenditure	82.60	293.51	131.5	162.0	162.0	123.2%
Urban and rural community expenditure	3819.37	5941.52	6,081.6	-140.0	140.0	2.3%
Agricultural, forestry and water expenditure	518.89	1813.22	826.2	987.0	987.0	119.5%
Transportation expenditure	597.40	513.49	951.2	-437.7	437.7	46.0%
Expenditure for resources exploration information	303.56	470.42	483.4	-12.9	12.9	2.7%
Business services and other expenditures	14.95	69.00	23.8	45.2	45.2	189.9%
Financial expenditure	11.80	25.12	18.8	6.3	6.3	33.7%
Expenditure on land, ocean and meteorology	67.90	215.88	108.1	107.8	107.8	99.7%
Housing security expenditure	47.00	143.35	74.8	68.5	68.5	91.5%
Expenditure on stockpiling grain	7.23	24.13	11.5	12.6	12.6	109.6%
Other GPB expenditure	210.85	138.53	335.7	-197.2	197.2	58.7%
Allocated expenditure	10108.23	16095.28	16,095.3	0.0	4,209.6	26.2%
Interests	0.00	321.20				

Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Contingency	74.00	0.00				
Total expenditure	10182.23	16416.48				
Aggregate outturn (PI-1)						161.2
Composition (PI-2) variance						26.2
Contingency share of budget						0.69

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
Tax revenues						
VAT	1197.75	1008.55	1,240.2	-231.7	231.7	18.7%
Business tax	233.20	232.72	241.5	-8.8	8.8	3.6%
Corporate income tax	309.36	279.61	320.3	-40.7	40.7	12.7%
Corporate income tax refund						
Individual income tax	78.40	93.73	81.2	12.5	12.5	15.5%
Resource tax	4.87	2.74	5.0	-2.3	2.3	45.7%
City maintenance and construction tax	260.00	255.65	269.2	-13.6	13.6	5.0%
Property tax	175.00	109.37	181.2	-71.8	71.8	39.6%
Stamp duty	75.00	56.95	77.7	-20.7	20.7	26.7%
Urban land use tax	74.21	110.51	76.8	33.7	33.7	43.8%
Land appreciation tax	430.00	266.02	445.3	-179.2	179.2	40.3%
Vehicle and vessel tax	46.00	48.31	47.6	0.7	0.7	1.4%
Farmland conversion tax	334.00	293.45	345.9	-52.4	52.4	15.2%
Deed tax	684.00	927.81	708.3	219.5	219.5	31.0%
Tobacco taxes	54.99	50.09	56.9	-6.9	6.9	12.0%
Other tax revenue						
Social contributions						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
Grants						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units			0.0	0.0	0.0	

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Other revenue						
Special Revenue	313.00	456.45	324.1	132.3	132.3	40.8%
Income from administrative fees	174.00	140.30	180.2	-39.9	39.9	22.1%
Fines, penalties and forfeits	69.00	91.39	71.4	19.9	19.9	27.9%
Income from state capital operation	138.00	154.08	142.9	11.2	11.2	7.8%
Income from paid use of state-owned resources (assets)	517.00	803.20	535.3	267.9	267.9	50.0%
Other Revenue	520.00	504.19	538.5	-34.3	34.3	6.4%
Government fund revenue						
Special fund revenue of bulk cement	0.80	0.21	0.8	-0.6	0.6	74.6%
Special fund revenue of new wall materials	3.60	6.32	3.7	2.6	2.6	69.5%
Revenue from new vegetable land development and construction fund	2.00	1.15	2.1	-0.9	0.9	44.5%
Additional revenue of urban public utilities	12.00	10.82	12.4	-1.6	1.6	12.9%
Agricultural land development fund revenue	6.00	8.00	6.2	1.8	1.8	28.8%
Revenue from transfer of state owned land use right	3000.00	3093.34	3,106.4	-13.1	13.1	0.4%
Urban infrastructure supporting fee revenue	30.00	35.71	31.1	4.6	4.6	15.0%
Sewage treatment fee revenue	7.00	21.25	7.2	14.0	14.0	193.2%
Revenue from other government funds	3.00	0.80	3.1	-2.3	2.3	74.2%
Total revenue	8752.18	9062.72	9,062.7	0.0	1,441.6	
Overall variance						103.5
Composition variance						15.9

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
Tax revenues						
VAT	1386.60	1238.61	1,606.4	-367.8	367.8	22.9%
Corporate income tax	311.27	265.40	360.6	-95.2	95.2	26.4%

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Individual income tax	107.24	137.89	124.2	13.7	13.7	11.0%
Resource tax	3.38	4.90	3.9	1.0	1.0	25.1%
City maintenance and construction tax	310.00	461.58	359.1	102.4	102.4	28.5%
Property tax	150.00	168.88	173.8	-4.9	4.9	2.8%
Stamp duty	66.00	47.08	76.5	-29.4	29.4	38.4%
Urban Land Use tax	133.00	121.87	154.1	-32.2	32.2	20.9%
Land appreciation tax	439.80	360.67	509.5	-148.8	148.8	29.2%
Vehicle and Vessel tax	56.00	88.12	64.9	23.2	23.2	35.8%
Farmland conversion tax	413.71	631.26	479.3	152.0	152.0	31.7%
Deed tax	992.00	992.42	1,149.2	-156.8	156.8	13.6%
Tobacco taxes	55.00	34.51	63.7	-29.2	29.2	45.8%
Other tax revenue						
Social contributions						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
Grants						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units			0.0	0.0	0.0	
Other revenue						
Special Revenue	500.00	156.12	579.2	-423.1	423.1	73.0%
Income from administrative fees	163.00	169.28	188.8	-19.6	19.6	10.4%
Fines, penalties and forfeits	92.00	82.44	106.6	-24.1	24.1	22.7%
Income from state capital operation	155.00	103.33	179.6	-76.2	76.2	42.5%
Income from paid use of state-owned resources (assets)	487.00	560.57	564.2	-3.6	3.6	0.6%
Other Revenue	653.00	610.87	756.5	-145.6	145.6	19.2%
Government fund revenue						
Special fund revenue of new wall materials	5.50	7.78	6.4	1.4	1.4	22.1%
Additional revenue of urban public utilities	10.00	2.48	11.6	-9.1	9.1	78.6%
Agricultural land development fund revenue	6.00	8.00	7.0	1.0	1.0	15.1%
Revenue from transfer of state owned land use right	2500.00	4001.18	2,896.2	1,105.0	1,105.0	38.2%

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Urban infrastructure supporting fee revenue	20.88	49.11	24.2	24.9	24.9	103.0%
Revenue from state-owned land income fund		128.58		128.6	128.6	
Sewage treatment fee revenue	8.00	21.74	9.3	12.5	12.5	134.6%
Total revenue	9024.38	10454.67	10,454.7		3,131.4	
Overall variance						115.8
Composition variance						30.0

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
Tax revenues						
VAT	1461.00	1407.96	1,702.1	-294.1	294.1	17.3%
Corporate income tax	294.66	400.92	343.3	57.6	57.6	16.8%
Individual income tax	122.24	164.25	142.4	21.8	21.8	15.3%
Resource tax	6.00	7.93	7.0	0.9	0.9	13.4%
City maintenance and construction tax	250.00	261.93	291.2	-29.3	29.3	10.1%
Property tax	200.00	149.17	233.0	-83.8	83.8	36.0%
Stamp duty	52.00	59.87	60.6	-0.7	0.7	1.2%
Urban Land Use tax	112.00	90.31	130.5	-40.2	40.2	30.8%
Land appreciation tax	414.00	450.31	482.3	-32.0	32.0	6.6%
Vehicle and Vessel tax	100.00	104.14	116.5	-12.4	12.4	10.6%
Farmland conversion tax	707.00	293.85	823.7	-529.8	529.8	64.3%
Deed tax	1120.00	1669.13	1,304.8	364.3	364.3	27.9%
Tobacco taxes	38.00	35.46	44.3	-8.8	8.8	19.9%
Environmental protection tax	9.10	7.45	10.6	-3.2	3.2	29.7%
Other tax revenue						
Social contributions						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
Grants						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Grants from other government units			0.0	0.0	0.0	
Other revenue						
Special Revenue	390.00	309.93	454.3	-144.4	144.4	31.8%
Income from administrative fees	162.00	188.37	188.7	-0.4	0.4	0.2%
Fines, penalties and forfeits	79.00	106.85	92.0	14.8	14.8	16.1%
Income from state capital operation	99.00		115.3	-115.3	115.3	100.0%
Income from paid use of state-owned resources (assets)	500.00	591.54	582.5	9.0	9.0	1.6%
Other Revenue	619.00	619.38	721.1	-101.8	101.8	14.1%
Government fund revenue						
Agricultural land development fund revenue	7.00	5.00	8.2	-3.2	3.2	38.7%
Revenue from transfer of state owned land use right	2800.00	4157.55	3,262.0	895.6	895.6	27.5%
Urban infrastructure supporting fee revenue	37.83	96.04	44.1	52.0	52.0	117.9%
Sewage treatment fee revenue	22.40	9.21	26.1	-16.9	16.9	64.7%
Total revenue	9602.23	11186.55	11,186.6	0.0	2,832.3	
Overall variance						116.5
Composition variance						25.3

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 potential fiscal risks for the Liuyang City 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 Liuyang Government confirmed that there were still two LGFVs operating at the end of 2018 - Liuyang UDIC and Liuyang Water Conservancy Investment Corporation (Liuyang WCIC), that are in the process of transformation toward a commercial entity. Others were either merged into these two LGFVs or transformed to commercial SOEs. Table A7-1 provides the key information of the two LGFVs. Their financing is closely monitored by the Liuyang FB. The Liuyang FB also extends its monitoring to selected PCs that are not known as LGFVs.

Table A7.1: Summary of Liuyang LGFVs

Name of PC	Main activities	Share owned by Liuyang Government (%)	Assets (RMB million)	Stock of debt (RMB million)
Liuyang UDIC	Urban infrastructure construction	100.00	29,416.16	12,039.85
PCs Affiliated to Liuyang UDIC :				
Liuyang Hongda Investment Co., Ltd.	Parking lot construction	84.09	2,204.67	1,362.25
Hunan Liuyanghe flowers and trees Co., Ltd.	Flower and seedling cultivation sales	100.00	39.41	36.02
Hunan Liuyang Hengyuan construction and Development Co., Ltd.	Real estate development and operation	100.00	278.35	271.37
Kaiyuan Development (Liuyang) Investment Co., Ltd.	Industrial investment	100.00	2,515.06	1,859.60
Liuyang WCIC	Water conservancy project construction	94.44	6,585.60	4,242.75
Total			41,039.24	19,811.84

Data source: Liuyang 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
PI-6. PC operations outside financial reports (M2)		D
6.1 Expenditure outside financial reports	Total gross expenditure of the two LGFVs in Liuyang exceeds 10 percent of BG's expenditure.	D
6.2 Revenue outside financial reports	Total gross revenues of the two LGFVs in Liuyang 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 Liuyang amounted to RMB 5342.36 million in 2018, equivalent to 32.5 percent of the BG's total expenditures. Score D.

PI-6.2 Revenue outside financial reports

Total gross revenues of the two LGFVs in Liuyang amounted to RMB 4668.93 million in 2018, equivalent to 41.7 percent of the BG's total revenues. Score D.

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

	Amount	As % of BG
Revenues	4,668.93	41.7%
ow. Liuyang UDIC	2,839.69	
Liuyang WCIC	1,829.23	
Expenditures	5,342.36	32.5%
ow. Liuyang UDIC	3,562.81	
Liuyang WCIC	1,779.55	

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 to ensure value for money and fiduciary integrity. The monitoring system should maintain records on both physical and financial progress, including estimates of work in progress, and produce periodic project-monitoring reports. Monitoring should cover projects from the point of approval and throughout implementation. The system should allow supplier payments to be linked to evidence of physical progress. Such a system should also identify deviations from plans and allow for identification of appropriate actions in response.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
11.4. Investment project monitoring	Liuyang has set up an Office of Major Projects (OMP) in the City DRB. The LGFVs implement projects according to the project plan issued by the OMP. The rules and procedures stipulated by the SNG are strictly complied to. The physical progress is monitored quarterly and submitted to the OMP. There is a double control online system, and the Finance Bureau reviews, monitors and disburses each payment of the LGFVs and report the implementation information to the city executives. However, the information on implementation of major investment projects is not published.	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.

PI-13.1 Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
13.1. Recording and reporting of debt and guarantees	Comprehensive management and statistical reports covering debt service, stock, and operations are produced monthly and submitted to the City. The Liuyang Finance Bureau pre-reviews all transactions of the LGFVs.	A

The Liuyang LGFVs report on all their public-benefit investment projects, their financing, borrowing, outstanding debt, amortization and interest payment to the City Finance Bureau. This data is updated every month. In addition, the LGFVs acquire approval and authorization for each financial transaction from the Liuyang Finance Bureau through the double control system and reconcile debt records with the bank and Finance Bureau 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)
Liuyang UDIC	Y	M	Y	M / All	M	Y	Monthly
Liuyang WCIC	Y	M	Y	M / All	M	Y	Monthly



Hunan Finance
Department



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