



Hunan Finance  
Department



World Bank Group

# CHINA

## YIZHANG COUNTY, HUNAN PROVINCE

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





Hunan Finance  
Department



World Bank Group

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

Public Expenditure and Financial Accountability (Pefa) Performance  
Assessment Report

Based on the 2020 Subnational PEFA Methodology



## PREFACE

This PEFA assessment was conducted at the request of the Hunan Provincial Finance Department, People's Republic of China. The World Bank assessment team thanks the Government of Hunan Province and the Government of Yizhang City for their cooperation, and the peer reviewers and PEFA Secretariat for their guidance. A substantial number of Yizhang 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 Yizhang 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 (Co-Lead Consultant, Fudan University), Guo Jianjun (Senior Procurement Specialist, WB), Yu Wenjie (Public Sector Specialist, CAFS), Hou Haibo (Public Sector Specialist, CAFS), Yi Xuan (PFM Specialist, Zhongnan University) and Xiao Haixiang (Consultant, Hunan University). The team is also grateful to Christina Schmalhofer (Consultant, WB) for her assistance in copyediting the report and Li Xiaoting (Program Assistant, WB) for providing excellent administrative support throughout.

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

### **Currency and Indicative Exchange Rates**

**Local Currency Unit: Renminbi (RMB)**

**1 US\$ = RMB 7.0**

**Fiscal Year: 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 – Yizhang county**

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

Based on the 2020 Subnational PEFA methodology

Version of March 1, 2021

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

PEFA Secretariat

May 13, 2021





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## ABBREVIATIONS AND ACRONYMS

<b>AFS</b>	Annual Financial Statements
<b>BCG</b>	Budgetary Central Government
<b>CAFS</b>	China Academy of Fiscal Sciences (CAFS)
<b>CG</b>	Central Government
<b>CNAO</b>	China National Audit Office
<b>CPC</b>	Chinese Communist Party
<b>CPI</b>	Consumer Price Index
<b>DMS</b>	Debt Management Strategy
<b>DRC</b>	Development and Reform Commission
<b>EBU</b>	Extrabudgetary Unit
<b>FY</b>	Fiscal Year
<b>GAU</b>	Government Administrative Unit
<b>GDP</b>	Gross Domestic Product
<b>GFS</b>	Government Financial Statistics
<b>GFB</b>	Government Fund Budget
<b>GPB</b>	General Public Budget
<b>HLG</b>	Higher-Level Government
<b>ICB</b>	Invitation Competitive Bidding
<b>IMF</b>	International Monetary Fund
<b>IFMIS</b>	Integrated Financial Management Information System
<b>LGFV</b>	Local Government Financing Vehicle
<b>MOF</b>	Ministry of Finance
<b>NA</b>	Not Applicable
<b>NDRC</b>	National Development and Reform Commission
<b>NPC</b>	National People's Congress
<b>NU</b>	Not Used
<b>OCB</b>	Open Competitive Bidding
<b>PC</b>	Public Corporation
<b>PEFA</b>	Public Expenditure and Financial Accountability
<b>PFM</b>	Public Financial Management
<b>PforR</b>	Program for Results
<b>PI</b>	Performance Indicator
<b>PPP</b>	Public Private Partnership
<b>PRC</b>	People's Republic of China
<b>PSU</b>	Public Service Unit
<b>RMB</b>	Ren Min Bi (Chinese National Currency)
<b>SAI</b>	Supreme Audit Institution
<b>SCOB</b>	State Capital Operating Budget
<b>SNG</b>	Sub-National Government
<b>SOE</b>	State-Owned Enterprise
<b>SSB</b>	Social Security Budget
<b>TSA</b>	Treasury Single Account
<b>UDIC</b>	Urban Development and Investment Corporation
<b>VAT</b>	Value Added Tax
<b>WB</b>	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 Yizhang County, using the new 2020 Subnational PEFA Framework. The results of this assessment will inform the design of the Hunan Subnational Governance and Rural Public Service Delivery Program-for-Results lending operation and local specific PFM reform initiatives and appropriate technical support from development partners, as well as provide a baseline against which the future developments of PFM systems of Yizhang County can be measured.

The assessment covers the county of Yizhang, more specifically its government administrative units (GAUs, 行政单位) and public service units (PSUs, 事业单位), including budget-funded service delivery entities such as schools, hospitals, or agricultural service centers. While there are no extra-budgetary units (EBUs) in Yizhang County, the social security fund is managed separately from the core budget system—that is, the general public budget (GPB) and government fund budget (GFB), and thus is classified as an extrabudgetary operation in this assessment. Following China’s legislative classification, state owned enterprises (SOEs) are assessed as public corporations (PCs). China’s laws and regulations prohibit any SOE, including local government financing vehicles (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. Considering that they may present a potential fiscal risk to the government, Annex 7 provides complementary information on the financial management performance of LGFVs in Yizhang. At the time of assessment, three LGFVs in Yizhang were still in the process of transforming into commercial entities.

Due to the Covid-19 pandemic and prevailing travel restrictions, this assessment was undertaken virtually from February to May 2020. The fiscal years (FYs) covered for indicators that require an assessment of a three-year period, are 2016 to 2018.

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

Overall, the PFM systems of Yizhang County perform well in budget reporting, controls, accounting and parliamentary scrutiny. The main weaknesses pertain to budget reliability, medium-term budgeting, transparency, fiscal risk control and auditing. The context in which Yizhang sets its budget in is important. Yizhang generally complies with the PFM practices mandated by the central and provincial governments. Improvement in the county’s PFM perform requires enhanced the predictability of information on transfers to be received from higher-level governments (HLGs).

#### *Fiscal discipline*

The budget fails to impose much fiscal discipline in Yizhang. The variation between outturn and budget estimates for both aggregate expenditure (PI-1.1) and expenditure composition (PI-2.1) is rated D, and significant budget adjustments for expenditure are frequent (PI-21.4, rated C) within the fiscal year. The uncertainty from HLG transfers (HLG-1 rated D) contributes significantly to the SNG’s poor estimation of its expenditure. In-year policy changes also make it challenging for the SNG to project its own-source revenue (PI-3, rated C). The in-year resource allocation is frequent and largely unpredictable (PI-21, rated D+), and modern cash management and monitoring for expenditure arrears are missing (PI-22.2, rated D).

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

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

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

### *Strategic allocation of resources*

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

The oversight arrangements with a view 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 as satisfactory. Budget documentation (PI-5, rated C) is considered to meet most basic requirements, though economic classification is not fully adopted in the government budget accounting (PI-4, D).

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

The PFM systems of Yizhang encourage the efficient use of resources for service delivery. To this end, the budgetary units in Yizhang regularly publish performance targets (PI-8.1, C), performance achieved (PI-8.2, B), and report available resources (PI-8.3, A). However, low budget reliability and predictability of in-year resource allocation (PI-21, D) may adversely affect the capacity of service delivery units to make efficient use of resources. Meanwhile, independent performance evaluation has covered less than one quarter of the service delivery units (PI-8.4, D).

Many required mechanisms are in place to reduce the possible leakage of funds, such as the asset management system (PI-12, C+), the internal control mechanisms for payroll (PI-23, C+) and non-salary expenditures (PI-25, B). However, for the procurement management system, data are not fully available to evaluate procurement

monitoring (PI-24.1, D\*) and procurement methods (PI-24.2, D\*), and there is no reasonable information disclosure (PI-24.3, D), though the complaint solving regime is pretty good (PI-24.4, A).

The ratings of the existing oversight arrangements are mixed (D+ for PI-30 and B+ for PI-31). The external audit reports were submitted to the People’s Congress within three months (PI-31.2, rated A). The required follow-up actions were taken by related entities effectively and timely (PI-31.2, rated A). However, the coverage of external audit is less than 50% of total expenditures(PI-30.1, rated D), hearings on audit reports were not accessible to the public, and the audit report was not published on the government’s website for the last completed FY(PI-31.4, rated D). .

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

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

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

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

**Table 0.1: Overview of the scores of the PEFA indicators**

PFM PERFORMANCE INDICATOR (PI)		SCORING METHOD	DIMENSION RATINGS				OVERALL RATING
			i	ii	iii	iv	
<b>SNG PILLAR: Intergovernmental fiscal relations</b>							
HLG-1	Transfers from an HLG	M2	D	D	C	D	D
HLG-2	Fiscal rules and monitoring of fiscal position	M1					NU
<b>Pillar One: Budget reliability</b>							
PI-1	Aggregate expenditure outturn	M1	D				D
PI-2	Expenditure composition outturn	M1	D	NA	A		D+
PI-3	Revenue outturn	M2	B	D			C

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

## 1.2 Assessment management, oversight and quality assurance

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

**Table 1.1: Assessment management, oversight and quality assurance arrangements**

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

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Liu Shangxi, President, CAFS, China MOF	Adviser
Huang Weixiong, Mayor, Pingjiang Government	Oversight Team Member
Wang Kunqiu, Vice Mayor, Liuyang Government	Oversight Team Member
Liu Zhengkai, Vice Mayor, Liling Government	Oversight Team Member
Li Zishan, Vice Mayor, Youxian Government	Oversight Team Member
Jiang Xiaozhong, Vice Mayor, Chaling Government	Oversight Team Member
Wu Zhiping, Mayor, Guidong Government	Oversight Team Member
Huang Zhiwen, Mayor, Rucheng Government	Oversight Team Member
Zhang Runhuai, Mayor, Yizhang Government	Oversight Team Member

### Quality assurance

#### Concept note

Date submitted for review to Hunan Provincial Government and other peer reviewers: November 19, 2019

Reviewers:

Liu Shangxi (President, CAFS of the MOF), Deng Weiping (Director, Foreign Economic Cooperation Division, HPFD), Su Zhili (Director, City and County PFM Supervision Division, HPFD) Lewis Hawke (Lead Public Sector Specialist, EEAG1, WB), Sanjay Vani (Lead Financial Management Specialist, EEAG1, WB), John Litwack (Lead Economist, EA1M2, WB), Christoph Ungerer (Senior Economist, EECM2, WB), IMF Representative, and PEFA Secretariat.

Reviewers who provided comments: Liu Shangxi, Deng Weiping, Su Zhili, Lewis Hawke, Sanjay Vani, Christoph Ungerer, and Martin Bowen (PEFA Secretariat). Comments from Deng Weiping represent those of Hunan Provincial DOF and all 8 county governments.

Date of final CN to PEFA Secretariat: December 3, 2019

#### PEFA assessment report

Date submitted for review: The first draft was submitted to PEFA Secretariat on September 14, 2020 and the WB peer reviewers on November 14, 2020.

The revised version incorporating comments from the peer reviewers of the WB and PEFA Secretariat was submitted to the Hunan provincial DOF and the Yizhang County Government for review on January 15, 2021.

Reviewers and date they provided comments: Written comments were received from Lewis Hawke (EEAG1), Christoph Ungerer (EECM2), and Guillaume Brule (PEFA Secretariat) in November 2020.

Date of final draft: March 1, 2021

PEFA CHECK:

The two stages of the PEFA CHECK process were adhered to for the concept note and the response to comments on the draft report.

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## 1.3 Assessment methodology

5. **Scope and coverage:** The assessment covers Yizhang County, more specifically its government administrative

units (GAUs, 行政单位) and public service units (PSUs, 事业单位), including budget-funded service delivery entities such as schools, hospitals, or agriculture service centers. Annex 3 provides a list of the specific public sector agencies covered. Generally, and therefore also in Yizhang County, there are no EBUs and no financially independent local governments below the county level. The social security fund is managed separately from the core budget system—the GPB and the GFB, and thus is classified as extrabudgetary operation in this assessment. In addition, Yizhang has 18 PCs (SOEs). These entities are legally separated from the government and incorporated under corporate law, and as such are not considered to be part of the government for the purpose of this assessment. China’s laws and regulations prohibit any SOE, including LGFVs, from financing on behalf of the government. LGFVs that have been undertaking quasi-fiscal operations are required to be transformed into commercial entities, operating according to market rules, producing goods and services at market prices, and bearing risks on their own. Considering that they may present potential fiscal risk to the government, Annex 7 provides complementary information on the financial management performance of the LGFVs in Yizhang. At the time of this assessment, three LGFVs in Yizhang were still in the process of transformation into commercial entities.

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

**Table 1.2: Timing PEFA Assessment Yizhang County**

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

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

**8. Other methodological issues regarding the preparation of the report:** The assessment was carried out using the 2020 Subnational PEFA Framework, supported by the Subnational Field Guide. All indicators and their dimensions were assessed and closely followed the methodology in terms of coverage and application. Indicators not applicable were scored Not Applicable (NA).

9. A series of PEFA methodology trainings sessions were held. The first one took place in April 2019 in Beijing for officials from CG and 40 SNGS. A second training sessions 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 the eight counties to be assessed in 2019 and 2020, as well as for local assessors. These trainings sessions were delivered by a team from the PEFA Secretariat led by Jens Kromann Kristensen and consisting of Julia Dhimitri and Guillaume Brule.



## 2 COUNTRY AND SNG BACKGROUND INFORMATION

### 2.1 Economic situation

#### 2.1.1 China and Hunan Province

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

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

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

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

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

Data source: World Bank.

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

13. Hunan is a landlocked province in the interior of China and ranks 16th among 31 mainland provinces and municipalities in terms of per capita GDP in 2018. Table 2.2 provides an overview of selected economic indicators for Hunan for the period 2016-2018. While Hunan's per capita GDP is close to the national average, large disparities 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 residents. Having eliminated extreme poverty, Hunan's development focus is now shifting towards consolidating the achievements of the poverty reduction program and revitalizing rural areas. An important element of Hunan's rural revitalization strategy is to close gaps in the access to, and quality of, rural public services, which have remained despite the significant progress in recent years. While the province sets the overall policy framework, Hunan's 122 county governments are mainly responsible for implementing the rural revitalization program, including through the delivery of essential public services.

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

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

Data source: 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 10 percent in 1994 to 19 percent in 2013 and contributed significantly to financing the infrastructure needed to accommodate urbanization in the

1990s and 2000s. China also recognizes public finance as the foundation of national governance for addressing the development challenges going forward. “A good fiscal and taxation system is the institutional guarantee for optimizing resource allocation, maintaining market integration, promoting social equity and achieving long-term national stability” (The Reform Decision, 2013). The revision of Budget Law in 2014 is a landmark reform for strengthening the fiscal discipline of SNGs and for protecting the integrity of the tax system. However, major implementation challenges persist. Hunan Province, a pioneer in leading PFM reform in China, has been tapping into the assistance of the World Bank in this matter, by means of a development policy loan and an upcoming PforR operation. Chapter 5 provides a more detailed discussion about China’s PFM reform program.

### 2.2.2 Intergovernmental fiscal arrangements

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

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

#### *Assignment of expenditure responsibility*

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

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

#### *Tax revenue sharing*

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

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

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

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

Data source: Yizhang Finance Bureau.

### *Intergovernmental transfer*

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

### *Subnational borrowing*

21. Until 2015, SNGs were not allowed to borrow on-budget and therefore relied on LGFVs borrowing to



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

### 2.3.3 Main facts and economic indicators of Yizhang

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

**Table 2.4: Summary of main facts of Yizhang County**

Yizhang County	Detail
Tier of government	As a county, Yizhang is subordinated to Chenzhou, a prefecture-level city of Hunan Province. With regard to PFM, Yizhang is directly administered by Hunan Province as a result of the ‘province directly administering county’ reform, which has been implemented in Hunan since 2010. Bypassing Chenzhou Prefecture, it is having direct fiscal relations with Hunan Province at the third tier of the fiscal system.
Population	597,000
Main characteristics	With per capita GDP at 5,960 USD, Yizhang is one of the poorest counties in Hunan Province, having been lifted above the national poverty line only in 2019. About 55 percent of the population lives in rural areas, while urban-rural income disparity remains significant.
Economy	Main industries are agricultural product processing, tobacco processing, packaging, printing and tourism. Agriculture, manufacturing and services accounted for 9, 38 and 54 percent of GDP, respectively, in 2018. Major economic challenges for the county include maintaining economic growth and narrowing disparity, in particular between rural and urban areas.
Services provided by the SNG	Yizhang provides a wide range of public services to its citizens, including education, health care, infrastructure, transportation etc.

Data source: Yizhang Statistics Bureau and Yizhang Finance Bureau.

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

Economic indicators	2016	2017	2018
<b>GDP (billion RMB)</b>	19.9	22.2	23.1
<b>Share of sectors</b>			
Agriculture	11%	10%	9%
Industry	41%	39%	38%
Services	48%	51%	54%
<b>GDP per capita (RMB)</b>	33,636	37,335	38,738
<b>GDP growth rate</b>	8.4%	8.2%	8.4%
<b>Average disposable income of urban residents (RMB)</b>	26,013	27,930	29,996
<b>Average disposable income of rural residents (RMB)</b>	7,965	8,772	9,614

Data source: Yizhang Statistics Bureau.

## 2.4 Fiscal and budgetary trends in Yizhang

23. For FYs 2016 to 2018, though confronting volatile financial situation, Yizhang County managed to maintain fiscal balance. The combined overall deficit of the GPB and the GFB, as percentage of GDP, even slightly narrowed from -1.7 to -1.1 percent from 2016 to 2018.<sup>2</sup>(see Table 2.6 and 2.7). Like other poor counties in China, the own-source revenue in Yizhang fell short of the expenditures and relied heavily on transfers from HLGs to cover the gap. Yizhang public finance suffered a significant fall in non-tax revenue, from 4.7 percent of GDP in 2016 to only 1.2 percent in 2018 due to the implementation of a national policy to reduce administrative fees and charges. The tax revenue and general transfer maintained steady growth inching up from 2.1 percent and 7.0 percent of GDP in 2016 to 2.4 percent and 7.5 percent in 2018. In response to the revenue shortfall, Yizhang cut GPB expenditures by 20 percent in 2017 to maintain the fiscal balance. Thanks to the vibrant real estate market, the government's land sales revenues increased from 0.4 percent of GDP in 2016 to 1.3 percent in 2017 and to 3.2 percent in 2018, which has cushioned the impact of fiscal austerity on the real economy.

24. The core public services are financed from the GPB. The size of total expenditures of GPB decreased from 22.3 percent in 2016 to 16.5 percent of GDP in 2018 (Table 2.6). The major functions in rank of their share in GPB are education, social security and employment, agriculture, health care, housing and public security. Of these, the expenditure on social security and employment gained most, with its share in GPB non-interest expenditures increasing by five percentage points (Table 2.8). The overall deficit of GPB remained at 0.7 percent of GDP in 2018. It was financed through debt (0.7 percent of GDP).

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

	Million RMB			As percentage of GDP		
	2016	2017	2018	2016	2017	2018
<b>Expenditure</b>	<b>4,452</b>	<b>3,579</b>	<b>3,823</b>	<b>22.3%</b>	<b>16.1%</b>	<b>16.5%</b>
<b>Revenue</b>	<b>1,355</b>	<b>804</b>	<b>816</b>	<b>6.8%</b>	<b>3.6%</b>	<b>3.5%</b>
Tax	425	495	548	2.1%	2.2%	2.4%
Non-tax	930	309	268	4.7%	1.4%	1.2%
<b>TransferfromHLGs</b>	<b>2,759</b>	<b>2,603</b>	<b>2,840</b>	<b>13.8%</b>	<b>11.7%</b>	<b>12.3%</b>
Taxrebate	88	89	89	0.4%	0.4%	0.4%
Generaltransfer	1,387	1,465	1,738	7.0%	6.6%	7.5%
Earmarkedtransfer	1,313	1,080	1,073	6.6%	4.9%	4.6%
(-)TransferttoHLGs	(29)	(31)	(59)	-0.1%	-0.1%	-0.3%
<b>Overallbalance</b>	<b>(339)</b>	<b>(172)</b>	<b>(166)</b>	<b>-1.7%</b>	<b>-0.8%</b>	<b>-0.7%</b>
<b>TransferfromGFBandothers</b>	<b>36</b>	<b>-</b>	<b>-</b>	<b>0.2%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Changeincashbalance</b>	<b>179</b>	<b>(9)</b>	<b>7</b>	<b>0.9%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Withdrawalfromreserve</b>	<b>(11)</b>	<b>11</b>	<b>-</b>	<b>-0.1%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Financing</b>	<b>135</b>	<b>170</b>	<b>159</b>	<b>0.7%</b>	<b>0.8%</b>	<b>0.7%</b>
Borrowing	1,474	825	330	7.4%	3.7%	1.4%
Debtamortization	(1,339)	(654)	(171)	-6.7%	-2.9%	-0.7%

Data source: Yizhang Finance Bureau.

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

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

Source of funding	Million RMB			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
<b>Expenditures</b>	<b>106</b>	<b>331</b>	<b>872</b>	<b>0.5%</b>	<b>1.5%</b>	<b>3.8%</b>
ow. Urban and rural community services (land and infrastructure development)	84	285	832	0.4%	1.3%	3.6%
Social security and jobs	5	8	3	0.0%	0.0%	0.0%
Interest	0	17	26	0.0%	0.1%	0.1%
<b>Revenues</b>	<b>72</b>	<b>297</b>	<b>771</b>	<b>0.4%</b>	<b>1.3%</b>	<b>3.3%</b>
ow. Land sales revenues	71	295	751	0.4%	1.3%	3.2%
<b>Net grants from HLGs</b>	<b>33</b>	<b>32</b>	<b>15</b>	<b>0.2%</b>	<b>0.1%</b>	<b>0.1%</b>
<b>Overall balance</b>	<b>-2</b>	<b>-1</b>	<b>-87</b>	<b>0.0%</b>	<b>0.0%</b>	<b>-0.4%</b>
<b>Withdrawal from reserves and other sources</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Transfer to GPB</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Financing</b>	<b>0</b>	<b>0</b>	<b>90</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.4%</b>
Debt	553	210	379	2.8%	0.9%	1.6%
Debt amortization	553	210	289	2.8%	0.9%	1.2%
<b>Carry-over to next year</b>	<b>2</b>	<b>1</b>	<b>4</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>

Data source: Yizhang Finance Bureau.

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

Expenditures by function	2016	2017	2018	2016	2017	2018
<b>Total GPB Non-Interest Expenditures</b>	<b>4,423</b>	<b>3,513</b>	<b>3,727</b>	<b>Proportion</b>		
Education	777	623	656	17.6%	17.7%	17.6%
Social security and employment	555	572	651	12.5%	16.3%	17.5%
Agriculture, forestry and water conservation	887	624	641	20.1%	17.8%	17.2%
Health care and family planning	411	402	428	9.3%	11.4%	11.5%
General public service	436	346	356	9.9%	9.8%	9.6%
Housing	208	176	222	4.7%	5.0%	6.0%
Public security	191	139	141	4.3%	4.0%	3.8%
Transportation	234	165	119	5.3%	4.7%	3.2%
Energy conservation and environmental protection	133	101	101	3.0%	2.9%	2.7%
Culture, sports and media	95	96	96	2.1%	2.7%	2.6%

Data source: Yizhang Finance Bureau.

25. Yizhang prepared the GPB expenditures by economic classification for the first time in 2018. As shown in Table 2.9, this revealed that the Yizhang County Government spends most on labor, which accounted for 29

percent of total expenditure. The second largest spending component was goods and services, taking a share of 27 percent. Subsidies, mainly to households and social security funds, took 23 percent. The spending on capital expenditures accounted for 18 percent. Of those, expenditures on PSUs amounted to only 1 percent of total GPB expenditures, equivalent to 0.1 percent of GDP.

**Table 2.9: GPB expenditure by economic classification, Yizhang County, 2018**

Expenditures by economic classification	Million RMB	Share in total
<b>Total</b>	<b>3,823</b>	<b>100%</b>
<b>Labor</b>	<b>1,111</b>	<b>29%</b>
GAUs	651	17%
PSUs	460	12%
<b>Goods and services</b>	<b>1,044</b>	<b>27%</b>
GAUs	895	23%
PSUs	148	4%
<b>Interest</b>	<b>96</b>	<b>3%</b>
<b>Subsidies</b>	<b>873</b>	<b>23%</b>
Subsidies to firms	52	1%
Subsidies to households	357	9%
Subsidies to social security funds	465	12%
Subsidies to non-profit entities and others	0	0%
<b>Capital Expenditures</b>	<b>699</b>	<b>18%</b>
GAUs	672	18%
PSUs	26	1%
Capital subsidies to firms	0	0%

Data source: Yizhang Finance Bureau.

26. Revenues from government funds were ringfenced for specified purposes according to the rules for each fund. Revenues from land sales dominated GFB revenues, accounting for 97-99 percent, and were mainly used for land and infrastructure development. When GFB revenues need to be used to finance other public services, the latter are transferred to GPB. Yizhang made no fund transfer from GFB to GPB in 2016-2018.

27. Since 2015, Yizhang has received on-lend from subnational bonds issued by Hunan Province. The general bond proceeds are recorded in the GPB; the project bond proceeds are recorded in the GFB. The legacy off-budget debt has been entirely swapped with subnational bonds. By the end of 2018, Yizhang's total debt amounted to 4.3 billion RMB, equivalent to 18.5 percent of GDP (see Table 2.10).

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

Subnational debt	Million RMB	% of GDP
<b>Debt outstanding</b>	<b>4,286</b>	<b>18.5%</b>
General obligation bonds	3,354	14.5%
Project bonds	932	4.0%

Data source: Yizhang Finance Bureau.

## 2.5 Legal and regulatory framework for PFM

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

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

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

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

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

32. The Bylaw on Government Investment was issued by the State Council and came into effect as of July 1, 2019. It lays out the legislative framework for public investment funded by the government budget, including the principles for investment planning, the 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.

## 2.6 Institutional arrangements for PFM

### 2.6.1 Overall institutional arrangements for PFM

33. The regulatory framework for both the national and subnational budgets is legislated in the Budget Law,

which is supplemented with many other directives and guidelines issued by the State Council and the Ministry of Finance (MOF). When the laws and regulations are passed down, each tier of government adds more details.

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

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

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

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

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

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

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

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

### 2.7.2 Subnational institutional arrangements for PFM

42. Table 2.11 presents the structure of Yizhang County in terms of its spending units. The county is divided into 19 townships. As these townships do not have independent PFM systems, they are regarded as regional spending units in this assessment. In total, there are 513 budgetary units, including 88 GAUs, 19 townships and 406 PSUs. 76 of the 513 budgetary units are primary budgetary units directly receiving budget appropriation from the Finance Bureau, while the remainder are secondary spending units managed by the primary budgetary units. All PSUs including public schools and hospitals are covered in the budget management system. All PSU revenues and expenditures, except for the revenues and expenditures of public hospitals, are included in the budget execution reports. There are no EBUs in Yizhang.

**Table 2.11: Budgetary units of the Yizhang Government – Number of entities**

Budgetary units	Primary budgetary units	Secondary budgetary units	All budgetary units
<b>Subtotal</b>	<b>76</b>	<b>437</b>	<b>513</b>
GAUs	43	45	88
Townships	19	0	19
PSUs	14	392	406

Data source: Yizhang Finance Bureau.



43. As shown in Table 2.12, there are 18 SOEs that are directly controlled by the Yizhang County Government or government entities, of which one is a financial institution. All these SOEs are treated as PCs in this assessment. SOEs in Yizhang are supervised by the SOE Supervision Center under the Yizhang Finance Bureau. China's laws and regulations require SOEs to operate on commercial basis and the government to provide no guarantee for any SOE. A number of SOEs that carry out quasi-governmental activities, such as managing government investment projects, were classified as LGFVs. Under the recent reform program to restore government budget constraints and contain subnational fiscal risks, the legacy SNG debt of LGFVs has been swapped with the proceeds of SNG bonds. Most ex-LGFVs have been either closed or transformed into commercial SOEs. At the time of this assessment, only one LGFV in Yizhang was still in operation, and other three LGFVs were in the process of transforming to commercial entities. The LGFVs may present potential fiscal risks to the government. An additional assessment has been carried out for the LGFV in operation, the results of which are presented in Annex 7.

**Table 2.12: Summary of PCs in Yizhang County**

Type	Number	Assets (million RMB)	Liabilities (million RMB)	Equity (million RMB)
Non-financial	17	13833.85	8632.98	5200.88
Financial	1	7662.26	7253.28	408.98
<b>TOTAL</b>	<b>18</b>	<b>21496.11</b>	<b>15886.26</b>	<b>5609.86</b>

Data source: Yizhang Finance Bureau.

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

#### **Box 1. Parties involved in the Yizhang County budget process**

- The Finance Bureau of Yizhang. The divisions that are relevant for PFM are:
  - The Budget Division: Prepares the budget.
  - The Treasury Division: Operates the single treasury account and financial management system.
  - Sectoral and Township Divisions: Oversees budget preparation and budget execution of budgetary units.
  - Debt and Finance Division: Responsible for debt management and oversight of investment finance, PPPs and other contingent liabilities.
  - Supervision and Inspection Office: Responsible for internal audit.
  - Non-tax Revenue Management Bureau: Collects non-tax revenues (administrative fees and charges).
  - Fiscal Investment Evaluation Center: Conducts fiscal capacity assessments of proposed government investment projects.
  - Wage Payment Center: Supervises and processes wage and salary payments to all staff and employees on the county government's payroll.



- Treasury Centralized Payment and Verification Center: Supervises and processes non-salary payments.
- Enterprises State Assets Management Division: Oversees SOE operations.
- Government Procurement and Administrative State Assets Management Division: Oversees assets of all GAUs.
- Fiscal Performance Management Division: Oversees the performance evaluation of all budgetary units.
- Government Procurement Supervision Office and Procurement Center: Administrates public procurements above the threshold.
- Secretary Unit for County Fiscal and Economic Commission Responsible for coordinating the organization, supervision and performance examination of tax protection, as well as the examination of non-tax revenue collection.
- Accounting and Information Management Center: Responsible for fiscal information construction.
- The Social Security Division: Oversees the budget and budget execution related to human resources, social security, civil affairs, health and associated departments.
- The Foreign Trade and Economic Division: Oversees the budget and budget execution of the business and tourism departments.
- The County Development and Reform Commission: Prepares the development plan for the whole county and reviews and approves all government investment projects.
- The County Urban Development and Investment Management Center: It is run by Yizhang UDIC, and it prepares annual investment plans, mobilizes financing and manages the implementation of major development and investment projects. It operates under the direct supervision of the government executive and files the annual investment plan with an itemized project list to the Standing Committee of the County People’s Congress for review.
- The County People’s Congress and its Standing Committee: Reviews and approves the county’s five-year social and economic development plan; the government’s budget, adjustment to the budget and the budget execution report; the government’s investment plan; and the audit report on the county government budget.
- The County Audit Office: Carries out audits of county finance; develops proposals and recommendations on measures to be taken, such as measures for elimination and prevention of violations; and transfers cases for further inspection when severe violation or clues of criminality are identified. The head of the Audit Office is nominated by the government executive and approved by the County People’s Congress.
- The Mayor is an elected official and chief executive of the county. The mayor is responsible, and takes full accountability, for budgeting and strategic planning of the county.



## 3 ASSESSMENT OF PFM PERFORMANCE



### SNG PILLAR: Intergovernmental fiscal relations

#### HLG-1. Transfers from an HLG

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>HLG-1. Transfers from a higher-level of government (M2)</b>		<b>D</b>
<b>HLG-1.1: Outturn of transfers from higher levels of government</b>	In all three years, the deviation of actual grants from the original budgeted grants was more than 116% of the original budget. The outturns for 2016, 2017 and 2018 were 229.5%, 275.9% and 230.9%, respectively.	D
<b>HLG-1.2: Earmarked grants outturn</b>	The composition variance of ear-marked grants was more than 15% for each of the three completed FYs. The variances in 2016, 2017 and 2018 were 67.2%, 113.1% and 66.8%, respectively.	D
<b>HLG-1.3: Timeliness of transfers from higher levels of government</b>	A disbursement timetable is prescribed by law. Over 50% of actual transfers were on time in two of the last three completed FYs.	C
<b>HLG-1.4: Predictability of transfers</b>	The HLG provides only partial information on transfers for the coming FY and there is no explanation for changes between the current and the previous year.	D

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

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

**Table 3.1: Classification of HLG transfers**

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

### Dimension HLG-1.1: Outturn of transfers from an HLG

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

**Table 3.2: Outturn of HLG transfers**

Aggregate expenditure	2016	2017	2018
Approved budget (in 10, 000 RMB)	121,497	95,439	125,581
Outturn (in 10, 000 RMB)	278,797	263,349	289,955
Outturn as a percentage of budget	229.5%	275.9%	230.9%
Composition variance of earmarked grants	67.2%	113.1%	66.8%

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

### Dimension HLG-1.2: Earmarked grants outturn

49. As Table 3.2 above shows, the composition variances of the earmarked transfers in the last three completed FYs (2016, 2017 and 2018) were 67.2, 113.1, and 66.8 percent respectively. It was more than 15 percent for each of the three years. Hence, the score is D.

### Dimension HLG-1.3: Timeliness of transfers from HLGs

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

51. In practice, tax rebate disbursements are on time every year, as they tend to be completed in January. As for the general and special transfers, data from the budget management IT system indicates 54.95 percent actual transfers were on time in 2016, 70.56 percent in 2017 and 65.04 percent in 2018. The score for dimension HLG-1.3 therefore is C.

52. Dimension HLG-1.4: Predictability of transfers In Yizhang, it is hard for the county government to fully and precisely predict transfers from the HLG. Prior to the beginning of the FY, the HLG provides some indicative notification of part of the transfers prior to the approval of the HLG budget, and only these transfers are included in the budget estimate. In most cases, these transfers are general transfers. Only after the approval of the HLG budget, the county government will receive the remaining transfers and adjust the budget in the middle of the FY. The HLG provides no explanation on changes between the current and the previous year. Score D.

**Figure 3.1: 2018 HLG transfer disbursement process of Yizhang**

## **HLG-2. Fiscal rules and monitoring of fiscal position**

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

54. HLG-2 is a pilot indicator. The Yizhang County Government chose not to use this indicator in this assessment.



## PILLAR 1: Budget reliability

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

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

### PI-1. Aggregate expenditure outturn

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-1: Aggregate expenditure outturn (M1)</b>		<b>D</b>
<b>PI 1.1 Aggregate expenditure outturn</b>	Aggregate expenditure outturn deviated significantly from the budgeted amounts in the last three FYs, the outturn was 248.2%, 193.9% and 157.1% of the approved budget, respectively.	<b>D</b>

58. Annex 6 presents the PEFA framework spreadsheets comparing the original budgets approved by parliament with the actual outturns as documented in the budget execution reports for 2016, 2017 and 2018. The figures are summarized in the below Table 3.3. As shown, the outturn was 248.2, 193.9, and 157.1 percent, respectively. Thus, the assigned score is D.

**Table 3.3: Aggregate expenditure outturn**

Aggregate expenditure (billion RMB)	2016	2017	2018
Approved budget	1.8364	2.0162	2.9889
Outturn	4.5582	3.9098	4.6950
<b>Outturn as a percentage of budget</b>	<b>248.2%</b>	<b>193.9%</b>	<b>157.1%</b>

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

59. The significant deviations in all three years were mainly caused by the weak predictability of HLG transfers. The transfer amounts in the budget estimate were less than 50 percent of actual transfers. Yizhang County is highly dependent on HLG transfers: In 2018, the percentage of actual transfers against the actual budget was 75.85 percent.

## PI-2. Expenditure composition outturn

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-2. Expenditure composition outturn (M1)</b>		<b>D+</b>
<b>2.1 Expenditure composition outturn by function</b>	Variance in expenditure composition by functional classification was more than 15% for each of the last three years. The variances of three years are 62.9%, 68.7% and 56.5%, respectively.	D
<b>2.2 Expenditure composition outturn by economic type</b>	There was no economic classification for governmental funds in the last three completed FYs.	NA
<b>2.3 Expenditure from contingency reserves</b>	In the last three FYs, the budget for contingency reserves was arranged Actual expenditure charged to a contingency vote was on average less than three percent of the original budget.	A

### Dimension PI-2.1 Expenditure composition outturn by function

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

**Table 3.4: Expenditure composition outturn by function**

Variance	2016	2017	2018
Functional classification	62.9%	68.7%	56.5%

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

62. For expenditures from own sources, Yizhang Government has a strong capacity of estimation and allocation. Also, general transfers from HLGs are relatively predictable based on previous years. It is particularly the special transfers that are hard to predict, both in terms of amount and composition. As the variance was above 15 percent for each of the last three FYs (Table 3.4), the score for this indicator dimension is D.

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

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



**Table 3.5: Expenditure composition outturn by economic type**

Variance	2016	2017	2018
Economic classification	NA	NA	NA

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

### Dimension PI-2.3 Expenditure from contingency reserves

64. Every year for the last three FYs, arrangements were made for a contingency reserve. Actual expenditure charged to a contingency vote was on average less than 3 percent of the original budget (Table 3.6). Score A.

**Table 3.6: Expenditure from contingency reserves**

Variance	2016	2017	2018
Contingency expenditure share of budget	1.5	2.46	1.33

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

## PI-3. Revenue outturn

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

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

Indicators/ Dimensions	Assessment of performance	2019 Score
<b>PI-3. Revenue outturn (M2)</b>		<b>C</b>
<b>3.1 Aggregate revenue outturn</b>	In 2016, 2017 and 2018, the variances in aggregate revenue outturn were 97.9%, 71.4% and 96.1%, respectively. The actual revenues were between 94% and 112% of budgeted revenues in two of the last three years.	B
<b>3.2 Revenue composition outturn</b>	Composition variance in revenue collection in the last three years was 58.8%, 53.7% and 25.0%, respectively, all more than 15%.	D

### Dimension PI-3.1 Aggregate revenue outturn

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

**Table 3.7: Aggregate revenue outturn**

Total revenue (billion RMB)	2016	2017	2018
Approved budget	1.4571	1.5418	1.6520
Outturn	1.4265	1.1013	1.5871
<b>Variance (as a % of original budget)</b>	<b>97.9%</b>	<b>71.4%</b>	<b>96.1%</b>
<b>Composition Variance</b>	<b>58.8%</b>	<b>53.7%</b>	<b>25.0%</b>

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

68. The change between budgeted revenue and actual revenue was small. In 2016 and 2018, the variance of total revenue was 97.9 percent and 96.1percent, respectively (Table 3.7). In 2017, the variance was 71.4 percent. This variance was caused mainly by a change in non-tax revenues. In 2017, the amount of budgeted governmental funds was RMB 1.54 billion, while the actual revenue was RMB 1.10 billion due to the implementation of tax cuts and fee reductions policies in 2017. As the revenue outturn was therefore between 94 and 112 percent for two of the last three FYs, the score for this indicator dimension is B.

### **Dimension PI-3.2 Revenue composition outturn**

69. In 2016 and 2017, the variance in revenue composition outturn was 58.8 percent and 53.7 percent, respectively (see Table 3.7). In 2018, there was no significant change in fiscal policy, so the variance was lower, amounting to 25.0 percent. Still, the score is D.



## PILLAR 2: Transparency of public finances

70. Pillar Two assesses whether information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification; transparency of all government revenue and expenditure, including intergovernmental transfers; published information on service delivery performance; and ready access to fiscal and budget documentation. The assessment under this Pillar is based solely on the GPB and GFB. However, the SSB is used to assess PI-6.3 on SNG operations outside financial reports.

### PI-4. Budget classification

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-4. Budget classification (M1)</b>		<b>D</b>
<b>4.1 Budget classification</b>	Budget documentation is nationally consistent. The GPB is based on functional and economic classification, but the GFB is only based on functional classification.	D

#### Dimension PI-4.1: Budget classification

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

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

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

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

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

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

## PI-5. Budget documentation

75. This indicator assesses the comprehensiveness of the information provided in the annual budget documentation as measured against a specified list of four basic and eight additional elements. The assessment covers the SNG budgetary units and looks at the most recent budget submitted to the legislature (FY 2019).

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

### Dimension PI-5.1: Budget documentation

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

**Table 3.9: Budget documentation**

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

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

## PI-6. SNG operations outside financial reports

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

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

79. Also, a number of LGFVs have been undertaking quasi-governmental activities, which present potential fiscal risk to the government. Since the scoring of this indicator does not reflect the reporting on the quasi-fiscal activities, the performance of LGFVs is separately assessed in Annex 7 to complement the PEFA assessment.

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

### Dimension PI-6.1 Expenditure outside financial reports

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

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



### **Dimension PI-6.2 Revenue outside financial reports**

82. As mentioned above, there are three public hospitals with extrabudgetary activities in Yizhang., However, all their revenues were recorded in the financial reports of the Health Bureau in the last three FYs. The narrative is the same as for PI-6.1. Score A.

### **Dimension PI-6.3 Financial reports of EBUs**

83. In every assessed year, the Yizhang Government presented the financial report on social security funds to the County People's Congress for approval. For FY 2018, the Bureau of Human Resources and Social Security submitted the financial report on social security funds to the County Finance Bureau on January 30, 2019. The coverage of the report is comprehensive, covering revenues, expenditures, financial and tangible assets, liabilities, guarantees, and long-term obligations, as well as a reconciled cash flow statement. Score A.

## PI-7. Transfers to SNGs

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

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

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

## PI-8. Performance information for service delivery

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

87. This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation and in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. It contains four dimensions. Coverage includes the budgetary units and EBUs of Yizhang. Services managed and financed by other tiers of government were included if Yizhang significantly finances and implements such services through reimbursements or earmarked grants or uses other tiers of government as implementing agents. Under dimension PI-8.1, PIs are assessed for planned outputs and outcomes for the next FY (2019), and under dimension PI-8.2, for outputs and outcomes of the last completed FY (2018). Under dimension PI-8.3 and PI-8.4, the last three completed FYs (2016-2018) are examined.

88. In the assessment under this indicator, 13 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 Transportation Department, the Water Resources Department, the Agricultural Department, the Forestry Department, the Commerce Department, the Culture and Tourism Department, the Health Department and the Natural Resources Department. Each department comprises a relevant bureau and its subordinate budgetary units. For example, the Education Department comprises an education bureau and various schools.

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-8. Performance information for service delivery (M2)</b>		<b>C+</b>
<b>8.1. Performance plans for service delivery</b>	Information on the activities to be performed under the policies or programs for all service delivery units is published annually. 55.72% of expenditures of service delivery units have a framework of PIs relating to the outputs or outcomes. That is the majority.	C
<b>8.2. Performance achieved for service delivery</b>	The 13 largest service delivery departments published the performance achieved in FY 2018 on their websites. The performance achievement measured by quantitative outputs or outcomes in FY 2018 covered 97.9 percent of total service delivery expenditures. Most of the performance information came from the work summary, and it was not disaggregated by program or function. So the score is B.	B
<b>8.3. Resources received by service delivery units</b>	Information on resources received by frontline service delivery units is regularly collected and recorded by the Yizhang Finance Bureau, disaggregated by source of funds. A report compiling the information is prepared at least annually.	A
<b>8.4. Performance evaluation for service delivery</b>	Evaluations of the efficiency or effectiveness of service delivery were carried out for less than 25% of expenditures of the service delivery units in 2017.	D

90. This dimension measures the extent to which a system is in place to monitor whether the service delivery units receive the funds allocated to the respective sectors/services as planned. The Yizhang Finance Bureau regularly collects and records information on resources received by frontline service delivery units. All resources received by service delivery units are recorded in the service delivery units' budget execution report, except for hospitals. Hospitals only report the appropriation from the government in the budget execution report, while their other revenues, mainly from medical charges, are recorded in their financial report. The half-year financial reports are submitted to the Yizhang Health Bureau. The sources of funds are shown on the budget execution report or financial reports.

91. The administrative departments overseeing these key service delivery units, such as the Education Bureau and the Health Bureau, confirmed that resources to frontline units are reliable and in line with budgeted allocations at the beginning of the FY. A consolidated report covering each sector is prepared at least annually, or every half year for the departments.

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

92. Of the 13 largest departments in Yizhang, some have specified highly detailed and quantified PIs as a part of their budget documentation. For example, the Natural Resources Department has specified quantitative PIS, such as the size of the reclamation area, acre yield or vegetation coverage. In some instances, however, outcomes and outputs are described vaguely and interchangeably, and PIs are often not sufficiently specified to facilitate the capturing of information on whether planned outputs (e.g., number of students enrolled) and outcomes (e.g., rate of attendance, national minimum education standards) have actually been achieved. Nonetheless, all PIs are annually published on the official website of the Yizhang Government:

[http://www.yzx.gov.cn/2/37/2751/content\\_2942231.html](http://www.yzx.gov.cn/2/37/2751/content_2942231.html)

[http://www.yzx.gov.cn/2/37/2751/content\\_2949335.html](http://www.yzx.gov.cn/2/37/2751/content_2949335.html)

[http://www.yzx.gov.cn/2/37/2751/content\\_2942915.html](http://www.yzx.gov.cn/2/37/2751/content_2942915.html)

[http://www.yzx.gov.cn/2/37/2751/content\\_2945769.html](http://www.yzx.gov.cn/2/37/2751/content_2945769.html)

[http://www.yzx.gov.cn/2/37/2751/content\\_2944583.html](http://www.yzx.gov.cn/2/37/2751/content_2944583.html)  
[http://www.yzx.gov.cn/2/37/2751/content\\_2942808.html](http://www.yzx.gov.cn/2/37/2751/content_2942808.html)  
[http://www.yzx.gov.cn/2/37/2751/content\\_2942901.html](http://www.yzx.gov.cn/2/37/2751/content_2942901.html)  
[http://www.yzx.gov.cn/2/37/2751/content\\_2942883.html](http://www.yzx.gov.cn/2/37/2751/content_2942883.html)  
[http://www.yzx.gov.cn/2/37/2751/content\\_2942840.html](http://www.yzx.gov.cn/2/37/2751/content_2942840.html)  
[http://www.yzx.gov.cn/2/37/2751/content\\_2942267.html](http://www.yzx.gov.cn/2/37/2751/content_2942267.html)  
[http://www.yzx.gov.cn/2/37/2751/content\\_2942276.html](http://www.yzx.gov.cn/2/37/2751/content_2942276.html)  
[http://www.yzx.gov.cn/2/37/2751/content\\_2944564.html](http://www.yzx.gov.cn/2/37/2751/content_2944564.html)  
[http://www.yzx.gov.cn/2/37/2751/content\\_2942471.html](http://www.yzx.gov.cn/2/37/2751/content_2942471.html)

**Table 3.10: Performance information for the 13 largest service delivery agencies (2019)**

	Name of service delivery department	Total budget expenditure (thousand)	Budget expenditure with performance plans (thousand)	Program objectives specified (Y/N)	Key PIs (Y/N)	PI-8.1 Planned performance	
						Planned outputs (Y/N)	Planned outcomes (Y/N)
1	Education	908110.0	929430.8	Y	Y	Y	Y
2	Civil Affairs	134660.0	5761.8	Y	Y	Y	Y
3	Housing	8970.0	25390.5	Y	Y	Y	Y
4	Science and Information Technology	27990.0	5172.1	Y	Y	Y	Y
5	Human Resources and Social Security	12670.0	7850.3	Y	Y	Y	Y
6	Transportation	43390.0	2944.0	Y	Y	Y	Y
7	Water Resources	19150.0	21586.8	Y	Y	Y	Y
8	Agriculture and Rural Affairs	70090.0	36153.7	Y	Y	Y	Y
9	Forestry	112050.0	50171.8	Y	Y	Y	Y
10	Commerce	17440.0	9086.4	Y	Y	Y	Y
11	Culture and Tourism	18100.0	5928.6	Y	Y	Y	Y
12	Health	749120.0	72747.1	Y	Y	Y	Y
13	Natural Resources	28950.0	26092.0	Y	Y	Y	Y
<b>Total</b>		<b>2150690.0(a)</b>	<b>1198315.9(b)</b>				
<b>Percentage</b>			<b>55.72%(b/a)</b>				

Data source: Yizhang Finance Bureau.

## Dimension PI-8.2. Performance achieved for service delivery

93. The 13 largest service delivery departments published the performance achieved in FY 2018 on their websites. Of the disclosed performance information, the performance achievement measured by quantitative outputs or outcomes in FY 2018 covered 97.9 percent of total service delivery expenditures (Table 3.11). But most of the performance information came from the work summary, and it was not disaggregated by program or function. So the score is B.

**Table 3.11: Actual performance measured by the 13 largest service delivery agencies, 2018**

	Name of service delivery agency	Final accounts (thousand) (a)	Final accounts that meets the requirements (thousand)(b)	% of service delivery expenditures (b/a)	Data on outputs (Y/N)	Data on outcomes (Y/N)	Document capturing actual performance	
1	Education	908110	908110	100	Y	Y	Work summary	
2	Civil Affairs	134660	134660	100	Y	Y	Work summary	
3	Housing and Urban-Rural Development	8970	4450	49.61	N	Y	Financial Work summary	
4	Science, Industry and Information Technology	27990	27990	100	Y	Y	Performance Self-Assessment Report	
5	Human Resources and Social Security	12670	12670	100	Y	Y	Work summary	
6	Transport	43390	43390	100	Y	Y	Work summary	
7	Water Resources	19150	19150	100	Y	Y	Work summary	
8	Agricultural	70090	70090	100	Y	Y	Work summary	
9	Forestry	112050	112050	100	Y	Y	Work summary	
10	Commerce	17440	17440	100	Y	Y	Performance Self-Assessment Report	
11	Culture and Tourism	18100	18100	100	Y	Y	Performance Self-Assessment Report	
12	Health Commission	749120(m)	708490 (n=x+y+z)	141980(x)	18.95 (x/m)	Y	Y	Performance Self-Assessment Report
				229000(y)	94.58 (n/m)	N	Y	
				337510(z)	45.05 (z/m)	Y	N	
13	Natural Resource	28950	28950	100	Y	Y	Work summary	
<b>Total</b>		<b>2150690(A)</b>	<b>2105540(B)</b>					
<b>Percentage</b>			<b>97.9%(B/A)</b>					

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

Note: The public website of the work summaries and performance self-assessment reports 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 system is in place to monitor whether the service delivery units receive the funds allocated to the respective sectors/services as planned. The Yizhang Finance Bureau regularly collects and records information on resources received by frontline service delivery units. No in-kind resources are received by service delivery units. All resources received by service delivery units are recorded in the service delivery units' budget execution report, except for hospitals. Hospitals only report the appropriation from the government in the budget execution report, while their other revenues, mainly from medical charges, are recorded in their financial reports. The half-year financial reports are submitted to the Yizhang Health Bureau with detailed breakdown information on source of funds.

95. The administrative departments overseeing these key service delivery units, such as the Education Bureau and the Health Bureau, confirmed that resources to frontline units are reliable and in line with budgeted allocations at the beginning of the FY. A consolidated report covering each sector is prepared at least annually, or every half year for the departments.

96. The score for this dimension is A.

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

97. Performance evaluations on efficiency and effectiveness of service delivery are carried out for several key service delivery units. While independent evaluation is required for such performance evaluation, publicization of the evaluation results is not. So far, no direct link can be established between performance results and the performance objectives stated in the annual budget documents. Moreover, if deviations occur between the two, no explanation is provided.

98. For the assessed FY 2017, evaluations of the efficiency or effectiveness of service delivery were carried out (and published) for 3.81 percent of the expenditures of service delivery units. No performance evaluation was carried out in FY 2016 and 2018. Hence, the score is D.

**Table 3.12: Information on program evaluation, FY 2017**

Ministry	Program or service evaluated	Expenditure with performance evaluation (thousand)	Type of evaluation	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)
Education	2017 School Repair and Renovation Project of Compulsory Education Guarantee Mechanism	15360.0	Independent	N	N
	2017 Free Tuition Assistance Program for Secondary Vocational Schools	3922.2	Independent	N	N
Transport	2017 Performance Evaluation Report of Special Funds for Rural Road Maintenance Projects in Yizhang County, Chenzhou City	3785.1	Independent	Y	Y
Water Resources	2017 Performance Evaluation Report of Sewage Treatment Service Fee Special Fund of Yizhang County, Chenzhou City	13297.6	Independent	Y	Y

Ministry	Program or service evaluated	Expenditure with performance evaluation (thousand)	Type of evaluation	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)
Agriculture	2017 Performance Evaluation Report of Special Fund of Rice Insurance Project in Yizhang County, Chenzhou City	5789.1	Independent	Y	Y
	2017 Performance Evaluation Report on Special Fund of Rural Housing Insurance Project in Yizhang County, Chenzhou City	1155.0	Independent	Y	Y
	2017 Performance Evaluation Report on the Special Fund of One Hundred Thousand mu Ecological Afforestation Project in Yizhang County, Chenzhou City	14740.3	Independent	N	N
Health	2017 Performance Evaluation Report of Special Fund for Fertility Care in Yizhang County, Chenzhou City	2180.0	Independent	N	N
	2017 New Rural Cooperative Medical Assistance Program in Yizhang County, Chenzhou City	20468.1	Independent	N	N
Natural Resources	2017 Performance Evaluation Report of Special Fund for Ecological Environment Quality Monitoring Project in Yizhang County, Chenzhou City	1187.8	Independent	Y	Y
<b>Subtotal (A)</b>		<b>81885.15</b>			
<b>Total expenditure of 13 service delivery agencies (B)</b>		<b>2150690</b>			
<b>Percentage(=A/B)</b>		<b>3.81%</b>			

Data source: Yizhang Finance Bureau.



## PI-9. Public access to fiscal information

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

100. In Yizhang, the transparency of public finances is undermined by the fact that some relevant documents are not made publicly available, only one basic element is made available to the public within the specified time frame (Table 3.13).

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

**Table 3.13: Public access to fiscal information of FY 2018**

Item	Criteria met (Y/N)	Explanation	Source of evidence
<b>Basic elements</b>			
1	N	Annual executive budget proposal documentation. A complete set of executive budget proposal documents (as presented by the county in PI-5) is available to the public within one week of the executive's submission of them to the legislature.	The budget document for 2018 was submitted on December 29, 2017. It was available to the public on January 24, 2018. <a href="http://www.yzx.gov.cn/2/37/2751/content_2702773.html">http://www.yzx.gov.cn/2/37/2751/content_2702773.html</a>
2	N	Enacted budget. The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	The 2018 Budget Law was approved by the People's Congress on January 1, 2018. It was publicized on January 24, 2018. <a href="http://www.yzx.gov.cn/2/37/2751/content_2702773.html">http://www.yzx.gov.cn/2/37/2751/content_2702773.html</a>
3	N	In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.	A first half year report was prepared, but it was not made available to the public.
4	Y	Annual budget execution report. The report is made available to the public within six months of the FY's end.	The budget execution report for FY 2017 was publicized on January 24, 2018. <a href="http://www.yzx.gov.cn/2/37/2751/content_2702773.html">http://www.yzx.gov.cn/2/37/2751/content_2702773.html</a>
5	N	Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve months of the FY's end.	The summarized report for 2017 prepared by the Audit Office was not made available to the public.
<b>Additional elements</b>			
6	N	Prebudget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the FY.	No pre-budget statement was prepared.

Item	Criteria met (Y/N)	Explanation	Source of evidence
7 Other external audit reports. All nonconfidential reports on CG consolidated operations are made available to the public within six months of submission.	N	Other external audit reports were not available to the public.	
8 Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a “citizens’ budget,” and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal’s submission to the legislature and within one month of the budget’s approval.	N	The summary of the budget proposal (“citizens’ budget”) was not produced.	

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

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

102. This is a pilot indicator. The Yizhang County Government chose not to use this indicator in this assessment.



## PILLAR 3: Management of assets and liabilities

103. 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

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

105. Chinese authorities have clearly stated that all SOEs including LGFVs are prohibited from borrowing on behalf of the government, and LGFVs shall be transformed to market-oriented entities, operating in compliance with market rules and bearing risks on their own. Nevertheless, LGFVs may still present significant fiscal risks to the government as they have been undertaking quasi-governmental operations. By 2018, 3 LGFVs were left in the Yizhang Country, the Yizhang Xingyi Urban Development and Investment Corporation, the Yizhang Xingcheng Urban Development and Investment Corporation and the Yizhang Agricultural Development Corporation. In 2019, these 3 LGFVs were merged into one LGFV, the Yizhang Urban Development and Investment Corporation. An additional assessment was carried out for this LGFV. The results of the assessment are presented in Annex 7.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-10: Fiscal risk reporting (M2)</b>		<b>C+</b>
<b>10.1. Monitoring of PCs</b>	No evidence is available of the submission of financial reports of the ten largest PCs to the government, though for one PC, the financial report was audited and published. There is no consolidated report for all PCs.	D*
<b>10.2. Monitoring of SNGs</b>	There are no lower-tier SNGs within Yizhang.	NA
<b>10.3. Contingent liabilities and other fiscal risks</b>	There are no state insurance schemes and guarantees in Yizhang. In FY 2018, 4 out of 5 operating PPP projects incurred significant contingent liabilities. These were recorded in the government debt management system. Data were updated and consolidated monthly. An report covering PPP and other contingent liabilities was published.	A

### Dimension PI-10.1. Monitoring of PCs

106. In 2018, there were 18 PCs in Yizhang. They were administered directly by the Yizhang County Government (reporting to the Finance Bureau), or by PSUs or GAUs other than the Finance Bureau (see Table3.14). Though there is a SOE Supervision Center under the Finance Bureau, to the day of assessment, it has not gained the

authority of overseeing the operations of all these PCs. Due to the decentralized administration of PCs, data on monitoring information are difficult to collect, so the assessors adopted a sampling method. The ten largest PCs in 2018 were identified in terms of assets held by the government.

107. Yizhang Xingyi Urban Development and Investment Corporation, Yizhang Xingcheng Urban Development and Investment Corporation and Yizhang Agricultural Development Corporation, the three LGFVs still existing in FY 2018, held several other large PCs and played a key role in the financing and implementation of government investment projects in Yizhang.

108. No evidence is available that financial reports on any of the ten largest PCs were submitted to the government for FY 2018, though for one PC, the financial report was audited and published. No consolidated report was prepared for all PCs.

109. The score is D\*.

**Table 3.14: Financial reports of PCs**

Ten largest PCs	Held or administered by	Total assets, thousand RMB (Government share)	Share of total assets	Date of audit of the financial report	Date of submission of financial report to government
1. Hunan Yizhang Baishidu National Grain Reserve	Yizhang State-Owned Assets Management Center	572392.95 (80%)	36.40	N	N
2. Yizhang Electricity Corporation	Yizhang Finance Bureau	312820.86 (100%)	24.87	N	N
3. Yizhang Film Distribution and Projection Corporation	Yizhang Radio, Film and Television Bureau	225235.05 (60.61%)	10.85	N	N
4. Yizhang Water Corporation	Yizhang Housing and Urban-Rural Development Bureau	766225.51 (15.5%)	9.44	2019/1/25	N
5. Yizhang Xingyi Urban Development and Investment Corporation	Yizhang Economic Development Zone	82563.83 (100%)	6.56	N	N
6. Yizhang Poverty Alleviation Development and Investment Corporation	Yizhang Urban Construction Investment Service Center(40%); Yizhang County State-Owned Assets Management Center(60%)	81562.05 (100%)	6.48	N	N
7. Yizhang Xingcheng Urban Development and Investment Corporation	Yizhang Urban Construction Investment Service Center(40%); Yizhang County State-Owned Assets Management Center(60%)	28022.08 (100%)	2.23	N	N
8. Yizhang Shuntong Traffic Construction Corporation	Yizhang Xingyi Urban Development and Investment Corporation	42736.39 (50.68%)	1.72	N	N
9. Yizhang County Nanjing Dong Development Zone Changchong Industrial District Construction Investment Corporation	Yizhang County State-Owned Assets Management Center(93%); Yizhang County Land Acquisition and Reserve Center(7%)	10177.66 (100%)	0.81	N	N
10. Kaiyuan (Yizhang) Investment Corporation	Yizhang Water Corporation	7937.59 (100%)	0.63	N	N

Data source: Yizhang Finance Bureau.

## Dimension PI-10.2. Monitoring of SNGs

110. Within Yizhang County, there are 19 townships. The township governments are treated as deconcentrated budgetary units in Yizhang, so there are no lower-tier SNGs. This dimension is rated NA.

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

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

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

113. There are no state insurance schemes (such as deposit insurance, private pension fund insurance, and crop insurance) operated at county level in China. According to the 2014 Budget Law, SNGs are not authorized to issue loan guarantees as of 2015, and in Yizhang, there are no legacy loan guarantees or other contingent debts which had been incurred prior to the implementation of the Law.

114. In 2018, 5 PPP projects were operating in Yizhang. The estimated annual fiscal expenditures during their operation period were between 0.03% and 1.17% of the GPB expenditure of the same year. Accordingly, 4 of the 5 PPP projects incurred significant contingent liabilities. These were recorded in the debt management system. The data were updated and consolidated monthly by the PPP center.

115. The information on the contingent liabilities incurred by the PPP projects, as well as other contingent liabilities for 2018 FY, was included in the budget execution report and published.

116. The score is A.

**Table 3.15: Contingent liabilities and fiscal risk**

Coverage	Data quantified (Y/N)			Included in fiscal report (Y/N)	Date published	Consolidated report (Y/N)
	Loan guarantees (CG)	State insurance scheme	PPPs			
Budgetary Units	NA	NA	Y	Y	April. 18,2019	Y
EBUs	NA	NA	NA	NA	NA	

Data source: Yizhang Finance Bureau.

## PI-11. Public investment management

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

118. For the purpose of this indicator, 'major investment projects' are defined as the 10 largest projects (by total investment cost) of the Yizhang Government.

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

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

119. According to the national guidelines (*Outline of Contents for Preparation of Feasibility Study Report (2012 National Development and Reform Commission (NDRC) Standard Edition*)), a feasibility study report is prepared for all projects in Yizhang, and reviewed by the DRB. Economic analyses are included in the feasibility study reports, but the reports are not published (see Table 3.16). Therefore, the economic analysis of investment proposals in Yizhang meets the criteria for a C score.

### Dimension PI-11.2. Investment project selection

120. The DRB is responsible for selecting projects and making proposals to the County Committee. The *Provisional Regulation on Budget Estimation of Government Investment Projects* published in 2018 stipulates general principles for prioritizing investment projects, but no clear criteria are provided. Score is C.

Table 3.16: Economic analysis and project selection of ten largest investment projects approved in FY 2018

	10 largest major investment projects	Total investment cost (million RMB)	As a % of top 10 major projects approved	Data for PI-1.1.1 Economic analysis				Data for PI-1.1.2 Project selection	
				Completed (Y/N)?	Consistent with national guidelines (Y/N)	Published (Y/N)	Reviewing entity	Prioritized by central entity (Y/N)	Consistent with standard selection criteria
1	G107 (Yiliu Town) To Rongjiadong and To Sanping Road Project	810.00	42.83	Y	Y	N	DRC	Y	N
2	Yizhang Changyi (Tourism Poverty Alleviation) Road Construction Project	282.00	14.91	Y	Y	N	DRC	Y	N
3	National Highway 107 (Beihutong To Maoping Section) Road Quality Improvement Project	157.88	8.35	Y	Y	N	DRC	Y	N
4	Yizhang Industry Undertaking Zone Infrastructure Project (Phase III)	128.60	6.80	Y	Y	N	DRC	Y	N
5	Yizhang Lotus School Project	119.87	6.34	Y	Y	N	DRC	Y	N
6	Infrastructure Construction Project Of Yizhang Fluorine Chemical Industry Concentration Area (Phase I)	101.00	5.34	Y	Y	N	DRC	Y	N
7	Yizhang Maternal and Child Health Planning Comprehensive Building Project	89.80	4.75	Y	Y	N	DRC	Y	N
8	Chenzhou Yizhang People's Hospital Internal Medicine Building Construction Project	87.33	4.62	Y	Y	N	DRC	Y	N
9	Yizhang Sixth High School Reconstruction and Expansion Project	74.53	3.94	Y	Y	N	DRC	Y	N
10	Yizhang Meitian Village Urban Village Shantytown Reconstruction Project Supporting Infrastructure Projects	40.00	2.12	Y	Y	N	DRC	Y	N
Total/Coverage		1891.02	100						

Data source: DRB, Yizhang County.



**Table 3.17: Investment project costing and monitoring of the ten largest investment projects in FY 2018**

10 largest major investment projects	Data for PI-11.3 Investment project costing			Data for PI-11.4 Investment project monitoring				
	Life cycle cost in budget documents (Y/N)	Capital cost breakdown in budget documents (Annual/Three-year)	Recurrent costs included in budget documents (Annual/Three-year)	Monitoring of total cost (Y/N)	Physical progress monitoring (Y/N)	Standard rules and procedures exist (Y/N)	High level of compliance with procedures (Y/N)	Information on total cost and physical progress published annually (Y/N)
G107 (Yiliu Town) To Rongjiadong and To Sanping Road Project	N	—	—	Y	Y	Y	Y	N
Yizhang Changyi (Tourism Poverty Alleviation) Road Construction Project	N	—	—	Y	Y	Y	Y	N
National Highway 107 (Beihutong To Maoping Section) Road Quality Improvement Project	N	—	—	Y	Y	Y	Y	N
Yizhang Industry Undertaking Zone Infrastructure Project (Phase III)	N	—	—	N	N	N	N	N
Yizhang Lotus School Project	N	—	—	Y	Y	Y	Y	N
Infrastructure Construction Project Of Yizhang Fluorine Chemical Industry Concentration Area (Phase I)	N	—	—	N	N	N	N	N
Yizhang Maternal and Child Health Planning Comprehensive Building Project	N	—	—	N	N	N	N	N
Chenzhou Yizhang People's Hospital Internal Medicine Building Construction Project	N	—	—	N	N	N	N	N
Yizhang Sixth High School Reconstruction and Expansion Project	N	—	—	Y	Y	Y	Y	N
Yizhang Meitian Village Urban Village Shantytown Reconstruction Project Supporting Infrastructure Projects	N	—	—	Y	Y	Y	Y	N
Total/Coverage								

Data source: DRB, Yizhang County.

### **Dimension PI-11.3. Investment project costing**

121. In Yizhang, information about the capital costs of investment projects is included in an investment plan submitted to the Yizhang People's Congress, but neither capital costs nor recurrent costs are included in the budget documents (Table 3.17). Therefore, investment project costing in Yizhang receives a D score.

### **Dimension PI-11.4. Investment project monitoring**

122. In Yizhang, detailed rules guide the implementation of major investment projects (Notice on Establishing and Improving the Working Mechanism on Three Kinds of 'Major' Projects, Yibanzi 2017, No. 33). Accordingly, the DRB is responsible for major project monitoring. To this end, each construction control unit submits monthly reports on cost and physical progress to the Bureau. However, there is no clear definition of what constitutes a 'major project'. The assessors found that only six of the ten largest investments projects (in terms of total investment cost) were monitored by the DRB (Table 3.17). The reports on the implementation of 'major projects' are prepared annually but are not published. Therefore, investment project monitoring in Yizhang obtains a D score.

## PI-12. Public asset management

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

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

### Dimension PI-12.1. Financial asset monitoring

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

125. 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 Yizhang Finance Bureau compiled the Summary Table of State-Owned Assets of GAUs and PSUs in 2018, where balances of cash, term deposits, leases, receivables and social insurance funds were recorded. The SOE Center under the Finance Bureau can provide a list of the equity held by the county in the SOEs. The SNGs in China do not make portfolio investment and own no securities. Therefore, the Yizhang Government maintains records for its holdings in all categories of financial assets. Some SOE performance information was disclosed to the public, but the information on the equity held by the county in the SOEs, and the performance of other financial assets, are not publicized.

126. Financial asset monitoring in Yizhang receives a C score.

**Table 3.18: Financial asset monitoring – check list of record of holdings, FY 2018**

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

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

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

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

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

128. The Summary Table of State-owned Assets of GAUs and PSUs of 2018 compiled by the Yizhang Finance Bureau covered intangible assets, land, and fixed assets (such as office buildings, economic affordable housing, roads and bridges, urban facilities, vehicles, and other machinery and equipment), and kept detailed records including on their usage and age.

129. The Yizhang Finance Bureau has not kept information on natural resources other than land, but relevant records are maintained in other departments. The records on water resources are kept by the Yizhang Water Conservancy Bureau and the Hydrology Bureau and are yearly disclosed to the public. The records on forest resources are kept by departments at provincial level but are not disclosed to the public. The Yizhang Natural Resource Bureau keeps records on reserves of mineral resources, as well as the exploitation rights and mining capacity of local mining enterprises. Also this information is not disclosed to the public.

130. As the Yizhang Government maintains records for its holdings of fixed assets, land, and mineral resources, and collects partial information on their usage and age, but the information is not fully available to the public (Table 3.19), this dimension meets the criteria for a C score.

**Table 3.19: 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	Y	N

Data source: Asset registers.

## Dimension PI-12.3. Transparency of asset disposal

131. Yizhang County published the *Regulation for managing State Assets owned by Administrative and Public*

*Service Delivery Units* in 2018, which covers non-financial assets (including fixed assets, intangible assets, land-use rights, etc.) and financial assets (e.g. balances of cash, term deposits, leases, receivables). In 2018, a special report was prepared on the management, disposal and transfer of state-owned assets held by the GAUs and PSUs, but the report was not submitted to the county's People's Congress.

132. Therefore, the transparency of asset disposal in Yizhang meets the criteria for a B score.

**Table 3.20: Transparency of asset disposal**

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

Data source: Yizhang Finance Bureau.

## PI-13. Debt management

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

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

Data source: Yizhang Finance Bureau.

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

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

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

136. The recording and reporting of debt and guarantee in Yizhang meet the criteria for a C score.

**Table 3.21: Recording and reporting of debt and guarantees**

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

Data source: Yizhang Finance Bureau.

## Dimension PI-13.2. Approval of debt and guarantees

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

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

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

**Table 3.22: Approval of debt and guarantees, FY 2018**

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

Data source: Yizhang Finance Bureau.

## Dimension PI-13.3. Debt management strategy

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



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

141. 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

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-14. Medium-term budget strategy (M2)</b>		<b>D+</b>
<b>14.1. Preparation of the budget</b>	Budget preparation is based on information of transfers, revenue and expenditure.	C
<b>14.2. Fiscal impact of policy proposals</b>	No estimates about the fiscal impacts of policy changes have been prepared. The list of policy changes was not provided to the assessors.	D
<b>14.3. Medium-term expenditure and revenue estimates</b>	No medium-term expenditure and revenue estimates are prepared.	D
<b>14.4. Consistency of budget with previous year estimates</b>	No medium-term expenditure and revenue estimates are prepared.	NA

#### Dimension PI-14.1. Preparation of the budget

143. Yizhang County once compiled the Reference Materials for the 2017 Fiscal Work, which included data on HLG transfers, revenues and expenditures of Yizhang. However, due to lack of requirement from the superior government, the Reference Materials for the 2018 Fiscal Work was not compiled.

144. According to an interview with staff of the Yizhang Finance Bureau, the budget for FY 2019 was prepared referring to similar indicators as covered in the Reference Materials for the 2017 Fiscal Work. At the same time, some provincial and municipal economic conferences also influenced the budget preparation of the county.

145. Budget preparation in Yizhang meets the criteria for a C score.

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

146. According to the Guidance for SNG PEFA Assessments, policy proposals include revenue policy proposals,



such as changes in the rate and coverage of major tax or non-tax revenues or the creation or assignment of a new revenue source, as well as expenditure policy proposals, such as proposals on capital investment projects, the assignment of new policies, and changes in the rate or coverage of subsidies.

147. During the budget preparation process for the FY 2019, Yizhang did not provide estimates for the fiscal impacts of policy changes. Also, a list of policy changes was not provided to the assessors. Thus, the score is D.

**Table 3.23: Fiscal impact of policy proposals**

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

Data source: Interview, Yizhang Finance Bureau.

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

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

**Table 3.24: Medium-term expenditure estimates**

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

Data source: Interviews, Yizhang Finance Bureau.

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

149. 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**

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

## PI-17. Budget preparation process

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

Indicators/ Dimensions	Assessment of performance	2019 Score
<b>PI-17. Budget preparation process (M2)</b>		<b>B</b>
<b>17.1 Budget calendar</b>	A clear annual budget calendar exists. Date of issuance of the 2019 budget circular was October, 11 2018. The deadline for submission of estimates was December 1, 2018. Seven weeks are provided to allow budgetary units to meaningfully complete their detailed estimates on time.	A
<b>17.2 Guidance on budget preparation</b>	The expenditure ceilings approved by the legislature were provided on November 15, 2018, after the distribution of the budget circular to the budgetary units, but before the budgetary units completed their submission on December 1, 2018.	B
<b>17.3 Budget submission to the legislature</b>	Only in one of the last three years, the executive submitted the annual budget proposal to the legislature at least one month before the start of the FY.	D

### Dimension PI-17.1. Budget calendar

152. In accordance with a predetermined calendar, the budget preparation in Yizhang 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 asks the budgetary units to prepare their budget proposal and submit it to the Finance Bureau by the specified deadline, while the second circular includes the expenditure or revenue ceilings and requests the budgetary units to make revisions to their budget proposals according to these ceilings. Subsequently, the government submits the budget plan to the legislature, and once approved, the government notifies the budgetary units about their respective budgets.

153. The annual budget calendar is generally adhered to. The date of the FY 2019 first budget circular was October 11, 2018. The deadline for the first submission of budget estimates was set for December 1, 2018. This means the budgetary units were given more than seven weeks from receipt of the budget circular to submission of the estimates.

**Table 3.25: Budget calendar and guidance on budget preparation**

Budget calendar exists (Y/N)	Date of budget circular	Deadline for submission of estimates	Coverage	% of ministries complying with deadline	Date Cabinet approved ceilings	Budget estimates are reviewed and approved by Cabinet after completion (if ceilings not issued) (Y/N)
Y	2018.10.11	2018.12.1	Covering total expenditure for the full FY	100%	2018.11.15	NA

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

## Dimension PI-17.2. Guidance on budget preparation

154. Before the budgets are prepared, clear guidance on the budget process is provided. This includes information on the expenditure ceilings covering the total budget expenditure for the full FY as approved by the Yizhang Government. For FY 2019, the expenditure ceilings were provided on November 15, 2018, after the circular had been distributed to the budgetary units, but before budgetary units completed their submission on December 1, 2018. The score is B.

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

155. 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.

156. A C score for this dimension requires that the executive submitted the annual budget proposal to the subnational legislature at least one month before the start of the FY in two of the last three years. In Yizhang, only in one of the last three completed FYs, the submission took place one month before the start of the respective FY (Table 3.26). Thus, the score is D.

**Table 3.26: Budget submission to legislature**

Budget of FY	Date of submission of budget proposal
2017	November 22, 2016
2018	December 29, 2017
2019	March 17, 2019

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

## PI-18. Legislative scrutiny of budgets

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-18. Legislative scrutiny of budgets (M1)</b>		<b>C+</b>
<b>18.1. Scope of budget scrutiny</b>	Budget scrutiny by the People's Congress covers details of expenditure and revenue, and fiscal policies, but not medium-term fiscal forecasts and medium-term priorities.	B
<b>18.2. Legislative procedures for budget scrutiny</b>	The Budget Law of the PRC and <i>Rules of the Financial and Economic Committee of the Yizhang People's Congress</i> stipulate the legislative procedures for budget scrutiny. The procedures include arrangements for public consultation, as well as internal organizational arrangements, such as the roles of standing committees and budget committees in the County People's Congress. The procedures were adhered to.	A
<b>18.3. Timing of budget approval</b>	Only one of the last three FYs, the county legislature approved the annual budget proposal before the start of the FY, but the delay in the other two FYs did not exceed one month.	C
<b>18.4. Rules for budget adjustments by the executive</b>	Clear rules for budget adjustments exist. They are adhered to in most instances.	B

### Dimension PI-18.1. Scope of budget scrutiny

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

159. The scope of budget scrutiny in Yizhang meets the criteria for a B score.

**Table 3.27: 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: Yizhang Finance Bureau.

## Dimension PI-18.2. Legislative procedures for budget scrutiny

160. The 2014 Budget Law stipulated the budget review procedure of the legislature. The Article 45 requires county People's Congresses to carry out public consultation before approving the budget. The 2017 Rules for the Financial and Economic Committee of the Yizhang People's Congress provides detailed organizational arrangements for budget scrutiny. In accordance with the provisions of the Law and these Rules, the Financial and Economic Committee of the Yizhang People's Congress examines the budget at the county level and submits an examination report to the Standing Committee of the County People's Congress' Standing Committee.

161. In 2017, four meetings were held by the legislature in Yizhang County to review the fiscal budget (draft) report for FY 2018. The first meeting was held by the Financial and Economic Committee of the County People's Congress and convened some of the delegates of the People's Congress, the principals of relevant departments, and experts from various fields (including the head of the accounting company, lawyers, retired veteran cadres) to review the draft of the financial budget. The second meeting was a special meeting of the Financial and Economic Committee to hear and preliminarily examine the financial budget (draft). The third meeting was to report the financial budget (draft) to the director of the County People's Congress' Standing Committee. The fourth meeting was the County People's Congress' Standing Committee meeting, to hear the financial budget (draft) report.

162. Legal provisions have thus been strictly complied with in Yizhang, in particular with respect to the public consultation arrangements required by the A score.

**Table 3.28: Legislative procedures for (FY 2018) 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: Yizhang Finance Bureau.

## Dimension PI-18.3. Timing of budget approval

163. In 2016, 2017, and 2018, the annual budget proposals were approved by the Yizhang People's Congress on January 7, 2016, November 25, 2016, and January 1, 2018 respectively. China's FY begins on January 1. Therefore, in only one of the last three FYs, the county legislature approved the annual budget proposal before the start of the FYs, but the delay in the other two FYs did not exceed one month. The timing of budget approval in Yizhang meets the criteria for a C score.

**Table 3.29: Timing of budget approval**

Budget for FY	Date of budget approval
2016	January 7, 2016
2017	November 25, 2016
2018	January 1, 2018

Data source: Yizhang Finance Bureau.

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

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

165. In 2018, the Yizhang People's Congress officially approved the budget adjustment on October 31, which covered the bonds on-lent by Hunan Province and part of the earmarked transfers. About 79.2 percent of budget adjustments went through the approval procedures of the legislature, that is the most.

**Table 3.30: Budget adjustments in Yizhang for FY 2018 (thousand RMB)**

Item		GPB (D)	GFB (E)	Total ( D + E )	
Budget adjustments	In accordance with rules	Earmarked transfers	1072,740.0	15,640.0	1088,380.0
		Bonds, on-lending	181,000.0	90,000.0	271,000.0
		Subtotal (A)	1253,740.0	105,640.0	1359,380.0
	Not in accordance with rules	Tax rebate			0
		General transfer	408,830.0		408,830.0
		Carry-over from last year	12,860.0	710.0	13,570.0
		Transferred-in from other budgets		580.0	580.0
		Other		-1,070.0	1070.0
	Expenditure in adjusted budget		3828,680.0	876,650.0	4705,330.0
	Expenditure in originally approved budget		2222,540.0	766,350.0	2988,890.0
Total budget adjustment (B)		1606,140.0	110,300.0	1716,440.0	
Actually executed expenditure (C)		3822,850.0	872,170.0	4695,020.0	
<b>Actual amount of reallocations in accordance with rules (% of BCG budget) (A/C)</b>				29.0	
<b>Extent of adherence to rules (A/B)</b>				79.2	

Data source: Yizhang Finance Bureau.

166. Therefore, clear rules exist. They are adhered to in most cases. The rules for budget adjustments by the executive in Yizhang thus meet the criteria for a B score.

**Table 3.31: Rules for budget adjustments, FY 2018**

Clear rules exist (Y/N)	Rule include strict limits (extent and value)	Actual amount of reallocations in accordance with rules (% of BCG budget)	Extent of adherence to rules (All, most, some)
Y	Y	29.0	Most

Data source: Yizhang Finance Bureau.



## PILLAR 5: Predictability and control in budget execution

167. 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

168. This indicator focuses on the administration of the SNG core taxes. This indicator 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.

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

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

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

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

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



## PI-20. Accounting for revenue

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

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

### Dimension PI-20.1 Information on revenue collections

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

175. The Treasury Office at the Yizhang Finance Bureau obtains revenue data from the Yizhang Tax Bureau and the Fiscal Affairs Center under the Yizhang Finance Bureau, and compiles consolidated revenue completion reports regularly (flash reports, ten-day reports and monthly reports). The report covers both GPB revenue and government fund revenue and provides detailed information on the revenue of each type. The dimension score is A.

### Dimension PI-20.2 Transfer of revenue collections

176. Yizhang set up the TSA system in 2007, which is composed of the Yizhang County Treasury and seven special accounts: the non-tax income settlement account, social security account, food risk fund account, ear-marked funds special account, ear-marked education transfers account, escrow funds account, and the non-tax income management account which actually manages education funding.

177. All tax revenues and non-tax revenues collected by the Yizhang Tax Bureau are transferred to the Yizhang County Treasury on the same day. Meanwhile, non-tax revenues collected by the Fiscal Affairs Center are paid directly into the non-tax special accounts. Therefore, the score for this dimension is A.

**Table 3.32: Accounting for revenues**

Entity	Revenue and % of Total CG Revenue		Data collected by the FB			Revenue collections deposited		Reconciliation	
	Revenue type (million RMB)	% of Total	At least monthly (Y/N) - entered into IFMIS	By revenue type (Y/N)	Consolidated report (Y/N) – prepared by IFMIS	Frequency	To Treasury Account	Frequency	Within
Revenue collected by budgetary units									
Yizhang Tax Bureau	Tax (578.48)	31.05	Y	Y	Y	Daily	Treasury Account	Daily	
Yizhang Tax Bureau	Non-tax (36.06)	1.94	Y	Y	Y	Daily	Treasury Account	Daily	
Yizhang Finance Bureau	Non-tax (1,248.56)	67.01	Y	Y	Y	Daily	Special Financial Account	Daily	
<b>Sub-total</b>	<b>1,863.1</b>	<b>100</b>							
Revenues collected by EBUs: none									

Data source: Yizhang Tax Bureau, Yizhang Finance Bureau.

Note: The revenue data are for FY 2019.

### Dimension PI-20.3 Tax accounts reconciliation

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

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

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-21. Predictability of in-year resource allocation (M2)</b>		<b>D+</b>
<b>21.1. Consolidation of cash balances</b>	The Yizhang Finance Bureau obtains a daily balance report from the Treasury, and the balances of special accounts are consolidated monthly. The balance of the Treasury that is consolidated monthly for most of all the bank balances.	C
<b>21.2. Cash forecasting and monitoring</b>	Except for monthly forecasting on tax income, no evidence shows that the Yizhang Finance Bureau has conducted other cash flow forecasting and monitoring.	D
<b>21.3. Information on commitment ceilings</b>	Payment can be made within the approved budget. But originally approved budget expenditure accounts for less than 75% the actually executed expenditure. No reliable information on expenditure commitment ceilings is provided.	D
<b>21.4. Significance of in-year budget adjustments</b>	Significant budget adjustments happened more than twice. Part of the adjustments are approved by the People’s Congress of the county.	C

### Dimension PI-21.1 Consolidation of cash balances

180. The TSA system set up in Yizhang in 2007 covers all accounts of the budgetary units, but it involves a number of bank accounts. The Treasury account is opened at the Yizhang branch of the People’s Bank of China (PBOC); the non-tax income settlement account at the Hunan Yizhang Rural Commercial Bank, the Agricultural Bank of China, the Industrial and Commercial Bank of China, the China Construction Bank, the Bank of China, Bank of Changsha, and the China Post Savings Bank; the food risk fund account at the Agricultural Development Bank of China; the specially established account at the Agricultural Bank of China; the ear-marked funds account, the escrow funds account and the non-tax income management account at the Hunan Yizhang Rural Commercial Bank. While the PBOC is China’s central bank, all other banks are either commercial banks or policy banks.

181. The Yizhang Treasury, managed by the Yizhang Branch of the PBOC, provides a daily balance report to the Treasury Division at the Yizhang Finance Bureau. The balances of all special accounts at the commercial banks are consolidated monthly. As the balance of the Treasury that is consolidated monthly accounts for most of all the bank balances, the score is C.

**Table 3.33: Consolidation of bank and cash balances in Yizhang (summary)**

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

Data source: Yizhang Finance Bureau.

**Table 3.34: Consolidation of bank and cash balances in Yizhang (by accounts)**

Account	Frequency of consolidation	Time	Amount (thousand RMB)
Treasury	Daily (A)	2019 average	150,231.163
Special accounts	Monthly	2019.Jan.	915,850.0
	Monthly	2019.Feb.	845,550.0
	Monthly	2019.Mar.	860,260.0
	Monthly	2019.Apr.	856,220.0
Special accounts	Monthly	2019.May	912,970.0
	Monthly	2019.Jun	962,600.0
	Monthly	2019.Jul.	1,469,770.0
	Monthly	2019.Aug.	1,300,700.0
	Monthly	2019.Sep.	1,095,430.0
	Monthly	2019.Oct.	1,110,080.0
	Monthly	2019.Nov.	983,980.0
	Monthly	2019.Dec,	619,500.0
	Average (B)		994,409.167
<b>Percentage of daily consolidated bank balance(A/A+B)</b>			13%

Date source: Yizhang Finance Bureau.

## Dimension PI-21.2 Cash forecasting and monitoring

182. The Yizhang Tax Bureau conducts forecasting on tax income every month. However, as most of the GPB expenditures in Yizhang are financed by HLG transfers (the percentage is 80 percent, 77 percent and 72 percent for 2016, 2017 and 2018, respectively), and most of the transfers are not predictable (referring to HLG-1.4), Yizhang has not conducted regular cash flow forecasting and monitoring. The score for cash forecasting and monitoring is D.

## Dimension PI-21.3 Information on commitment ceilings

183. The Yizhang Finance Bureau issues budget quotas for basic expenditures to budget units once a quarter, the amounts of which are just the quarterly average of originally budgeted annual basic expenditures. The budget units can make payments within the quotas during the quarters. But there is no clear timetable for the issuance of these quotas.

184. For non-basic expenditures, no quarterly budget quotas are issued. The budgetary units can apply for the payments within the approved budget.

185. In general, there are no restrictions like commitment ceilings in Yizhang, and the originally approved budget expenditure accounts for a relatively low share of the actually executed expenditure (the percentage is

40, 52 and 64 percent in FYs 2016, 2017 and 2018, respectively, for the GPB and GFB). Expenditure ceilings for the budgetary units are therefore not effectively applied. The score for this dimension is D.

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

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

## PI-22. Expenditure arrears

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

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

### Dimension PI-22.1 Stock of expenditure arrears

188. Since no expenditure arrears monitoring system exists in Yizhang (referring to the following PI-22.2), data on the stock of arrears are not available. This leads to a D\* score for this dimension.

### Dimension PI-22.2 Expenditure arrears monitoring

189. The Payment Center under the Yizhang Finance Bureau takes on the duty of making payments on behalf of all budgetary units upon request. Although the budget units can only apply for payment within the approved budget, as there is no effective expenditure commitment control (referring to PI-25.2), expenditure commitments may occur before approval of the budget, and if not settled timely, may lead to expenditure arrears. Under the cash-based government accounting system, the expenditure arrears incurred may not be recorded in the financial accounts and reports of the budgetary units.

190. Therefore, while expenditure arrears may occur, they are not identified and not monitored in Yizhang County. The score therefore is D.

## PI-23. Payroll controls

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-23. Payroll controls (M1)</b>		<b>C+</b>
<b>23.1. Integration of payroll and personnel records</b>	The approved employee list, personnel database and payroll are directly linked and reconciled at least monthly before payoff, which constitutes an effective assurance for budget control and data consistency.	A
<b>23.2. Management of payroll changes</b>	Necessary changes to personnel records and payrolls are updated in real time. There is no delay in making payroll payments by the Centralized Payment Centre. Retroactive adjustment is rare.	A
<b>23.3. Internal control of payroll</b>	The authority to change personnel records and payrolls is restricted with separate posts and system privileges, results in an audit trail, and is adequate to ensure full integrity of data.	A
<b>23.4. Payroll audit</b>	Yizhang carried out special projects to identify and clean up 'ghost' employees. But the external auditors do not conduct special payroll audits, only partial payroll audits are conducted by internal auditors together with the economic responsibility audits, and revenue and expenditure audits.	C

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

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

193. According to the Civil Servants Law of China, the recruitment of civil servants by budgetary units must be within the staffing quota and according to the requirements of the positions. In case that there are vacant positions, a budgetary unit can recruit new staff according to established procedures upon approval of its superior department and the Human Resource and Social Security Bureau.

194. Once the information of new staff (education background, position, reward and punishment, etc.) is entered into the personnel database at the Human Resource and Social Security Bureau, the wage payment is initiated and will be handled accordingly. Any change to the personal information of the staff, such as promotion, leave and change in wage level, etc., will be recorded and traced in the personnel information management system.

195. In Yizhang, staff hiring and promotion is strictly controlled by the staffing quota and the approved staff list, and personnel records and payroll are directly linked to each other through the IT system. Budget control and data consistency is therefore ensured. Score A.

**Table 3.35: Payroll controls**

Function	Y/N	By whom	Frequency (if applicable)
Hiring and Promotion checked against approved staff list	Y	Organization Department, Government Employees Staffing Offices, Human Resource and Social Security Bureau	Once hiring and promotion take place.
Reconciliation of payroll and personnel database	Y	Human Resource and Social Security Bureau and Centralized Wage Payment Centre under Finance Bureau	Human Resource and Social Security Bureau initiates or changes the wages based on the update of the personnel database
Documentation maintained for payroll changes	Y	The budgetary unit, Organization Department, Human Resource and Social Security Bureau and Centralized Wage Payment Centre under Finance Bureau	Permanent maintenance.
Payroll checked and reviewed for variances from last payroll	Y	Superior department in charge, Human Resource and Social Security Bureau and Centralized Wage Payment Centre under Finance Bureau	Once payroll variance occurs.
Updates to personnel records and payroll.	Y	Superior department in charge, Human Resource and Social Security Bureau and Centralized Wage Payment Centre under Finance Bureau	Once personnel records and payroll updates take place.
Updates includes validation with approved staff list.	Y	Superior department in charge and Human Resource and Social Security Bureau	Once personnel records and payroll updates take place.
Audit trail of internal controls	Y	Supervision and Inspection Office under Finance Bureau	Every 2-3 years.
Payroll audits in last three years.	Y	Audit Office and the units in charge of checking ghost employees	The Audit Office conducts the economic responsibility audit and the revenue and expenditure audit every year covering partial units.

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

### Dimension PI-23.2 Management of payroll changes

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

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



thus is A.

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

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

199. The Centralized Wage Payment Center under the Finance Bureau handles the wage payments through a wage payment system according to the payroll determined by the Human Resources and Social Security Bureau. It implements post separation with regard to the record of payrolls, review of payrolls, the approval of payment and the execution of payment. Also, each post is assigned a separate password in the payment system, and an audit trail can be generated.

200. In addition, the Supervision and Inspection Office under the Finance Bureau conducts internal audits on the payment procedures of the Centralized Wage Payment Centre every two or three years, to ensure that all procedures follow the rules.

201. In sum, the authority to change personnel records and payrolls is limited, results in an audit trail, and is adequate to fully ensure the integrity of data. The score is A.

### **Dimension PI-23.4 Payroll audit**

202. In Yizhang, payroll audit mainly targets 'ghost' employees. In 2015 and 2017, the Organization Department, the Human Resource and Social Security Bureau, and the Government Employees Staffing Office carried out special projects to clean up ghost employees, inspecting each budgetary unit. For any budgetary unit identified to have ghost employees, the budget expenditure for the next year was cut accordingly.

203. The Yizhang Audit Office does not conduct general payroll audits. Payroll audits are conducted only to a certain extent by the internal auditors together with the revenue and expenditure audits, and the economic responsibility audits (some economic responsibility audits for former leaders mentioned findings on payroll issues). In this sense, only partial payroll audits were undertaken between 2016-2018 in Yizhang. Consequently, the score is C.

## PI-24. Procurement

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

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

### Dimension PI-24.1 Procurement monitoring

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

206. In Yizhang, depending on the nature of procurement and the contract value to be procured, procurement is required by law and regulations to be conducted at different venues, either by the procuring entity itself or by the Chenzhou Public Resources Transaction Center (Table 3.36).

**Table 3.36: Responsible agencies for procurement**

Agency	Chenzhou Public Resources Transaction Center	Optional either by the Center or by the procuring entity	By the procuring entity itself
Procurement following the Tendering and Bidding Law	Works: $\geq 2$ million Goods: $\geq 2$ million Services: $\geq 1$ million	NA.	NA.
Procurement following the Government Procurement Law	Goods: $\geq 1$ million Services: $\geq 1$ million	Works: 0.5-2 million Goods: 0.2-1 million Services: 0.2-1 million	Works: $< 0.5$ million Goods: $< 0.2$ million Services: $< 0.2$ million

207. The responsible agencies for contract data recording and maintenance and consequently for the relevant records are presented in Table 3.37.

**Table 3.37: Responsible agencies for procurement contract data recording and maintenance**

Contract Value	Works: >=0.5 million Goods: >=0.2 million Services: >=0.2 million	Works: <0.5 million Goods: <0.2 million Services: <0.2 million
Procurement following the Tendering and Bidding Law	Complete record is maintained by the Chenzhou Public Resources Transaction Center.	NA.
Procurement following the Government Procurement Law	Complete record is maintained by the Yizhang Government Procurement Center under the Yizhang Finance Bureau in the Yizhang Government Procurement Electronic Management Platform and the Local Government Procurement Information Statistics Management System. The latter system is replaced by a new system called the Financial Integration Information System of Hunan which came into operation on November 1, 2019.	Contract data are not recorded and maintained centrally by any supervision agency or office.

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

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

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

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

## Dimension PI-24.2 Procurement methods

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

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

**Table 3.38: Procurement methods and corresponding value**

Procurement method	Total value of procurement (RMB)	Total value of contracts procured through non-competitive method (RMB)
Procurement following the Tendering and Bidding Law	675,620,092.30	Nil
Procurement following the Government Procurement Law	80,602,630.35	Nil

Data source:(1)The tendering and bidding record for works, goods and services procured in Yizhang in FY 2018 maintained by Chenzhou Public Resources Transaction Center. (2) The government procurement information statistics maintained by the Government Procurement Center under Yizhang Finance Bureau in Yizhang Government Procurement Electronic Management Platform.

**Table 3.39: 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%
756,222,722.65	Nil	756,222,722.65	100

Data source: (1)The tendering and bidding record for works, goods and services procured in Yizhang in FY 2018 maintained by Chenzhou Public Resources Transaction Center. (2) The government procurement information statistics maintained by the Government Procurement Center under Yizhang Finance Bureau in Yizhang Government Procurement Electronic Management Platform.

214. 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.

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

216. However, since the contract data for small contracts (with a contract value of less than 0.5 million for works, 0.2 million for goods, and 0.2 million for services) are not available, it is not feasible to calculate the total value of contracts awarded through competitive methods. Thus, score D\* is assigned to this dimension.

### Dimension PI-24.3 Public access to procurement information

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

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

218. The findings for each type of information are summarized in Table 3.40.

**Table 3.40: Public access to procurement information**

Type of procurement information	Findings	Public access
Legal and regulatory framework for procurement	Both the Tendering and Bidding Law and the Government Procurement Law as well as relevant implementation regulations issued by the government at central, provincial and prefectural levels are publicly available on various websites of the governments.	Yes
Government procurement plans	Government procurement plans are not disclosed publicly.	No
Bidding opportunities	For procurement following the Tendering and Bidding Law, the bidding opportunities are published on the website of the Hunan Provincial Tendering and Bidding Supervision ( <a href="http://www.bidding.hunan.gov.cn">http://www.bidding.hunan.gov.cn</a> , with a new website <a href="http://218.76.24.90/flow">http://218.76.24.90/flow</a> effective from Dec. 9, 2019), and the website of the Chenzhou Public Resources Transaction Center ( <a href="http://czggzy.czs.gov.cn/">http://czggzy.czs.gov.cn/</a> ). For procurement following the Government Procurement Law, the bidding opportunities for contracts with a value of not less than 0.5 million for works, 0.2 million for goods, and 0.2 million for services are published on the website of the Hunan Provincial Government Procurement ( <a href="http://www.ccgp-hunan.gov.cn">http://www.ccgp-hunan.gov.cn</a> ). However, for small contracts (with a contract value of less than 0.5 million for works, 0.2 million for goods, and 0.2 million for services), the bidding opportunities are not disclosed to the public.	No (The public has no access to information on small value contracts.)
Contract award (purpose, contractor, value)	For procurement following the Tendering and Bidding Law, contract award information is published on the website of Hunan Provincial Tendering and Bidding Supervision ( <a href="http://www.bidding.hunan.gov.cn">http://www.bidding.hunan.gov.cn</a> , with a new website effective from December 9, 2019 <a href="http://218.76.24.90/flow">http://218.76.24.90/flow</a> ), and the website of Chenzhou Public Resources Transaction ( <a href="http://czggzy.czs.gov.cn/">http://czggzy.czs.gov.cn/</a> ). For procurement following the Government Procurement Law, contract award information is published on the website of the Hunan Provincial Government Procurement ( <a href="http://www.ccgp-hunan.gov.cn">http://www.ccgp-hunan.gov.cn</a> ) for contracts with a value of not less than 0.5 million for works, 0.2 million for goods, and 0.2 million for services. However, for small contracts (with a contract value of less than 0.5 million for works, 0.2 million for goods, and 0.2 million for services), the contract award information is not disclosed to the public.	No (The public has no access to information on small value contracts.)
Data on resolution of procurement complaints	For procurement following the Tendering and Bidding Law, information on the resolution of procurement complaints is only issued to the client and the bidder. The information is not disclosed to the public. For procurement following the Government Procurement Law, information on the resolution of procurement complaints is disclosed to the public on the website of the Hunan Provincial Government Procurement ( <a href="http://www.ccgp-hunan.gov.cn/">http://www.ccgp-hunan.gov.cn/</a> ) pushed through the internal website of the Financial Integration Information System of Hunan.	No (The public has access only to data on procurement following the Government Procurement Law.)
Annual procurement statistics	For procurement following the Tendering and Bidding Law, the Chenzhou Public Resources Transaction Center keeps complete data but the data are not publicly disclosed. For procurement following the Government Procurement Law: Contracts with a value of not less than 0.5 million for works, 0.2 million for goods, and 0.2 million for services: The Yizhang	No

Type of procurement information	Findings	Public access
Annual procurement statistics	<p>Government Procurement Center under the Yizhang Finance Bureau maintains complete data (contract value above the threshold) in a system called Local Government Procurement Information Statistics Management System. The system is replaced by a new system called Financial Integration Information System of Hunan which came into operation on November 1, 2019. However, the data are only accessible to the Hunan Provincial Department of Finance, the Chenzhou Prefectural Finance Bureau and the Yizhang Finance Bureau. They are not disclosed to the public.</p> <p>Contract values of less than 0.5 million for works, 0.2 million for goods, and 0.2 million for services: The contract data are not recorded and maintained centrally by any supervision agency or office. They are not disclosed to the public.</p>	No

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

### Dimension PI-24.4 Procurement complaints management

220. As shown in Table 3.41, the procurement complaint system meets all six criteria. The score of A is assigned to this dimension.

**Table 3.41: Procurement complaints management**

Criteria for the reviewing body	Findings	Met/ Not met
	<p>Complaint mechanism for procurement following the Tendering and Bidding Law</p> <p>There are two tiers to complaint handling. Under the first tier, the bidder can lodge any complaint to the client. The intended contract award recommendation is required to be disclosed for at least three calendar days as standstill period. The complaint regarding the intended contract award recommendation should be submitted within this standstill period. The client is then required to respond to the complaint within three calendar days.</p>	
Not involved in any capacity in procurement transactions or in the process leading to contract award decisions	<p>Under the second layer, the bidder can lodge any complaint to the Division of Law and Regulation under the Yizhang DRB within ten calendar days from his/her awareness of the issue.</p> <p>Complaint mechanism for procurement following the Government Procurement Law</p> <p>There are also two tiers to complaint handling. Under the first tier, the bidder can lodge any complaint to the client within seven working days from his awareness of the issue. The client is required to respond to the complaint within seven working days, according to the Government Procurement Law.</p> <p>Under the second tier, if the bidder is not satisfied with the response from the client or if the client does not respond within the required time, the bidder can lodge any complaint to the Yizhang Government Procurement Center under the Yizhang Finance Bureau within 15 working days after receiving the response from the client or after the expiry of the required responding time.</p>	Yes

Criteria for the reviewing body	Findings	Met/ Not met
Not involved in any capacity in procurement transactions or in the process leading to contract award decisions	The criterion for the reviewing body not to be involved in any capacity in procurement transactions or in the process leading to contract award decisions is not met by the first tier complaint handling mechanism as the entity for complaint handling is the client itself. However, it is met by the second tier complaint handling mechanism as the entity for complaint handling is an independent party which is not involved in any capacity in procurement transactions or in the process leading to contract award decisions. Collectively, the criterion is rated to be met because eventually, the complainant does have the opportunity to refer the case to an independent party.	Yes
Does not charge fees that prohibit access by concerned parties	No fee is charged to the complainant, neither for procurement following the Tendering and Bidding Law nor for procurement following the Government Procurement Law.	Yes
Follows processes for submission and resolution of complaints that are clearly defined and publicly available	<p>For procurement following the Tendering and Bidding Law, the <i>Hunan Provincial Complaint Handling Procedure and Guidance for Procurement Following the Tendering and Bidding Law</i> issued by the Hunan Provincial DRC on April 29, 2019 clearly defines the procedures and is publicly available.</p> <p>For procurement following the Government Procurement Law, the <i>Complaint Handling Procedure and Guidance for Procurement Following the Government Procurement Law</i> issued by the MOF on December 26, 2017 and effective as of March 1, 2018 and the <i>Complaint Handling Procedure and Guidance for Procurement Following the Government Procurement Law</i> issued by the Hunan Provincial Department of Finance on August 5, 2019 clearly define the procedures, and these official documents are publicly available.</p>	Yes
Exercises the authority to suspend the procurement process	<p>For procurement following the Tendering and Bidding Law, the Division of Law and Regulation under the Yizhang DRB exercises the authority to suspend the procurement process.</p> <p>For procurement following the Government Procurement Law, the Government Procurement Center under the Yizhang Finance Bureau exercises the authority to suspend the procurement process.</p>	Yes
Issues decisions within the timeframe specified in the rules/regulations	<p>For procurement following the Tendering and Bidding Law, the Division of Law and Regulation under the Yizhang DRB is required to determine whether a complaint is valid within three working days. If the complaint is determined valid, within 30 working days, the Division of Law and Regulation under the Yizhang DRB must issue the determination of the procurement process.</p> <p>For procurement following the Government Procurement Law, the Government Procurement Center under the Yizhang Finance Bureau is required to issue decisions within 30 working days.</p>	Yes
Issues binding decisions for each party (without precluding access to an external higher authority)	The decisions made by the Division of Law and Regulation under the Yizhang DRB or by the Government Procurement Center under the Yizhang Finance Bureau are binding for both parties. If the complainant is not satisfied with the resolution, the complainant is entitled to request an administrative review by an HLG office or administrative litigation according to the laws and regulations.	Yes



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

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-25. Internal controls on non-salary expenditure (M2)</b>		<b>B</b>
<b>25.1. Segregation of duties</b>	Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage.	A
<b>25.2. Effectiveness of expenditure commitment controls</b>	No effective expenditure commitment control system has been established.	D
<b>25.3. Compliance with payment rules and procedures</b>	All (more than 90% of) payments are in line with regular payment procedures, and all exceptions are authorized in advance.	A

### Dimension PI-25.1 Segregation of duties

222. The internal control system for non-salary expenditure in Yizhang follows the Internal Control Standards for GAUs and PSUs, issued by the MOF in 2012. It requires all units to set up jobs for specific tasks, clearly define the responsibility and authority of each job, and ensure that incompatible jobs such as expenditure application and internal review, payment approval and payment request, operating and accounting are separated from each other.

223. To give an example, according to the Measures for Risk Prevention and Control of the Yizhang Finance Bureau, the following procedures shall be followed to control risk:

- (1) Record and review: Implement a two-post review system, review payment strictly.
  - (a) Enter the direct payment application (Budgetary units).
  - (b) Check the direct payment application (Budgetary units).
  - (c) Submit the direct payment application (Budgetary units).
  - (d) Check the direct payment application, including the amount, payment methods, and related rules (Payment Center at the Finance Bureau).
  - (e) Recheck the direct payment application, such as the application for high-value payment (Payment Center at the Finance Bureau).
- (2) Authorization and audit: Payment instructions are issued by two posts to mitigate the risk of incorrect payment, and all payment should use both paper and electronic payment vouchers, using UKEY identification.
  - (a) A post: Check the payment application approved, then generate the payment order.
  - (b) B post: Recheck the payment order, then send the order to the bank.
- (3) Seal preservation: Seals of the Payment Center, the Head of the Finance Bureau and the person handling the payment are kept separately.

224. After the payment and clearance transactions are completed in the banking system, a clearance notice is



sent to the Treasury Office at the Finance Bureau for accounting and reporting of the payment.

225. In the above-mentioned procedures, incompatible jobs (such as expenditure application and internal review, payment approval and payment request, operating and accounting) are separated from each other, and all the responsibilities are clearly defined in the operation regulations of the finance bureau. The MIS system shows a list of authorized persons at all stages of the payment process, and the well-designed system ensures that nobody can override authorized responsibilities.

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

227. The score is A.

**Table 3.42: Segregation of duties and commitment controls**

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

Data source: *Internal Control Standards* by the MOF, *Measures for Risk Prevention and Control* of the Yizhang Finance Bureau, *Operation Regulations* of the Payment Center at Yizhang Finance Bureau.

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

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

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

229. All payments in Yizhang County are handled by the Payment Center in line with established payment procedures. In the internal audit reports of the budgetary units and the audit reports issued by the Audit Office, the assessors noticed that there were some irregular payments. In 2018, their percentage was 0.28 percent of total expenditures. However, they were all approved by the county mayor.

230. Therefore, all (more than 90 percent of) payments are in line with regular payment procedures, and all exceptions are authorized in advance. The score is A.

## PI-26. Internal audit

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-26. Internal audit (M1)</b>		<b>D+</b>
<b>26.1. Coverage of internal audit</b>	Internal audit is operational for SNG budgetary units representing all of the budget revenues but less than 50% of the budget expenditures.	D
<b>26.2. Nature of audits and standards applied</b>	Internal audit activities are focused on verifying the adequacy and effectiveness of internal control. The internal audit function has a quality assurance process, and audit activities meet professional standards, including adopting a risk-based approach.	A
<b>26.3. Implementation of internal audits and reporting</b>	The sampled department with an internal audit unit prepares an annual audit work plan and a summary report for its annual audit work, which shows the completion rate of the planned internal audit tasks. The sampled budgetary units have fully completed their annual audit plans.	A
<b>26.4. Response to internal audits</b>	The management of the sampled department proactively responded to the internal auditors' suggestions included in the audit reports within 12 months of the issuance of the reports.	A

### Dimension PI-26.1 Coverage of internal audit

232. The assessment of dimension PI 26.1 takes a sampling approach. 13 biggest budgetary entities are selected for the assessment. Expenditures of the budgetary units, which established an internal audit function in their unit, accounted for 42.2 percent of total budget expenditures in FY 2018. The revenues collected by Yizhang Finance Bureau covered 100 percent of total budget revenues (excluding tax revenue, referring to PI 20.3) and Yizhang Finance Bureau is subject to internal audit.

233. The score is D.

**Table 3.43: Calculation of the internal audit coverage in terms of expenditures, FY 2018**

No.	Service Delivery Department	Budget expenditure (thousand)	With internal audit office (Y/N)	Expenditure covered by internal audit (thousand)
1	Education	908,110.0	Y	908,110.0
2	Civil affairs	134,660.0	N	0.0
3	Housing	8,970.0	N	0.0
4	Science and information technology	27,990.0	N	0.0
5	Human resources and social security	12,670.0	N	0.0

No.	Service Delivery Department	Budget expenditure (thousand)	With internal audit office (Y/N)	Expenditure covered by internal audit (thousand)
6	Transportation	43,390.0	N	0.0
7	Water resources	19,150.0	N	0.0
8	Agriculture and rural affairs	70,090.0	N	0.0
9	Forestry	112,050.0	N	0.0
10	Commerce	17,440.0	N	0.0
11	Culture and tourism	18,100.0	N	0.0
12	Health	749,120.0	N	0.0
13	Natural resources	28,950.0	N	0.0
<b>Total</b>		<b>2,150,690.0(A)</b>		<b>908,110.0(B)</b>
<b>Percentage</b>				<b>42.2% (=B/A*100%)</b>

Data sources: Yizhang Finance Bureau, Yizhang Audit Office.

**Table 3.44: Calculation of the internal audit coverage in terms of revenues, FY 2018**

Departments responsible for revenue collection with an internal audit office	Amount(billion)	Formula
GPB non-tax revenue	0.27	A
GFB revenue	0.77	B
Subtotal	<b>1.04</b>	C=A+B
Finance Bureau (collecting all non-tax revenue)	<b>1.04</b>	D
Internal audit coverage ratio	100%	E=C/D x 100%

Data sources: Yizhang Finance Bureau, Yizhang Audit Office.

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

234. Of the 13 largest departments, only the Education Department has thus far implemented an internal audit function. By interviewing internal auditors and checking the sampled audit files, it was noted that the necessary training was provided to the auditors and they are required to follow the professional standards issued by the China Institute for Internal Audit. The internal audit unit has established a three-level quality review system similar to that of an accounting firm. In addition, the persons responsible for drafting, reviewing and signing of the audit report are segregated. Besides, the Yizhang Education Bureau also hired an accounting firm to conduct audits in 2019.

235. All required audit evidence is maintained in audit files. The audit reports reveal weak areas that exist in the internal control system of the audited units and identify high-risk areas. The internal audit unit also prepares a summarized report for its annual audit work every year.

236. Based on these facts and observations, the internal audit function focuses on evaluating the adequacy and

effectiveness of internal control of the budgetary units. A quality assurance procedure has been established and followed, and internal audit tasks have been conducted in line with professional standards, including taking a risk-based approach. The score therefore is A.

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

237. The Education Bureau was selected to assess the implementation of internal audit plans and reporting. As shown in Table 3.45, the annual audit completion rate for FYs 2016-2018 was 100 percent, as evidenced by the distribution of a summary report to the audited entities, relevant units in the education bureau, such as personnel unit, discipline inspection unit, office unit. The score is A.

**Table 3.45: Percentage of completion of internal audit plans, FY 2018**

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

Data source: Yizhang Education Bureau.

### Dimension PI-26.4 Response to internal audits

238. After receiving the audit reports, responsible staff of the audited units with issues disclosed by the internal auditors are required to take remedial action. In FYs 2016-2018, the management of the Education Bureau paid attention to the audit findings, took necessary actions and submitted the rectification reports to the internal auditors within twelve months. The score is A.



## PILLAR 6: Accounting and Reporting

239. 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

240. 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 the following four dimensions and uses the M2 (AV) method for aggregating dimension scores. The assessment covers the budgetary units of the SNG over the precedent FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-27. Financial data integrity (M2)</b>		<b>B</b>
<b>27.1. Bank account reconciliation</b>	Reconciliation for all active government bank accounts is completed within 10 days after the end of each month.	B
<b>27.2. Suspense accounts</b>	There is no suspense account in Yizhang County.	NA
<b>27.3. Advance accounts</b>	There is no advance account in Yizhang County.	NA
<b>27.4. Financial data integrity processes</b>	The Golden Finance Project Network System is managed by the Finance Bureau. Changes to the financial records are strictly restricted and result in an audit trail. Access to the system must be authorized in advance and is secured by password. The network passed the Grade III computer information system security protection certification. But there is no unit in charge of verifying financial data integrity.	B

#### Dimension PI-27.1 Bank account reconciliation

241. In addition to the TSA, there are seven special bank accounts in Yizhang County, which are (i) the non-tax income settlement account, (ii) the social security account, (iii) the food risk fund account, (iv) the ear-marked funds account, (v) the specially established account for ear-marked transfers, (vi) the escrow funds account and (vii) the non-tax income management account. Except for the TSA, which is opened at the Yizhang branch of the PBOC, the other accounts are opened at different commercial or policy banks. These accounts are reconciled once a month within 10 days after the end of each month. Thus, the score is B.

#### Dimension PI-27.2 Suspense accounts

242. There is no suspense account in Yizhang County.

### **Dimension PI-27.3 Advance accounts**

243. There is no advance account in Yizhang County.

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

244. The Golden Finance Project Network System, which is being used by the Yizhang Finance Bureau, is managed by its Accounting and Information Division. It is confirmed that everyone who requests access to the system needs to be registered in advance according to the IP addresses allocated by the Accounting and Information Division, and that accessing the system is secured by password set by each user. It is not allowed to enter the system without authorization. There are multiple protections for the server in the form of intrusion prevention, firewalls, database audits, and log audits. All operations can be tracked by an audit trail. No illegal access to the financial information platform has been detected so far. In addition, all terminals connected to the network are required to install an antivirus software. which can detect most virus infections. The system passed the third level of the computer information system security protection certification, as evidenced by the certificate issued by the Public Security Bureau of Chenzhou City. All budgetary units are connected to the information system so the financial data can be shared, though subject to authorization. But there is no unit in charge of verifying financial data integrity, thus the score is B.

## PI-28. In-year budget reports

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

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

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

246. In FY 2018, the Yizhang Finance Bureau prepared monthly reports and analyses of budget execution. All revenues and expenditures including deconcentrated units within the SNG are included in these reports. The coverage and functional classification of data are comparable to the original budget. The score is A.

**Table 3.46: In-year budget reports**

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

Data source: Yizhang Finance Bureau.

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

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

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

**Table 3.47: Issue dates of in-year budget reports, FY 2018**

Reported month	1	2	3	4	5	6	7	8	9	10	11	12
Issue date	2.1	3.1	4.2	5.4	6.5	7.5	8.8	9.6	10.9	11.7	12.6	2019.1.6

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

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



## PI-29. Annual financial reports

249. 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 budgetary units over the last completed FY (2018) for 29.1 and 29.2, and the last three years' financial reports (2016-2018) for 29.3.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-29. Annual financial reports (M1)</b>		<b>D+</b>
<b>29.1. Completeness of annual financial reports</b>	An annual budget execution report is prepared and is comparable with the approved budget. The report includes information on revenues, expenditures, cash balances and liabilities, but not on financial assets or tangible assets.	C
<b>29.2. Submission of reports for external audit</b>	Budget execution reports for budgetary units are submitted to the County Audit Office within 6 months of the end of the FY.	B
<b>29.3. Accounting standards</b>	The budget execution reports were prepared in line with the national standards stipulated by MOF. However, the accounting standards adopted were not disclosed in notes or other parts of the financial reports.	D

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

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

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

**Table 3.48: Annual financial reports**

Completeness					Date of submission for external audit	
Prepared annually (Y/N)	Comparable with approved budget (Y/N)	Information F=Full P=Partial B=Basic	Cash flow statement (Y/N)	Balance Sheet C=Cash only FO=Financials only F=Full	Date of submission	Within: (3/6/9 months)
Y	Y	P	N	FO	April 12, 2019 (for FY 2018 audit)	6 months

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

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

252. The Finance Bureau did not record the dates of submission of its annual financial report to the Audit Office, but the report is usually submitted to the Audit Office in March, April or May of each year. The head of the Treasury Division also confirmed that the Audit Bureau usually required units to be audited to provide their financial statements by the first day the auditors start their field work. In FY 2018, the audit of financial reports started on April 12, 2019, so it can be assumed that the financial reports were submitted to the Audit Office no later than April 12, 2019.

253. Consequently, the financial reports for the budgetary units of Yizhang County can be assumed to have been submitted to the County Audit Office within six months after the end of the FY. The score is B.

### **Dimension PI-29.3 Accounting standards**

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

255. The budget execution reports for FYs 2016-2018 were prepared in line with the prevailing accounting standards stipulated by the MOF regulations, but the standards adopted were not disclosed in the notes or other parts of the annual reports. The score for this dimension is D.



## PILLAR 7: External Scrutiny and Audit

256. 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

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-30. External audit (M1)</b>		<b>D+</b>
<b>30.1. Audit coverage</b>	In the past three FYs, the expenditures being audited by external auditors accounted for less than 10% of total expenditures.	D
<b>30.2. Submission of the audit reports to the subnational elected legislature</b>	During the past three FYs, the Audit Office submitted the audit reports to the legislature within three months after receiving the financial reports.	A
<b>30.3. External audit follow-up</b>	The rectification reports show that in the last three FYs, required follow-up actions were taken by the related entities effectively and timely to respond to the issues disclosed by the auditors.	A
<b>30.4. Independence of the public audit institution in charge of SNGs</b>	The Audit Office operates independently from the executive with respect to procedures for appointment and removal of the Head of the institution, the planning of audit engagements, and the approval and execution of the institution's budget. Although the Audit Office is one of the line bureaus under the leadership of the County Government and uses the executive procedure for budget request submission and execution, the executive does not interfere in the budget approved by the People's Congress for the Audit Office. This independence is assured by law. Moreover, the institution has unrestricted and timely access to records, documentation and information. However, the Audit Office does not operate independently from the executive with respect to arrangements for publicizing reports.	B

### Dimension PI-30.1 Audit coverage

258. The Yizhang Audit Bureau adopted an approach called '1+N' when carrying out its audit. That means, besides conducting the annual budget execution audit, it also audited a number of budgetary units. In addition, some special audits were carried out including a local government debt audit, the industry guidance fund audit and the poverty alleviation program audit.

259. The special audits that were conducted by the Yizhang Audit Office during the FYs 2016-2018 are shown in Table 3.49.

**Table 3.49: Special external audits, FYs 2016-2018**

FY	Coverage of Special Audit	Audited budget execution report at county level (Y/N)
2016	The industry guidance fund	Y
2017	The key industry program The poverty alleviation program	Y
2018	The local government debt program The poverty alleviation program The special financial account of reception cost program	Y

Data source: Yizhang Audit Office.

260. For the sampled 13 largest service delivery departments (in terms of budget expenditure, see PI-8.1), the expenditures being covered at least once by external auditors in the past three years accounted for less than 10 percent of total expenditures (see Table 3.50). Meanwhile, the sampling of the service delivery departments showed that relevant significant issues and control risks - such as risks in program expenditure management, budget execution, debt management and internal control - were detected and disclosed in the annual audit reports. Therefore, the score for this dimension is D.

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

No.	Service Delivery Department	2018 Budget expenditure (thousand)	Audit of financial report (Y/N)			Expenditure covered by at least one audit (thousand)
			2016	2017	2018	
1	Education	908,110.0	N	N	N	
2	Civil affairs	134,660.0	N	N	N	
3	Housing	8,970.0	N	N	N	
4	Science and information technology	27,990.0	N	N	N	
5	Human resources and social security	12,670.0	N	N	N	
6	Transportation	43,390.0	N	N	N	
7	Water resources	19,150.0	N	N	N	
8	Agriculture and rural affairs	70,090.0	N	N	Y	70,090.0
9	Forestry	112,050.0	Y	N	Y	112,050.0
10	Commerce	17,440.0	N	Y	N	17,440.0
11	Culture and tourism	18,100.0	N	N	N	
12	Health	749,120.0	N	N	N	
13	Natural resources	28,950.0	N	N	N	
<b>Total</b>		<b>2,150,690.0(A)</b>				<b>199,580.0(B)</b>
<b>Percentage</b>						<b>9.3% (=B/A*100%)</b>

Data source: Yizhang Audit Office.

### Dimension PI-30.2 Submission of the audit reports to the subnational council

261. The Yizhang legislature recorded the date of submission of the audit reports, which indicate the Audit Office submitted the audit reports to the legislature no later than three months upon receipt of the financial reports for all three of the assessed FYs (see Table 3.51). The score for this dimension is A.

**Table 3.51: Submission of audit reports to legislature**

FY	Receipt of financial reports	Submission of the audit reports	Days of preparing the audit reports
2016	April 20, 2016	June 28, 2016	69 days
2017	April 17, 2017	June 23, 2017	67 days
2018	April 23, 2018	June 25, 2018	63 days

Data source: Yizhang Audit Office.

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

262. In FY 2016, the annual audit report was reviewed at the meeting of the Standing Committee of the Yizhang People's Congress on July 13, 2016. The rectification report was scrutinized on March 9, 2017. Of the eight issues disclosed in the audit report, half had been rectified and half had been partially rectified or were in the process of being rectified. Moreover, all audit suggestions had been adopted by the related entities. The ratio of follow-up actions being completed or in process was 100 percent.

263. In FY 2017, the annual audit report was reviewed at the meeting of the Standing Committee of the Yizhang People's Congress on June 30, 2017 and the rectification report was scrutinized on October 17, 2017. The report stated three issues had been entirely rectified, four were partially rectified. All audit recommendations were accepted. The follow-up ratio was 100 percent.

264. Similarly, in FY 2018, the annual audit report was reviewed at the meeting of the Standing Committee of the Yizhang People's Congress on July 13, 2018 and the rectification report was scrutinized on October 31, 2018. Four out of the total nine problems disclosed in the audit report had been rectified, and five problems had been partially rectified. All recommendations were accepted by the auditees. The follow-up ratio was 100 percent.

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

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

266. According to Article 15 of the Audit Law of the PRC, the heads of auditing organizations are appointed or dismissed in accordance with statutory procedures. None of them may be dismissed or replaced unless they are found guilty of illegal acts, negligence, or no longer qualified for the position. Meanwhile, Article 13 of the Regulation on the Implementation of the Audit Law of the PRC states that higher level audit entities should be consulted on the appointment and removal of the chief or deputy leaders of the auditing organizations of

the local governments at all levels (Table 3.52). 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.

267. The above-mentioned law and regulation provide a concrete basis for securing the independence of audit entities. In Yizhang County, the appointment of the director of the Audit Office is approved by the County People’s Congress. The Audit Office can independently carry out its audit and has access to any required data without restriction. The Audit Office is one of the line bureaus under the leadership of the County Government and uses executive procedures for budget request submission and execution, and 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 3.52: SAI independence**

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

Data source: Yizhang Audit Office.

## PI-31. Legislative scrutiny of audit reports

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-31. Legislative scrutiny of audit reports (M2)</b>		<b>B+</b>
<b>31.1. Timing of audit report scrutiny</b>	Scrutiny of the audit report on the budget execution report was completed by the subnational council within one month from receipt of this report in all three assessed FYs.	A
<b>31.2. Hearings on audit findings</b>	An in-depth hearing on the main findings of the audit report takes place once every year. All audited entities having received a qualified or adverse audit opinion or disclaimer in the audit report participate in the hearing.	A
<b>31.3. Recommendations on audit by legislature</b>	The County People's Congress issues recommendations on actions to be implemented by the executive and systematically follows up on their implementation.	A
<b>31.4. Transparency of legislative scrutiny of audit reports</b>	The hearings on the audit report for 2018 was not open to the public. The follow-up report for FY 2018 was not published on the government's website.	D

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

269. In FYs 2016-2018, the annual audit report was submitted to the Standing Committee of the County People's Congress for the first scrutiny in June. The Standing Committee meeting was then held either in June or July. At the meeting, the County Finance Bureau would give a presentation on the draft budget execution report of the previous FY and the first half year of the current FY. The County Audit Office would also present its audit results on budget execution of the previous FY. The Standing Committee would approve those reports after in-depth discussions. In all three assessed FYs, it thus took no longer than one month from submission of the audit report to the approval of the report by the Standing Committee (Table 3.53). The score is A.

**Table 3.53: Timing of legislative scrutiny of audit reports**

Audited AFS for FY	Date of submission of audited financial reports	Date of finalization of legislative scrutiny
2015	June 28, 2016	July 13, 2016
2016	June 23, 2017	June 30, 2017
2017	June 25, 2018	July 13, 2018
2018	June 25, 2019	June 27, 2019

Data source: Yizhang Audit Office.

### **Dimension PI-31.2 Hearings on audit findings**

270. In 2016 audit report hearing was held on July 13, 2016. All concerned budgetary units attended the hearing, i.e., the Forestry Bureau, the Statistics Bureau, the Finance Bureau, the Traffic Police Brigade and the Collection Office of Mineral Product Fees. The participation rate of audited entities with issues disclosed was therefore 100 percent.

271. Six units participated in the hearing in 2017, including the DRB, the Justice Bureau, the Safety Supervision Bureau, the Finance Bureau, the Commerce Bureau and the Urban Administrative Bureau. The attendance rate of audited entities with issues disclosed was 100 percent.

272. Similarly, the audit report for FY 2017 disclosed some problems and the five mentioned units attended the hearing in 2018, i.e., the Agriculture Bureau, the Forestry Bureau, the Environmental Protection Bureau, the Poverty Alleviation Office and the Finance Bureau. Again, the attendance rate of audited entities with issues disclosed was 100 percent.

273. In sum, in-depth hearings on audit findings were held annually. Representatives of all entities with issues disclosed in the audit reports participated in the hearing. The score is A.

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

274. In each of the past three FYs, the Standing Committee of the County People's Congress called for a meeting in June or July to scrutinize the audit report on budget execution of the previous FY presented by the head of the Audit Office (see also PI-31.1). Meanwhile, those audited units with issues disclosed in the audit report were required to rectify their existing problems.

275. In the following 9 months, another meeting was organized by the Standing Committee to follow up on the remedial actions taken by the concerned units. A summarized report prepared by the Audit Office based on the follow-up reports submitted by the units was presented and discussed at the meeting, and the Standing Committee systematically followed up on the rectification of the issues disclosed in the audit reports. Therefore, the score is A.

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

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



## 4 CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS

### 4.1 Integrated assessment across the PIs

#### 4.1.1 Budget reliability

277. Yizhang generally complies to the prescriptions of the budget process, mandated by the central and provincial governments. However, over the three years covered by this assessment (2016-2018), the Yizhang PFM systems failed to produce a credible budget, as the variance in both aggregated and composite expenditure outturns was significantly high (PI-1 and PI-2 are scored D and D+ respectively). The actual expenditure, as a percentage of budget allocation ranged from 157 to 248 percent, and composite variances in expenditures by administrative classification were between 57 and 69 percent.

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

279. On the revenue side of the budget, Yizhang could meet the challenge of producing accurate total revenue projections in business-as-usual years 2016 and 2018, but was not able to prepare for unpredictable changes introduced by the HLGs during FY 2017. The aggregate revenue outturn was 97.9 and 96.1 percent in 2016 and 2018, but dropped to 71.4 percent in 2017 due to the implementation of tax cuts and fee reductions policies, announced by the CG during the year. The composition variance of revenue was also high, 58.8, 53.7 and 25.0 percent in 2016, 2017 and 2018 respectively (Score D).

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

#### 4.1.2 Transparency of public finances

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

282. The majority of service delivery units within Yizhang County prepare performance plans and all the service delivery units published the performance achieved. However, independent evaluations of the efficiency or

effectiveness of service delivery were carried out for less than 25% of the service delivery units, no evaluation report was published, and there are significant deficiencies in the evaluation methodology—the outcomes and outputs are often described vaguely, and PIs are often not sufficiently specified to facilitate capturing information on whether planned outputs and outcomes have actually been achieved. PI-8 is hence rated C+.

### 4.1.3 Management of assets and liabilities

283. The performance of de jure system for asset and liability management is mixed. Public assets, including their use and age, are well recorded, and so are asset disposals – for which clear procedures are in place (PI-12 scored C+). The Yizhang Finance Bureau has a computerized system to track and update information on explicit debt and explicit contingent liabilities (PI-13.1 scored C and PI-10.3 scored A). Economic analyses are conducted of all major public investment projects and are reviewed by the Yizhang DRB, which is also responsible for selecting the investment projects and making proposals to the County Committee (PI-11.1 and PI-11.2 scored C).

284. However, the costing information of the public investment projects is not included in the budget documents, and the monitoring of total cost and physical progress has not covered all of the major projects (PI-11.3 and PI-11.4 scored D). Meanwhile, in 2018, only one of the ten largest PCs in Yizhang submitted is financial report to the government. Also, there is no mid-term DMS indicating certain risk indicators.

285. An additional assessment has been carried out for the LGFV. The results are presented in Annex 7. The LGFV has comprehensive and credible financial reports and receives timely audit. 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

286. 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. No evidence shows the budget preparation is informed by projections of key macroeconomic and demographic indicators, and the development strategies. There is no clear linkage of the budget with the development strategy, or explanation about the fiscal implications of policy change (PI-14 is rated D+).

287. The budget process follows a prescribed annual budget calendar. According to this calendar, the budgetary units are provided seven weeks to complete their detailed budget estimates. They receive notice of their respective budget ceilings two weeks before they submit their final budget proposals. PI-17 is rated B.

288. The annual budget proposal is submitted to the People’s Congress. Budget scrutiny by the People’s Congress covers both aggregated and detailed information on expenditures and revenues, as well as fiscal policies (PI-18.1 is rated B). But in two of the last three FYs, the legislature was provided less than one month to review the budget proposal (PI-17.3 is rated D), and the legislature did not approve the annual budget before the start of the FY for two of the assessed FYs (PI-18.3 is rated C).

289. Significant budget adjustments by the executive during the year are frequent (PI-21.4 is rated C). This is inevitable and required by the Budget Law, as local governments do not receive full information on the expected allocation of grants and the 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 Congress for approval.

#### 4.1.5 Predictability and control in budget execution

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

291. Predictability of in-year resource allocation is very low (PI-21 scored D+). The Yizhang Finance Bureau obtains a daily balance report from the Treasury, but the balances of special accounts are consolidated only monthly, while the balance of the Treasury accounts for less than 90% of all the bank balances. The Finance Bureau does not monitor or forecast cash flows. Moreover, the budget is not reliable, in-year budget adjustment is frequent and not well regulated. As a result, budgetary units could not properly administer commitments. The incurred expenditure arrears were not monitored, and data on the stock of expenditure arrears were not available to the Finance Bureau (PI-22 scored D).

292. Payroll control in the county is relatively good (PI-23 scored C+). The approved employee list, personnel database and payroll are directly linked to each, and reconciled at least monthly before payoff, which constitutes an effective assurance for budget control and data consistency. Necessary changes to personnel records and payrolls are updated in real time. There is no delay in payroll payment by the Centralized Payment Center of the Treasury. Retroactive adjustment is rare. The authority to change personnel records and payrolls is restricted with separate posts, and changes result in an audit trail. However, only partial payroll audits are conducted.

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

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

295. The internal audit function is weak (PI-26 scored D+). Less than 50 percent of budget expenditures were audited in FY 2018. However, for the only covered budgetary unit that has established an internal audit function, the internal audit activities were guided by a quality assurance process and met professional standards. The department prepared an annual internal audit work plan and a summary report of its annual internal audit work. It fully completed its annual audit plans. The management of five sampled audited departments proactively responded to the auditors' suggestions disclosed in their internal audit reports within 12 months after the audit report was issued.

#### 4.1.6 Accounting, recording and reporting

296. Overall financial data integrity is high (PI-27 rated B). All active bank accounts are regularly reconciled,

within 10 days after the end of each month. A rigorous process is in place to protect the integrity of financial data, supported with an IT-system that meets the highest security standards. Only authorized staff have access to the system and an audit trail of system operations is in place.

297. The in-year budget reports are comprehensive and timely. The Finance Bureau prepares monthly reports and analyses on budget execution that cover all revenues and expenditures including de-concentrated units within the county. The coverage and classification of these reports are comparable to the original budget. Monthly reports on budget execution are released within ten days of the end of the reported period and provide useful information for analysis. The Finance Bureau also prepares monthly fiscal analysis reports. However, in-year budget reports were not audited (PI-28 scored B+).

298. 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 six months of the end of the FY. The reports included information on revenues, expenditures and liabilities, but no information on financial assets or tangible assets. Moreover, the adopted accounting standards were not disclosed in notes or other parts of the financial reports (PI-29 scored D+).

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

299. The external audit system is weak. PI-30 scored D+. In the past three FYs, the expenditures audited by external auditors accounted for less than 50% of total expenditures. However, in the three assessed FYs, the County Audit Office could independently carry out its audit and had access to the necessary data without restriction. A number of material issues and systemic and control risks were detected and disclosed in the audit reports, and remedial action was taken by the audited units both effectively and timely. The Audit Office submitted its audit reports to the legislature within three months after receiving the financial reports. The Audit Office operates independently from the executive with respect to the approval and execution of its budget, though as one of the line bureaus under the leadership of the county government, it uses the executive procedure for budget request submission and execution. The head of the Audit Office, being a government unit, still reports to the mayor, and there are well prescribed statutory procedures for appointing or dismissing the head of the Audit Office, subject to the review of an upper-level audit agency and approval of the County People's Congress.

300. 2016 to 2018, the Standing Committee of the County People's Congress provided timely approval (no longer than one month) of the audit reports and called for an in-depth hearing on the main findings of the audit reports once a year. All of the audited entities with issues disclosed in the audit reports participated in the hearing. The Standing Committee followed up and conducted hearings on the rectification taken by the auditees. However, the hearings on the audit reports were not accessible to the public, and the follow-up report for FY 2018 was not published on the government website. PI-31 scored B+.

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

301. This is the first assessment of Yizhang County.

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

302. The main strengths of PFM in Yizhang County are related to the budget reporting, controls, accounting

and parliamentary scrutiny. The main weaknesses pertain to budget reliability, medium-term budgeting, transparency, fiscal risk control, and auditing.

#### 4.3.1 Fiscal discipline

303. The budget fails to impose much fiscal discipline in Yizhang. The variation between outturn and budget estimates for both aggregate expenditure (PI-1.1) and expenditure composition (PI-2.1) is rated D, and significant budget adjustments for expenditure are frequent within the fiscal year (PI-21.4, rated C). The uncertainty from HLG transfers (HLG-1 rated D) contributes significantly to the SNG's poor estimation of its expenditure. In-year policy changes also make it challenging for the SNG to project its own-source revenue (PI-3, rated C). The in-year resource allocation is frequent and unpredictable (PI-21, rated D+), and modern cash management and monitoring for expenditure arrears are missing (PI-21.2 and PI-22.2, rated D).

304. Yizhang does have some important mechanisms in place to control expenditures by budgetary units, which help to maintain fiscal discipline. All government operations are included in financial reports (PI-6, rated A); payroll control is effectively supported with centralized payment arrangements and auto-reconciliation through an IT system (the first three dimensions of PI-23 are rated A); and strong internal control of non-salary expenditure (PI-25, rated B) has ensured strict control over spending during budget execution.

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

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

#### 4.3.2 Strategic allocation of resources

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

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

309. Other indicators that relate to the strategic allocation of resources are rated as satisfactory. Budget documentation (PI-5, rated C) is considered to meet most basic requirements, though economic classification is not fully adopted for government budget accounting (PI-4, D).

### 4.3.3 Efficient use of resources for service delivery

310. The PFM systems of Yizhang encourage the efficient use of resources for service delivery. To this end, the budgetary units in Yizhang regularly publish performance targets (PI-8.1, C), performance achieved (PI-8.2, B), and report available resources (PI-8.3, A). However, low budget reliability and predictability of in-year resource allocation (PI-21, D+) may adversely affect the capacity of service delivery units to make efficient use of resources. Meanwhile, independent performance evaluation has covered less than one quarter of the service delivery units (PI-8.4, D).

311. Many required mechanisms are in place to reduce the possible leakage of funds, such as the asset management system (PI-12, C+), the internal control mechanisms for payroll (PI-23, C+) and non-salary expenditures (PI-25, B). However, for the procurement management system, data are not available to evaluate procurement monitoring (PI-24.1, D\*) and procurement methods (PI-24.2, D\*), and there is no reasonable information disclosure (PI-24.3, D), though the complaint solving regime is very good (PI-24.4, A).

312. The ratings of the existing oversight arrangements are mixed (D+ for PI-30 and B+ for PI-31). The external audit reports were submitted to the People's Congress within three months (PI-30.2, rated A). The required follow-up actions were taken by related entities effectively and timely (PI-31.2, rated A). However, the coverage of external audit is less than 50% of total expenditures (PI-30.1, rated D), hearings on audit reports were not accessible to the public, and the audit report was not published on the government's website for the last completed FY (PI-31.4, rated D).

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

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



## 5 GOVERNMENT PFM REFORMS

### 5.1 Approach to PFM reforms

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

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

### 5.2 Recent and on-going reform actions

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

#### *Division of expenditure responsibility*

318. 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.

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

### *Inter-governmental transfer*

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

### *Taxation*

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

### *Budget management*

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

### *Subnational debt management*

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

### *Regulatory framework on PPPs*

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

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



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

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

### *Medium-term fiscal perspective*

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

### *Legislature budget scrutiny*

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

## **5.3 Institutional consideration**

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

## Annex 1: Summary of performance indicators

Indicator/dimension	Score	Description of requirements met
<b>SNG pillar: Intergovernmental fiscal relations</b>		
<b>HLG-1. Transfers from an HLG</b>	<b>D</b>	<b>Scoring Method M2</b>
HLG-1.1 Outturn of transfers from higher-levels of government	D	In all three years, the deviation of actual grants from the original budgeted grants was more than 116% of the original budget. The outturns for 2016, 2017 and 2018 are 229.5%, 275.9% and 230.9%, respectively.
HLG-1.2 Earmarked grants outturn	D	The composition variance of ear-marked grants was more than 15% for each of the three completed FYs. The variances in 2016, 2017 and 2018 were 67.2%, 113.1% and 66.8%, respectively.
HLG-1.3 Timeliness of transfers from higher-levels of government	C	A disbursement timetable is prescribed by law. Over 50% of actual transfers were on time in two of the last three completed FYs.
HLG-1.4 Predictability of transfers and new expenditure assignments	D	The HLG provides only partial information on transfers for the coming FY, and there is no explanation for changes between the current and the previous year.
<b>HLG-2. Fiscal rules and monitoring of fiscal position</b>	<b>NU</b>	<b>HLG-2 is a pilot indicator. Yizhang County government chose not to use this indicator in this assessment.</b>
<b>Pillar I. Budget Reliability</b>		
<b>PI-1. Aggregate expenditure outturn</b>	<b>D</b>	<b>Scoring Method M1</b>
PI- 1.1 Aggregate expenditure outturn	D	Aggregate expenditure outturn deviated significantly from the budgeted amounts in the last three FYs, the outturn is 248.2%, 193.9% and 157.1% of the approved budget respectively.
<b>PI-2. Expenditure composition outturn</b>	<b>D+</b>	<b>Scoring Method M1</b>
PI- 2.1 Expenditure composition outturn by function	D	Variance in expenditure composition by functional classification was more than 15% for each of the last three years. The variances of three years are 62.9%, 68.7% and 56.5%, respectively.
PI- 2.2 Expenditure composition outturn by economic type	NA	There was no economic classification for governmental funds in the last three completed fiscal years.
PI- 2.3 Expenditure from contingency reserves	A	In the last three FYs, the budget for contingency reserves was arranged but not used. Therefore, actual expenditure charged to a contingency vote was on average less than three percent of the original budget.
<b>PI-3. Revenue outturn</b>	<b>C</b>	<b>Scoring Method M2</b>
PI- 3.1 Aggregate revenue outturn	B	In 2016, 2017 and 2018, the variances in aggregate revenue were 97.9%, 71.4% and 96.1% respectively. The actual revenues were between 94% and 112% of budgeted revenues in two of the last three years.
PI- 3.2 Revenue composition outturn	D	Composition variance in revenue collection in the last three years was 58.8%, 53.7% and 25.0% respectively, all more than 15%.

Indicator/dimension	Score	Description of requirements met
<b>Pillar II. Transparency of public finances</b>		
<b>PI-4. Budget classification</b>	<b>D</b>	<b>Scoring Method M1</b>
PI- 4.1 Budget classification	D	The budget documentation is nationally consistent. The GPB is based on functional and economic classifications, but the GFB is only based on functional classification.
<b>PI-5. Budget documentation</b>	<b>C</b>	<b>Scoring Method M1</b>
PI- 5.1 Budget documentation	C	The budget documentation contains three basic elements and two additional elements.
<b>PI-6. Central government operations outside financial reports</b>	<b>A</b>	<b>Scoring Method M2</b>
PI- 6.1 Expenditure outside financial reports	A	There are three public hospitals in Yizhang. Although they are budgetary units, they have extrabudgetary activities. And all extrabudgetary expenditure were recorded in the financial reports of the Health Bureau in the last three FYs.
PI- 6.2 Revenue outside financial reports	A	There are three public hospitals in Yizhang. Although they are budgetary units, they have extrabudgetary activities. And all extrabudgetary revenue were recorded in the financial reports of the Health Bureau in the last three FYs.
PI- 6.3 Financial reports of extrabudgetary units	A	Financial reports of all extrabudgetary activities, containing full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and supported by a reconciled cash flow statement, are submitted to the SNG annually within one month of the end of the FYs.
<b>PI-7. Transfers to subnational governments</b>	<b>NA</b>	<b>Scoring Method M2</b>
PI- 7.1 System for allocating transfers	NA	There are no separate lower-level SNGs, rather deconcentrated units of the county government.
PI- 7.2 Timeliness of information on transfers	NA	There are no separate lower-level SNGs, rather deconcentrated units of the county government.
<b>PI-8. Performance information for service delivery</b>	<b>C+</b>	<b>Scoring Method M2</b>
PI- 8.1 Performance plans for service delivery	C	Information on the activities to be performed under the policies or programs for all service delivery units is published annually. 55.72% of service delivery units have a framework of PIs relating to the outputs or outcomes. That is the majority.
PI- 8.2 Performance achieved for service delivery	B	13 service delivery departments published the performance achieved in FY 2018 on their websites. The performance achievement measured by quantitative outputs or outcomes in FY 2018 covered 97.9 percent of total service delivery expenditures. Most of the performance information came from the work summary, and it was not disaggregated by program or function. So the score is B.
PI- 8.3 Resources received by service delivery units	A	Information on resources received by frontline service delivery units is collected and recorded for the selected service delivery units, disaggregated by source of funds. A report compiling the information is prepared at least annually.

Indicator/dimension	Score	Description of requirements met
PI- 8.4 Performance evaluation for service delivery	D	Independent evaluations of the efficiency or effectiveness of service delivery were carried out for less than 25%of the service delivery units in 2017.
<b>PI-9. Public access to fiscal information</b>	<b>D</b>	<b>Scoring Method M1</b>
PI- 9.1 Public access to fiscal information	D	The Yizhang Government made available to the public one basic elements within the specified time frame.
<b>PI-9bis. SNG public consultation</b>	<b>NU</b>	<b>This is a pilot indicator. Yizhang County government chose not to use this indicator in this assessment.</b>
<b>Pillar III. Management of assets and liabilities</b>		
<b>PI-10. Fiscal risk reporting</b>	<b>C+</b>	<b>Scoring Method M2</b>
PI- 10.1 Monitoring of public corporations	D*	No evidence is available about the submission of the financial reports of the ten largest PCs to the government. But for one of the PC, the financial report was audited and published. There is no consolidated report for all PCs.
PI- 10.2 Monitoring of subnational governments	NA	There are no SNGs within Yizhang.
PI- 10.3 Contingent liabilities and other fiscal risks	A	There are no state insurance schemes and guarantees in Yizhang. In FY 2018, 4 out of 5 operating PPP projects incurred significant contingent liabilities. These were recorded in the government debt management system. Data were updated and consolidated monthly. An annual consolidated report covering PPP and other contingent liabilities was published.
<b>PI-11. Public investment management</b>	<b>D+</b>	<b>Scoring Method M2</b>
PI- 11.1 Economic analysis of investment proposals	C	Economic analyses are conducted according to national guidelines to assess all major investment projects, and are reviewed by a third party (DRC); but they are not published.
PI- 11.2 Investment project selection	C	The Yizhang DRC is responsible for selecting the projects and making proposals to the County Committee. The general principles for prioritizing investment projects were published, but no clear criteria were provided.
PI- 11.3 Investment project costing	D	Investment project costing information is not included in the budget documents.
PI- 11.4 Investment project monitoring	D	The total costs and physical progress of half major investment projects are monitored monthly throughout project duration by Yizhang Development and Reform Bureau. Information on implementation of “major investment projects” is prepared annually but not published. Standard procedures and rules governing project implementation are available.
<b>PI-12. Public asset management</b>	<b>C+</b>	<b>Scoring Method M2</b>
PI- 12.1 Financial asset monitoring	C	The Yizhang Government maintains records for its holdings in major categories of financial assets (including cash, term deposits, account receivables, leases, equity). Information on the performance of the major categories of financial assets held by the county is published partially.

Indicator/dimension	Score	Description of requirements met
PI- 12.2 Nonfinancial asset monitoring	C	The Yizhang Government maintains records for its holdings of fixed assets and collects partial information on their usage and age. The information on non-financial assets is mostly not available to the public.
PI- 12.3 Transparency of asset disposal	B	Procedures and rules for the transfer or disposal of financial and non-financial assets are established. Information on asset disposal is included in the state-owned assets management report. But the report is not submitted to the county's People's Congress.
<b>PI-13. Debt management</b>	<b>C+</b>	<b>Scoring Method M2</b>
PI- 13.1 Recording and reporting of debt and guarantees	C	Domestic and foreign debt records are complete, accurate, updated monthly, and reconciled annually. Comprehensive management and statistical reports covering debt service, stock, and operations are produced annually.
PI- 13.2 Approval of debt and guarantees	A	The Yizhang Finance Bureau is the responsible debt management entity. It is authorized to borrow on behalf of the county government and monitor the financing transactions according to the debt management rules. Annual borrowing is approved by the Yizhang People's Congress.
PI- 13.3 Debt management strategy	D	There is no mid-term DMS indicating the risk indicators such as interest rates, exchange rates and refinancing alternatives.
<b>Pillar IV. Policy-based fiscal strategy and budgeting</b>		
<b>PI-14. Medium-term budget strategy</b>	<b>D+</b>	<b>Scoring Method M2</b>
PI- 14.1 Preparation of the budget	C	The budget preparation was based on information of transfers, revenue and expenditure.
PI- 14.2 Fiscal impact of policy proposals	D	No estimates about the fiscal impacts of policy changes have been conducted. The list of policy changes were not provided to the assessors.
PI- 14.3 Medium-term expenditure and revenue estimates	D	No Medium-term expenditure and revenue estimates conducted.
PI- 14.4 Consistency of budget with previous year estimates	NA	No medium-term expenditure and revenue estimates conducted.
<b>PI-15. Fiscal strategy</b>	<b>NU</b>	<b>According to the 2020 Subnational PEFA Framework, the original PI-15 and PI-16 are not used in the Subnational PEFA Assessment. They have been converted to the current PI-14.</b>
<b>PI-16. Medium term perspective in expenditure budgeting</b>	<b>NU</b>	<b>ibid</b>
<b>PI-17. Budget preparation process</b>	<b>B</b>	<b>Scoring Method M2</b>
PI- 17.1 Budget calendar	A	Date of issuance of the 2019 budget circular was October, 11 2018. The deadline for submission of estimates was December 1, 2018. Seven weeks are provided to allow budgetary units to meaningfully complete their detailed estimates on time.
PI- 17.2 Guidance on budget preparation	B	The expenditure ceiling is provided on 15 Nov. 2018, after the circular's distribution to budgetary units, but before budgetary units have completed their submission on 1 Dec. 2018.

Indicator/dimension	Score	Description of requirements met
PI- 17.3 Budget submission to the legislature	D	Only in one of the last three years, the executive has submitted the annual budget proposal to the legislature at least one month before the start of the FY.
<b>PI-18. Legislative scrutiny of budgets</b>	<b>C+</b>	<b>Scoring Method M1</b>
PI- 18.1 Scope of budget scrutiny	B	Budget scrutiny by the People's Congress covers details of expenditure and revenue, and fiscal policies, but not medium-term fiscal forecasts and medium-term priorities.
PI- 18.2 Legislative procedures for budget scrutiny	A	The Budget Law of PRC and Rules of the Financial and Economic Committee of the Yizhang People's Congress stipulate the legislative procedures for budget scrutiny. The procedures include arrangements for public consultation, as well as internal organizational arrangements, such as the roles of standing committees and budget committees in the County People's Congress. The procedures were adhered to.
PI- 18.3 Timing of budget approval	C	Only one of the last three FYs, the county legislature approved the annual budget proposal before the start of the FY, but the delay in the other two FYs did not exceed one month.
PI- 18.4 Rules for budget adjustment by the executive	B	Clear rules about budget adjustments exist which were adhered to in majority instances.
<b>Pillar V. Predictability and control in budget execution</b>		
<b>PI-19. Revenue administration</b>	<b>NA</b>	<b>The collection of core taxes, the major direct (corporate income tax and individual income tax) taxes and major indirect tax (VAT) have been administrated and collected by the State Tax Administration and its subordinate entities at provincial and county level government. Governments at county level are not authorized to administrate and collect these core taxes. This indicator is not applicable.</b>
<b>PI-20. Accounting for revenue</b>	<b>D+</b>	<b>Scoring Method M1</b>
PI- 20.1 Information on revenue collections	A	The Treasury Office of the Finance Bureau obtains revenue data from the departments responsible for collecting fiscal revenue (the Taxation Bureau and the Non-Tax Revenue Administration) and compiles a unified income completion report every month. The report details the monthly completion and cumulative completion of various types of revenue.
PI- 20.2 Transfer of revenue collections	A	All tax revenues are transferred to the Treasury on a daily basis, while non-tax revenues are paid directly to the special accounts under the TSA system.
PI- 20.3 Revenue accounts reconciliation	NA	Governments at county level are not authorized to administrate and collect taxes. The duty of tax revenue reconciliation is not applicable to Yizhang county.
<b>PI-21. Predictability of in_year resource allocation</b>	<b>D+</b>	<b>Scoring Method M2</b>
PI- 21.1 Consolidation of cash balances	C	The Yizhang Finance Bureau obtains a daily balance report from the Treasury, and the balances of special accounts are consolidated monthly. The balance of the Treasury accounts for less than 90% of all the bank balances.

Indicator/dimension	Score	Description of requirements met
PI- 21.2 Cash forecasting and monitoring	D	Except for monthly forecasting on tax income, no evidence shows that the Yizhang Finance Bureau has conducted other cash flow forecasting and monitoring.
PI- 21.3 Information on commitment ceilings	D	Payment can be made within the approved budget. But originally approved budget expenditure accounts for less than 75% the actually executed expenditure. The expenditure commitment ceilings for the budgetary units are still unpredictable.
PI- 21.4 Significance of in-year budget adjustments	C	Significant budget adjustments happened more than twice. Part of the adjustments are approved by the People's Congress of the county.
PI-22. Expenditure arrears	D	Scoring Method M1
PI- 22.1 Stock of expenditure arrears	D*	Since Yizhang county has not set up a monitoring system of expenditure arrears, data on stock of arrears is not available.
PI- 22.2 Expenditure arrears monitoring	D	There is no monitoring system for expenditure arrears in Yizhang county.
<b>PI-23. Payroll controls</b>	<b>C+</b>	<b>Scoring Method M1</b>
PI- 23.1 Integration of payroll and personnel records	A	The approved employee list, personnel database and payroll are linked to each other through the documents approved, and reconciled at least monthly before payoff, which constitutes an effective assurance for budget control and data consistency.
PI- 23.2 Management of payroll changes	A	Necessary changes to personnel records and payrolls are updated in real time. There is no delay in making payroll payments by the Centralized Payment Centre. Retroactive adjustment is rare.
PI- 23.3 Internal control of payroll	A	The authority to change personnel records and payrolls is restricted with separate posts and system privileges, results in an audit trail, and is adequate to ensure full integrity of data.
PI- 23.4 Payroll audit	C	Yizhang carried out special projects to identify and clean up all the 'ghost' employees. But the external auditors do not conduct special payroll audits, only partial payroll audits are conducted by internal auditors together with the economic responsibility audits, and revenue and expenditure audits.
<b>PI-24. Procurement management</b>	<b>D+</b>	<b>Scoring Method M2</b>
PI- 24.1 Procurement monitoring	D*	The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.
PI- 24.2 Procurement methods	D*	Since the contract data for small contracts are not available, it is not feasible to calculate the total value of contracts awarded through competitive methods.
PI- 24.3 Public access to procurement information	D	One out of six criteria are met.
PI- 24.4 Procurement complaints management	A	All six criteria are met.
<b>PI-25. Internal controls on nonsalary expenditure</b>	<b>B</b>	<b>Scoring Method M2</b>



Indicator/dimension	Score	Description of requirements met
PI- 25.1 Segregation of duties	A	Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage.
PI- 25.2 Effectiveness of expenditure commitment controls	D	No effective expenditure commitment control system has been established.
PI- 25.3 Compliance with payment controls	A	All (more than 90%) the payments are in line with regular payment procedures, and all exceptions are authorized in advance.
<b>PI-26. Internal audit</b>	<b>D+</b>	<b>Scoring Method M1</b>
PI- 26.1 Coverage of internal audit	D	Internal audit was applied to the budgetary units that implement less than 50% of the budget expenditures and collected all of the budget revenues.
PI- 26.2 Nature of audits and standards applied	A	Internal audit activities focused on verifying the adequacy and effectiveness of internal control. The internal audit function has a quality assurance process and audit activities meet professional standards, including adopting the risk-based approach.
PI- 26.3 Implementation of internal audits and reporting	A	The sampled department with an internal audit unit prepares an annual audit work plan and a summary report for its annual audit work, which shows the completion rate of the planned internal audit tasks. The sampled budgetary units have fully completed their annual audit plans.
PI- 26.4 Response to internal audits	A	The management of the sampled departments proactively responded to the auditors' suggestions included in the audit report within 12 months after the audit reports were issued.
<b>Pillar VI. Accounting, Recording and Reporting</b>		
<b>PI-27. Financial data integrity</b>	<b>B</b>	<b>Scoring Method M2</b>
PI- 27.1 Bank account reconciliation	B	Reconciliation of all bank accounts is completed within 10 days after the end of each month.
PI- 27.2 Suspense accounts	NU	There is no suspense account.
PI- 27.3 Advance accounts	NU	There is no advance account.
PI- 27.4 Financial data integrity processes	B	The Golden Finance Project network system is managed by the Finance Bureau. Changes to the financial records are strictly restricted. Access to the system must be authorized in advance and is secured by password. The network passed the Grade III computer information system security protection certification. But there is not a unit in charge of verifying financial data integrity.
<b>PI-28. In-year budget reports</b>	<b>B+</b>	<b>Scoring Method M1</b>
PI- 28.1 Coverage and comparability of reports	A	There are monthly reports and analyses on budget execution. All revenues and expenditures including de-concentrated units within the SNG are included in the in-year budget reports. The coverage and classification of data are comparable to the original budget.
PI- 28.2 Timing of in-year budget reports	A	There are monthly reports and analyses on budget execution released within ten days of the end of the reported period.



Indicator/dimension	Score	Description of requirements met
PI- 28.3 Accuracy of in-year budget reports	B	The in-year budget report data are largely consistent and useful for the analyses of budget execution. An analysis report is prepared on a monthly basis and covers the information of the expenditure stage, but the report is not audited.
<b>PI-29. Annual financial reports</b>	<b>D+</b>	<b>Scoring Method M1</b>
PI- 29.1 Completeness of annual financial reports	C	An annual budget execution report was prepared and is comparable with the approved budget. The report included information on revenues, expenditures, and liabilities, but not on financial assets or tangible assets.
PI- 29.2 Submission of reports for external audit	B	Budget execution reports were submitted to the County Audit Office within six months after the end of the FY.
PI- 29.3 Accounting standards	D	The budget execution reports were prepared in line with the national standards stipulated by MOF. However, the accounting standards adopted were not disclosed in notes or other parts of the financial reports.
<b>Pillar VII. External Scrutiny and Audit</b>		
<b>PI-30. External audit</b>	<b>D+</b>	<b>Scoring Method M1</b>
PI- 30.1 Audit coverage and standards	D	In the past three FYs, the expenditures being audited by external auditors accounted for less than 50% of total expenditures.
PI- 30.2 Submission of audit reports to the legislature	A	During the past three FYs, the Audit Office submitted the audit reports to the legislature within three months after receiving the financial reports.
PI- 30.3 External audit follow-up	A	The rectification reports show that in the last three FYs, required follow-up actions were taken by the related entities effectively and timely to respond to the issues disclosed by the auditors.
PI- 30.4 Supreme Audit Institution independence	B	The Audit 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.
<b>PI-31. Legislative scrutiny of audit reports</b>	<b>B+</b>	<b>Scoring Method M2</b>
PI- 31.1 Timing of audit report scrutiny	A	The County Audit Office submitted the audit report to the Standing Committee of the County People's Congress for the first review in June. Then, the Congress meeting was held, where the report was presented and discussed by the Committee. It took no more than one month in all three FYs for the Committee to approve the report.
PI- 31.2 Hearings on audit findings	A	An in-depth hearing was held on the main findings of the audit report once every year. All audited entities with issues disclosed in the audit report participated in the hearing.
PI- 31.3 Recommendations on audit by the legislature	A	For three consecutive years, once receiving the follow-up reports from the auditees, a summarized report was prepared by the Audit Office and submitted to the Standing Committee. Then, an official meeting was organized to hear the remedial actions being taken.
PI- 31.4 Transparency of legislative scrutiny of audit reports	D	The hearings on the audit report for FY 2018 was not open to the public. The follow-up report for FY 2018 was not published on the government's website.

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

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

Internal Control Components and Elements	Summary of Observations
2.3 Risk evaluation	Each department with an internal audit unit prepares an annual audit work plan and a summary report for its annual audit work, which shows the completion rate of the planned internal audit tasks. Five sampled budgetary units have fully completed their annual audit plans (Implementation of internal audits and reporting - 26.3 rated 'A'). Internal audit activities focused on verifying the adequacy and effectiveness of internal control. The internal audit function has a quality assurance process and audit activities meet professional standards, including adopting the risk-based approach. (Nature of internal audits and standards applied - 26.2 rated 'A').
2.4 Risk appetite assessment	The development and implementation of identification and assessment of risk indicates a positive risk appetite which will grow as these become more mature.
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	MOF's document requires to strengthen supervision and inspection on internal control and integrate internal control assessment with staff performance evaluation.
<b>3. Control Activities</b>	
3.1 Authorization and approval procedures	<p>Financial data integrity processes are rated 'B' in 27.4. The Golden Finance Project network system is managed by the Finance Bureau. Changes to the financial records are strictly restricted. Access to the system must be authorized in advance and is secured by password. The network passed the Grade III computer information system security protection certification. But there is not a unit in charge of verifying financial data integrity.</p> <p>Recording and reporting of debt and guarantees are rated 'C' in 13.1. Domestic and foreign debt records are complete, accurate, updated monthly, and reconciled annually. Comprehensive management and statistical reports covering debt service, stock, and operations are produced annually.</p> <p>Approval of debt and guarantees are rated 'A' in 13.2. The Yizhang Bureau of Finance is the responsible debt management entity. It is authorized to borrow on behalf of the county government and monitor the financing transactions according to the debt management rules. Annual borrowing is approved by the Yizhang People's Congress.</p> <p>Effectiveness of expenditure commitment controls is rated 'D' in 25.2. No effective expenditure commitment control system has been established.</p> <p>Integration of payroll and personal records is rated 'A' in 23.1. The approved employee list, personnel database and payroll are linked to each other through the documents approved, and reconciled at least monthly before payoff, which constitutes an effective assurance for budget control and data consistency.</p> <p>Management of payroll changes is rated 'A' in 23.2. Necessary changes to personnel records and payrolls are updated in real time. There is no delay in making payroll payments by the centralized payment center. Retroactive adjustment is rare.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p>Compliance with payroll payment rules and procedures is rated 'A' in 23.3. The authority to change personnel records and payrolls is restricted with separate posts and system privileges, results in an audit trail, and is adequate to ensure full integrity of data.</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. All (more than 90%) the payments are in line with regular payment procedures, and all exceptions are authorized in advance.</p> <p>Financial data integrity processes are rated 'B' in 27.4. The Golden Finance Project network system is managed by the Finance Bureau. Changes to the financial records are strictly restricted. Access to the system must be authorized in advance and is secured by password. The network passed the Grade III computer information system security protection certification. But there is not a unit in charge of verifying financial data integrity.</p>

Internal Control Components and Elements	Summary of Observations
3.4 Verifications	Accuracy of in-year budget reports is rated 'B' in 28.3. The in-year budget report data are largely consistent and useful for the analyses of budget execution. An analysis report is prepared on a monthly basis and covers the information of the expenditure stage, but the report is not audited.
3.5 Reconciliations	Banks account reconciliations is rated 'B' in 27.1. Reconciliation of all bank accounts is completed within 10 days after the end of each month. Suspense account reconciliations is rated 'NA' in 27.2. There are no suspense accounts.
3.6 Reviews of operating performance	Revenue audit and investigations are rated 'NA' in 19.3 PI-19 is not applicable to China's local governments.
3.7 Reviews of operations, processes and activities	Procurement monitoring is rated 'D*' in 24.1. The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	The supervision complies the decree issued by MOF which is quite convergent with COSO internal control framework. Personnel development through mentoring and training is in place.
<b>4. Information and Communication</b>	
<b>5. Monitoring</b>	
5.1 Ongoing monitoring	<p>The Assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p>Resources received by service delivery units is rated 'A' in 8.3. Information on resources received by frontline service delivery units is collected and recorded for the selected service delivery units, disaggregated by source of funds. A report compiling the information is prepared at least annually.</p> <p>Monitoring of public corporations is rated 'D*' in 10.1. No evidence is available about the submission of the financial reports of the ten largest PCs to the government. But for one of the PC, the financial report was audited and published. There is no consolidated report for all PCs.</p> <p>Contingent liabilities and other fiscal risks is rated 'B' in 10.3. There are no state insurance schemes and guarantees in Yizhang. Four out of five operating PPP projects incur significant contingent liabilities. The PPP contingent liabilities are recorded in the government debt management system. The data were updated and consolidated monthly but not published.</p> <p>Investment project monitoring is rated 'D' in 11.4. The total costs and physical progress of half major investment projects are monitored monthly throughout project duration by Yizhang Development and Reform Bureau. Information on implementation of "major investment projects" is prepared annually but not published. Standard procedures and rules governing project implementation are available.</p> <p>Procurement monitoring is rated 'D*' in 24.1. The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.</p> <p>Implementation of internal audits and reporting is rated 'A' in 26.3. Each department with an internal audit unit prepares an annual audit work plan and a summary report for its annual audit work, which shows the completion rate of the planned internal audit tasks. Five sampled budgetary units have fully completed their annual audit plans.</p>

Internal Control Components and Elements	Summary of Observations
5.2 Evaluations	<p>Performance evaluation for service delivery is rated 'D' in 8.4. Independent evaluations of the efficiency or effectiveness of service delivery were carried out for less than 25% of the service delivery units in 2017.</p> <p>Investment project selection is rated 'C' in 11.2. The Yizhang DRC is responsible for selecting the projects and making proposals to the County Committee. The general principles for prioritizing investment projects were published, but no clear criteria were provided.</p>
5.3 Management responses	<p>Response to internal audits is rated 'A' in 26.4. The management of the sampled departments proactively responded to the auditors' suggestions included in the audit report within 12 months after the audit reports were issued.</p> <p>External audit follow-up is rated 'A' in 30.3. The rectification reports show that in the last three FYs, required follow-up actions were taken by the related entities effectively and timely to respond to the issues disclosed by the auditors.</p>

### Annex 3: Public sector agencies covered by the assessment

Type		Units	
Budgetary units	GAUs	30 major GAUs (1) Education Bureau; (2) Health Bureau; (3) Civil Affairs Bureau; (4) Housing and Urban-Rural Development Bureau; (5) Science, Technology and Industrial Information Bureau; (6) Human Resources and Social Security; (7) Transportation Bureau; (8) Water Conservation Bureau; (9) Agricultural and Rural Affairs Bureau; (10) Forestry Bureau; (11) Commerce Bureau; (12) Bureau of Culture, Tourism, Radio, Television and Sports; (13) Natural Resources Bureau; (14) Government Administration Office; (15) Finance Bureau; (16) Development and Reform Bureau; (17) Audit Bureau; (18) Bureau of Veterans Affairs; (19) Bureau of Statistics; (20) Emergency Management Bureau; (21) Market Supervision and Administration Bureau; (22) Bureau of Urban Management and Comprehensive Law Enforcement; (23) Letters and Calls bureau; (24) Poverty Alleviation and Development Office; (25) Health care security Bureau; (26) Public Security Bureau; (27) Judicial Bureau; (28) Administration Affairs services center; (29) Standing National People's Congress authority; (30) Political consultative conference authority.	
		58 others	
	Townships (19)	(1) Yuxi, (2) Meitian, (3) Baishidu, (4) Yangmeishan, (5) Yaogangxian, (6) Huangshan, (7) Yiliu, (8) Yanquan, (9) Liyuan, (10) Yingchun, (11) Jiangshui, (12) Changcun, (13) Tiantang; (14) Mangshan; (15) Bali; (16) Guanxi; (17) Wuling; (18) Chishi; (19) Ltian,	
	PSUs	Five largest in education sector	Yizhang No. 1 Middle School
			Tiantang town school
			Yanquan town school
			Yizhang No. 6 Middle School
			Meitian town Meitian school
	PSUs	Five largest in health sector	Yizhang People's Hospital
			Yizhang hospital of traditional Chinese medicine
Yizhang maternal and child care service centre			
Yizhang disease control and prevention center			
Yizhang People's Hospital			
397 others			
EBUs		None1	
PCs	Five largest PCs	Hunan rural credit cooperatives association Pingjiang UDIC	
		Xingyi construction investment co. LTD	
		Shuntong traffic construction co. LTD	
		Agricultural development co. LTD	
		Chenzhou yifa investment co. LTD	
	13 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 extrabudgetary revenue and expenditure activities. These units submit financial reports to the responsible departments and the Finance Bureau

## Annex 4: Evidence for scoring of the indicators

Indicators (PEFA 2016 framework)	Evidence
HLG-1. Transfers from an HLG	<ul style="list-style-type: none"> <li>▪ Yizhang budget documentation for FYs 2016, 2017, 2018</li> <li>▪ Release Schedule of HLG Transfer for FYs 2016, 2017, 2018</li> </ul>
1. Aggregate expenditure out-turn	<ul style="list-style-type: none"> <li>▪ budget documentation and financial reports for FYs 2016,2017,2018</li> </ul>
2. Expenditure composition out-turn	<ul style="list-style-type: none"> <li>▪ budget documentation and financial reports for FYs 2016,2017,2018</li> </ul>
3. Revenue out-turn	<ul style="list-style-type: none"> <li>▪ Yizhang budget documentation and financial reports for FYs 2016,2017,2018</li> </ul>
4. Budget classification	<ul style="list-style-type: none"> <li>▪ Yizhang budget documentation for FY 2018</li> </ul>
5. Budget documentation	<ul style="list-style-type: none"> <li>▪ Yizhang budget documentation for FY 2019</li> </ul>
6. SNG operations outside financial reports	<ul style="list-style-type: none"> <li>▪ Yizhang financial reports for FY 2018</li> <li>▪ Financial reports of Yizhang Health Bureau for FY 2018</li> <li>▪ Financial Report of Yizhang Social Security Fund for FY 2018</li> </ul>
7. Transfers to SNGs	<ul style="list-style-type: none"> <li>▪ NA</li> </ul>
8. Performance information for service delivery	<ul style="list-style-type: none"> <li>▪ Performance plans submitted by sampled departments for FYs 2017, 2018, 2019</li> <li>▪ Performance evaluation reports submitted by sampled departments for FYs 2016, 2017, 2018</li> <li>▪ Financial reports of service delivery units for FYs 2016, 2017, 2018 collected from the Finance Bureau of Yizhang</li> <li>▪ 8.2: Work Summary: 1. Education: <a href="http://www.yzx.gov.cn/xxgk/516/1227/content_3095603.html">http://www.yzx.gov.cn/xxgk/516/1227/content_3095603.html</a> Civil Affairs: <a href="http://www.yzx.gov.cn/2/37/2751/content_3094121.html">http://www.yzx.gov.cn/2/37/2751/content_3094121.html</a> 2. Human Resources and Social Security: <a href="http://www.yzx.gov.cn/xxgk/4259/4264/4580/content_3095037.html">http://www.yzx.gov.cn/xxgk/4259/4264/4580/content_3095037.html</a> 3. Transport: <a href="http://www.yzx.gov.cn/2/22/44/content_3095085.html">http://www.yzx.gov.cn/2/22/44/content_3095085.html</a> 4. Water Resources: <a href="http://www.yzx.gov.cn/xxgk/516/1227/content_3095603.html">http://www.yzx.gov.cn/xxgk/516/1227/content_3095603.html</a> 5. Agricultural: <a href="http://www.yzx.gov.cn/2/37/50465/content_3093800.html">http://www.yzx.gov.cn/2/37/50465/content_3093800.html</a> Forestry: <a href="http://www.yzx.gov.cn/xxgk/517/4101/content_3093951.html">http://www.yzx.gov.cn/xxgk/517/4101/content_3093951.html</a> Natural Resource: <a href="http://www.yzx.gov.cn/2/37/50465/content_3094537.html">http://www.yzx.gov.cn/2/37/50465/content_3094537.html</a></li> </ul> <p>Performance Self-Assessment Report: Science, Industry and Information Technology: <a href="http://www.yzx.gov.cn/xxgk/499/4565/content_2968410.html">http://www.yzx.gov.cn/xxgk/499/4565/content_2968410.html</a> 1. Commerce: <a href="http://www.yzx.gov.cn/xxgk/524/1325/content_3059883.html">http://www.yzx.gov.cn/xxgk/524/1325/content_3059883.html</a> 2. Culture and Tourism: <a href="http://www.yzx.gov.cn/xxgk/536/4606/content_2959650.html#10006-weixin-1-52626-6b3bffd01fdde4900130bc5a2751b6d1">http://www.yzx.gov.cn/xxgk/536/4606/content_2959650.html#10006-weixin-1-52626-6b3bffd01fdde4900130bc5a2751b6d1</a> Health Commission: <a href="http://www.yzx.gov.cn/2/37/50465/content_3094460.html">http://www.yzx.gov.cn/2/37/50465/content_3094460.html</a> <a href="http://www.yzx.gov.cn/2/37/50465/content_2963739.html">http://www.yzx.gov.cn/2/37/50465/content_2963739.html</a> <a href="http://www.yzx.gov.cn/2/37/50465/content_2971003.html">http://www.yzx.gov.cn/2/37/50465/content_2971003.html</a> <a href="http://www.yzx.gov.cn/2/37/50465/content_2962521.html">http://www.yzx.gov.cn/2/37/50465/content_2962521.html</a> <a href="http://www.yzx.gov.cn/xxgk/647/4608/content_2962280.html">http://www.yzx.gov.cn/xxgk/647/4608/content_2962280.html</a> <a href="http://www.yzx.gov.cn/2/37/50465/content_2971002.html">http://www.yzx.gov.cn/2/37/50465/content_2971002.html</a></p> <p>Financial Work Summary: 1. Housing and Urban-Rural Development: <a href="http://www.yzx.gov.cn/2/22/44/content_3094285.html">http://www.yzx.gov.cn/2/22/44/content_3094285.html</a></p>



Indicators (PEFA 2016 framework)	Evidence
9. Public access to fiscal information	<ul style="list-style-type: none"> <li>▪ <a href="http://www.yzx.gov.cn/2/37/2751/content_2702773.html">http://www.yzx.gov.cn/2/37/2751/content_2702773.html</a></li> </ul>
10. Fiscal risk reporting	<ul style="list-style-type: none"> <li>▪ 2014 Budget Law of the PRC.</li> <li>▪ 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 Yizhang Finance Bureau..</li> <li>▪ Data on contingent liabilities from the Bureau of Finance, Yizhang County.</li> <li>▪ Interview with the director of the PPP Center, Yizhang Bureau of Finance.</li> </ul>
11. Public investment management	<ul style="list-style-type: none"> <li>▪ <i>Notice on Establishing and Improving the "Three Major" Work Scheduling Mechanism.</i></li> <li>▪ Motions and Minutes of the executive meeting of the 17th People's Government of Pingjiang County and attached tables and documents</li> <li>▪ List of investment projects approved in FY 2018 with information on total investment cost collected from Yizhang DRC</li> <li>▪ Feasibility study reports including economic analysis of the ten largest investment projects collected from Yizhang DRC</li> <li>▪ Investment plan submitted to Yizhang People's Congress including information about the capital costs of investment collected from Yizhang DRC</li> </ul>
12. Public asset management	<ul style="list-style-type: none"> <li>▪ the Summary Table of State-Owned Assets of GAUs and PSUs in 2018</li> <li>▪ Statistics of basic information (including holding equity, acquisition cost, fair value, profit, total liabilities, etc.) of SOEs,</li> <li>▪ Asset Register System of Yizhang County.</li> <li>▪ the Management Method for Disposal of State-owned Assets of Yizhang County</li> </ul>
13. Debt management	<ul style="list-style-type: none"> <li>▪ 2014 Budget Law of the PRC.</li> <li>▪ <i>Government Debt Management Methods of Yizhang Connty.</i></li> <li>▪ Government budget documentation and fiscal reports of FYs 2018 and 2019.</li> <li>▪ Screenshot of the Debt Management IT system.</li> </ul>
14. Macroeconomic and fiscal forecasting	<ul style="list-style-type: none"> <li>▪ the Reference Materials for 2017 Fiscal Work, which included data on HLG transfers, revenues and expenditures of Yizhang.</li> <li>▪ The FY 2018 budget proposal of Yjzhang County</li> </ul>
15. Fiscal strategy	<ul style="list-style-type: none"> <li>▪ NU.</li> </ul>
16. Medium term perspective in expenditure budgeting	<ul style="list-style-type: none"> <li>▪ NU.</li> </ul>
17. Budget preparation process	<ul style="list-style-type: none"> <li>▪ The budget calendar for FY 2019 issued by the Yizhang Finance Bureau</li> <li>▪ Report on the Budget Execution of 2016 and Budget Proposal 2017, Report on the Budget Execution of 2017 and Budget Proposal 2018, Report on the Budget Execution of 2018 and Budget Proposal 2019.</li> </ul>
18. Legislative scrutiny of budgets	<ul style="list-style-type: none"> <li>▪ The annual budget proposal for FY 2018</li> <li>▪ The 2014 Budget Law and 2017 Rules for the financial and economic committee of Yizhang people's congress.</li> <li>▪ The four minutes of budget review meetings held by the County People's Congress for FY 2018.</li> <li>▪ The submission and approval document issued by the County People's Congress of the annual budgets FY 2016, 2017, 2018.</li> <li>▪ Decision on approving the FY 2018 budget adjustment draft of Yichang County.</li> <li>▪ The balance sheet of FY 2018.</li> </ul>



Indicators (PEFA 2016 framework)	Evidence
19. Revenue administration	<ul style="list-style-type: none"> <li>▪ NA</li> </ul>
20. Accounting for revenue	<ul style="list-style-type: none"> <li>▪ 20.1: Monthly financial revenue complementation table of Yizhang County for October and November 2019; Treasury account monthly reconciliation statement for July 2018 and 2019; Non-tax payment certificate for 2019; tax payment certificate on December 11 and 12 and November 14, 2019.</li> <li>▪ 20.2: tax payment certificate on December 11 and 12 and November 14, 2019; 2016 Detailed Rules for the Implementation of the Law of the PRC on the Administration of Tax Collection ; Non-tax payment certificate for 2019.</li> </ul>
21. Predictability of in-year resource allocation	<ul style="list-style-type: none"> <li>▪ 21.1: Treasury account daily balance statements at the end of each month in 2019; treasury account daily balance statements for December 2019; special accounts monthly balance statements for FY 2019.</li> <li>▪ 21.2: The annual budget implementation statement for 2018; monthly tax revenue forecast and completion schedule for May and June 2018.</li> <li>▪ 21.3: 2007 Interim Measures of Fund Payment Management of Yizhang Treasury Centralized Collection and Payment System Reform; records screenshots of budget indicators release and expenditure plan release of two budget units for FY 2019.</li> <li>▪ 21.4: Yizhang county budget adjustment proposal for FY 2019; resolution approving the Yizhang county budget adjustment proposal for FY 2019.</li> </ul>
22. Expenditure arrears	<ul style="list-style-type: none"> <li>▪ Interview records with Payment Centre under Finance Bureau</li> <li>▪ 2014 Budget Law of PRC</li> <li>▪ Annual audit reports of FYs 2016, 2017 and 2018</li> <li>▪ Screenshots on the payment quota, schedule and balance of the financial management system</li> </ul>
23. Payroll controls	<ul style="list-style-type: none"> <li>▪ Interview records with Payment Centre and Supervision and Inspection Division under Finance Bureau, Human Resource and Social Security Bureau, and Audit Office</li> <li>▪ Operation Regulations of Centralized Wage Payment Centre</li> <li>▪ Civil Servant Law of PRC, effective as of Jun 1, 2019</li> <li>▪ The Workflow of Reviewing Wages of Yizhang County</li> <li>▪ Screenshots on the operation log of the personnel and wage management system of Human Resource and Social Security Bureau</li> <li>▪ Screenshots on the function modules and post information of Hunan Province organization and personnel integrated management platform charged by Government Employees Staffing Office</li> <li>▪ Screenshots on the wage payment and authorities of financial management system</li> <li>▪ The workflow of personnel variances of budgetary units handled by Human Resource and Social Security Bureau</li> <li>▪ Samples of the proof of personnel variances approval by departments in charge on Sep., 2019</li> <li>▪ The work plan and summary of the implementation of prevention and control of “ghost staff” for FY 2017 on Sep.29, 2017 and Oct.22, 2017</li> </ul>
24. Procurement management	<p>24.1:</p> <ul style="list-style-type: none"> <li>▪ The tendering and bidding record for works, goods, and services procured in Yizhang in FY 2018 maintained by Chenzhou Public Resources Transaction Center.</li> <li>▪ The government procurement information statistics maintained by the Government Procurement Center under Yizhang Finance Bureau in Yizhang Government Procurement Electronic Management Platform.</li> <li>▪ The local government procurement information statistics management system maintained by Yizhang Finance Bureau.</li> <li>▪ The financial integration information system of Hunan (<a href="http://10.104.9.5">http://10.104.9.5</a>).</li> </ul>

Indicators (PEFA 2016 framework)	Evidence
24. Procurement management	<p>24.2:</p> <ul style="list-style-type: none"> <li>▪ The tendering and bidding record for works, goods and services procured in Yizhang in FY 2018 maintained by Chenzhou Public Resources Transaction Center.</li> <li>▪ The government procurement information statistics maintained by the Government Procurement Center under Yizhang Finance Bureau in Yizhang Government Procurement Electronic Management Platform.</li> </ul> <p>24.3:</p> <ul style="list-style-type: none"> <li>▪ Website of Hunan Provincial Tendering and Bidding Supervision (<a href="http://www.bidding.hunan.gov.cn">http://www.bidding.hunan.gov.cn</a>, with the new website <a href="http://218.76.24.90/flow">http://218.76.24.90/flow</a> effective from December 9, 2019).</li> <li>▪ Website of Chenzhou Public Resources Transaction (<a href="http://czggzy.czs.gov.cn/">http://czggzy.czs.gov.cn/</a>).</li> <li>▪ Website of Hunan Provincial Government Procurement (<a href="http://www.ccgp-hunan.gov.cn/">http://www.ccgp-hunan.gov.cn/</a>).</li> <li>▪ The financial integration information system of Hunan (<a href="http://10.104.9.5">http://10.104.9.5</a>).</li> <li>▪ The local government procurement information statistics management system maintained by Yizhang Finance Bureau.</li> <li>▪ Yizhang Government Procurement Electronic Management Platform</li> </ul> <p>24.4</p> <ul style="list-style-type: none"> <li>▪ The Tendering and Bidding Law of the PRC, effective as of January 1, 2000.</li> <li>▪ The implementing regulation for the Tendering and Bidding Law of the PRC issued by the State Council, effective as of March 2, 2019.</li> <li>▪ The Government Procurement Law of the PRC, effective as of January 1, 2003.</li> <li>▪ The implementing regulation for the Government Procurement Law of the PRC issued by the State Council and effective as of March 1, 2015.</li> <li>▪ The Hunan provincial complaint handling procedure and guidance for procurement following the Tendering and Bidding Law, issued by the Hunan Provincial DRC on April 29, 2019.</li> <li>▪ The complaint handling procedure and guidance for procurement following the Government Procurement Law, issued by MOF on December 26, 2017 and effective as of March 1, 2018</li> <li>▪ Complaint Handling Procedure and Guidance for Procurement Following Government Procurement Law issued by Hunan Provincial Department of Finance on Aug. 5, 2019</li> <li>▪ The general complaint record maintained by Division of Law and Regulation under Yizhang Development and Reform Bureau.</li> <li>▪ A sample review of complaint resolution of a complaint regarding procurement of works for land reclaim in Wuling Township under Yizhang 2018 Phase II urban-rural land reclamation program.</li> </ul>
25. Internal controls on non-salary expenditure	<ul style="list-style-type: none"> <li>▪ Interview records with Payment Centre and Budget Division under Finance Bureau</li> <li>▪ 2014 Budget Law of PRC</li> <li>▪ Internal Control Regulations of Yizhang Finance Bureau on Jul.8, 2015</li> <li>▪ Measures for Controlling Risks of Budget Enforcement of Yizhang Finance Bureau</li> <li>▪ Operation Regulations of Payment Division</li> <li>▪ Interim Provisions of the Administration of the Payment during the Reform of Guidong Treasury Centralized Payment and Income on Jun. 25, 2007</li> <li>▪ The Decision on Approving Yizhang Budget Adjustment (Draft) by County People's Congress Standing Committee on Nov. 10, 2018</li> <li>▪ Screenshots on the authorities of the financial management system</li> <li>▪ Annual audit report for FY 2018</li> </ul>

Indicators (PEFA 2016 framework)	Evidence
26. Internal audit	<ul style="list-style-type: none"> <li>▪ Provisions of the audit office on the work of internal audit.</li> <li>▪ The internal audit reports and corresponding audit rectification reports in FYs 2016-2018 of the internal audit units under the sampled bureaus.</li> <li>▪ The internal audit plans and internal audit summaries in FYs 2016-2018 of the internal audit units under the sampled bureaus.</li> </ul>
27. Financial data integrity	<ul style="list-style-type: none"> <li>▪ 27.1: Bank monthly reconciliation records.</li> <li>▪ 27.4: Risk Prevention and Control Measures of Information System Management of Yizhang County Finance Bureau; Network Security Management Regulations of Information System of Yizhang County Finance Bureau; screenshots of system log for FY 2019; authority table of financial system; third level certificates of information system security.</li> </ul>
28. In-year budget reports	<ul style="list-style-type: none"> <li>▪ 28.1: The annual budget documents for FY 2018; The in-year monthly analyses and reports of budget execution for FY 2018.</li> <li>▪ 28.2: The in-year monthly analyses and reports of budget execution for FY 2018.</li> <li>▪ 28.3: The in-year monthly analyses and reports of budget execution for FY 2018.</li> </ul>
29. Annual financial reports	<ul style="list-style-type: none"> <li>▪ 29.1: The budget implementation statement and report of Yizhang county for FY 2018.</li> <li>▪ 29.2: The annual audit report of FY 2018.</li> <li>▪ 29.3: The budget implementation reports and statements of Yizhang county for FY 2016-2018; annual audit reports on budget implementation for FY 2016-2018; government comprehensive financial reports for FY 2016 and 2018</li> </ul>
30. External audit	<ul style="list-style-type: none"> <li>▪ 30.1: <ul style="list-style-type: none"> <li>▪ The annual audit reports of FYs 2016, 2017 and 2018.</li> <li>▪ The reports on annual budget implementation and other financial revenue and expenditure audit work reports of FY 2016, 2017 and 2018.</li> </ul> </li> <li>▪ 30.2: <ul style="list-style-type: none"> <li>▪ The reports on annual budget implementation and other financial revenue and expenditure audit reports of FY 2016, 2017 and 2018.</li> <li>▪ The reports on annual budget implementation and other financial revenue and expenditure audit work reports of FY 2016, 2017 and 2018.</li> <li>▪ Records or schedules for the first discussion of the Standing Committee of People's Congress after receiving the audit report of FY 2016, 2017 and 2018.</li> </ul> </li> <li>▪ 30.3: <ul style="list-style-type: none"> <li>▪ The reports on annual budget implementation and other financial revenue and expenditure audit work reports of FY 2016, 2017 and 2018.</li> <li>▪ The rectification reports on the problems pointed out in the audit reports of FY 2016, 2017, 2018.</li> </ul> </li> <li>▪ 30.4: <ul style="list-style-type: none"> <li>▪ Audit Law of the People's Republic of China promulgated in 2006.</li> </ul> </li> </ul>
31. Legislative scrutiny of audit reports	<ul style="list-style-type: none"> <li>▪ 31.1: <ul style="list-style-type: none"> <li>▪ Records or schedules for the first discussion of the Standing Committee of Yizhang City People's Congress after receiving the audit report of FY 2016, 2017 and 2018.</li> <li>▪ The formal documents of deliberation opinions issued by the Standing Committee of Yizhang City People's Congress on the audit reports of FY 2016, 2017 and 2018.</li> </ul> </li> <li>▪ 31.2: <ul style="list-style-type: none"> <li>▪ The lists of participants of the sessions_x0005_ of the Standing Committee of Yizhang City People's Congress which held hearings of the audit reports of FY 2016, 2017 and 2018.</li> <li>▪ The reports on annual budget implementation and other financial revenue and expenditure audit work reports of FY 2016, 2017 and 2018.</li> </ul> </li> </ul>

Indicators (PEFA 2016 framework)	Evidence
31. Legislative scrutiny of audit reports	<ul style="list-style-type: none"> <li>▪ 31.3:</li> <li>▪ The rectification reports on the problems pointed out in the audit reports of FY 2016, 2017 and 2018, which was reported at the meeting held by the Standing Committee of Yizhang City People's Congress.</li> <li>▪ 31.4</li> <li>▪ The follow-up reports of the hearing of FY 2018, which is held for the audit reports, held by the Standing Committee of Yizhang People's Congress published on the official website.</li> </ul>
Annex 7: Fiscal risks of main PCs	<ul style="list-style-type: none"> <li>▪ Interview with staff of Yizhang UDIC.</li> <li>▪ The FY 2018 annual audit report of Yizhang UDIC.</li> <li>▪ List of ten major investment projects with information on total capital costs</li> </ul>

## Annex 5: List of persons interviewed

Name	Position	Institution
Peng Qiuyan	Deputy Director	Yizhang People's Congress, Office
Fu Yihui	Deputy Director	Yizhang People's Congress, Finance and Economics Committee
Cai Deijun	Deputy Director	Yizhang DRC
Wu Linjie	Director	Agricultural Economy Division under Yizhang DRC
Tan Liang	Director	Yizhang Major Investment Project Management Office
Hu Zhi	Deputy Director	Yizhang Major Investment Project Management Office
Zeng Weiping	Deputy Director	Yizhang Commission Office for Public Sector Reform
Wang Wei	Clerk	Yizhang Commission Office for Public Sector Reform
Tao Jianlin	Union Chairman	Yizhang Audit Bureau
Li Xiaolan	Clerk	Yizhang Audit Bureau
Deng Min	Party Member, Deputy Director	Yizhang Human resources and Social Security Bureau
Chen Xiangping	Deputy Director	Salary and Welfare Division under Yizhang Human resources and Social Security Bureau
Song Jianping	Deputy Director	Planning and Finance Division under Yizhang Education Bureau
Li Yuhui	Director	Planning and Finance Division under Yizhang Health Bureau
Chen Wentong	Director	Planning and Finance Division under Yizhang Transportation Bureau
Zhou Lijuan	Director	Planning and Finance Division under Yizhang Highway Bureau
Deng Lijun	Chief Financial Officer	Yizhang Investment Development Company
Bai Jing	Finance Minister	Yizhang Investment Development Company
Wu Xuguo	Director	Financial Affairs Center under Yizhang Finance Bureau
Xiao Chunli	Director	Payment Center under Yizhang Finance Bureau
Deng Wanjun	Director	Budget Division under Yizhang Finance Bureau
Huang Qiqin	Director	Treasury Division under Yizhang Finance Bureau
Xiao Xianguang	Deputy Director	Treasury Division under Yizhang Finance Bureau
Li Li	Director	Supervision and Inspection Division under Yizhang Finance Bureau
Li Jiang	Director	Information Management Division under Yizhang Finance Bureau
Li Xiongyan	Clerk	Investment and Financing Service Center under Yizhang Finance Bureau
Cai Yunying	Director	Fiscal Performance Management Division under Yizhang Finance Bureau

Name	Position	Institution
Liu Zhengwang	Director	Non-Tax Bureau Planning and Finance Division under Yizhang Finance Bureau
Li Pinghua	Director	Social Security Division under Yizhang Finance Bureau
Wu Lifang	Clerk	Government Procurement Supervision Office under Yizhang Finance Bureau
Lai Shaoqing	Clerk	PPP Office under Yizhang Finance Bureau
Xiao Feng	Director	Foreign Economic Affairs Division under Yizhang Finance Bureau
Li Yufeng	Deputy Chief	Division of Law and Regulation, Yizhang Development and Reform Bureau
Mei Chidong	Chief	Government Procurement Center, Yizhang Finance Bureau
Wu Lifang	Assistant Chief	Government Procurement Center, Yizhang Finance Bureau

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

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

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Non-earmarked grants</b>						
Income from VAT and excise tax rebate	46,380	40,260				
Income tax rebate income	10,600	10,600				
Other tax rebate income	21,030	15,830				
Institutional adjustment subsidies						
Balanced transfer payment income	153,140	232,440				
Transfers for old revolutionary base areas, ethnic areas, border areas and poor areas	30,990	79,080				
Awarding transfer under basic financial support mechanism for counties	72,410	154,180				
Settlement subsidies	12,710	36,380				
Subsidies for budget-level adjustment of enterprises and institutions	15,040	15,040				
Fixed amount subsidies	149,520	164,230				
Other general transfers	900	10,990				
Total non earmarked grants	512,720	759,030	1,176,529.4	-417,499.4	417,499.4	35.5%
<b>Earmarked grants</b>						
Tax rebate for refined oil tax and pricing system reform	15,090	21,000	34,626.8	-13,626.8	13,626.8	39.4%
Transfers for Public Security, Prosecution and legal department		15,320	0.0	15,320.0	15,320.0	
Transfers for compulsory education	154,750	206,060	355,102.1	-149,042.1	149,042.1	42.0%
Transfers for basic old-age insurance and minimum living allowance	102,550	154,840	235,319.7	-80,479.7	80,479.7	34.2%
Transfers for new cooperative rural medical system	165,640	202,730	380,091.2	-177,361.2	177,361.2	46.7%
Transfer for rural comprehensive reform	13,550	25,150	31,092.9	-5,942.9	5,942.9	19.1%
Transfer for key ecological functional areas	74,140	77,570	170,127.7	-92,557.7	92,557.7	54.4%
Rewarding fund for large grain (oil) producing counties		13,080	0.0	13,080.0	13,080.0	
Sum of rest	176,530	1,313,190	405,080.2	908,109.8	908,109.8	224.2%
Total Grants	1,214,970	2,787,970	2,787,970	0	1,873,020	
<b>Outturn as percentage of budget</b>						<b>229.5%</b>
<b>Composition variance</b>						<b>67.2%</b>

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

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

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Non-earmarked grants</b>						
Income from VAT and excise tax rebate	40,280	40,260				
Income tax rebate income	10,600	10,600				
Income from VAT 50:50 sharing rebate		-4,310				
Other tax rebate income	21,030	21,030				
Institutional adjustment subsidies						
Balanced transfer payment income	195,720	267,260				
Transfers for old revolutionary base areas, ethnic areas, border areas	8,540	9,740				
Awarding transfer under basic financial support mechanism for counties	106,630	106,470				
Settlement subsidies	16,030	32,910				
Subsidies for budget-level adjustment of enterprises and institutions	15,040	15,040				
Fixed amount subsidies	177,860	146,360				
Transfers for poor areas		108,810				
Other general transfers		63,080				
Total non earmarked grants	591,730	817,250	1,632,786.4	-815,536.4	815,536.4	49.9%
<b>Earmarked grants</b>						
Tax rebate for refined oil tax and pricing system reform	21,000	21,000	57,946.2	-36,946.2	36,946.2	63.8%
Transfers for Public Security, Prosecution and legal department		18,940	0.0	18,940.0	18,940.0	
Transfers for compulsory education	254,370	210,180	701,894.2	-491,714.2	491,714.2	70.1%
Transfers for basic old-age insurance		129,210	0.0	129,210.0	129,210.0	
Transfers for urban and rural basic medical insurance		221,880	0.0	221,880.0	221,880.0	
Transfers for new cooperative rural medical system			0.0	0.0	0.0	
Transfer for rural comprehensive reform		30,990	0.0	30,990.0	30,990.0	
Rewarding fund for large grain (oil) producing counties	13,150	12,900	36,285.4	-23,385.4	23,385.4	64.4%
Transfer for key ecological functional areas	74,140	83,050	204,577.7	-121,527.7	121,527.7	59.4%
Transfer for resource exhausted cities		7,700	0.0	7,700.0	7,700.0	
Sum of rest		1,080,390	0.0	1,080,390.0	1,080,390.0	
Total revenue	954,390	2,633,490	2,633,490.0	0.0	2,978,220.0	
<b>Outturn as percentage of budget</b>						<b>275.9%</b>
<b>Composition variance</b>						<b>113.1%</b>

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



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

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Non-earmarked grants</b>						
Income tax rebate income	10,600	10,600				
VAT rebate income		40,110				
Income from excise tax rebate		150				
Income from VAT and excise tax rebate	40,260					
Income from VAT 50:50 sharing rebate		-4,310				
Other tax rebate income	15,830	21,030				
Institutional adjustment subsidies						
Balanced transfer payment income	268,730	320,720				
Awarding transfer under basic financial support mechanism for counties	80,990	120,850				
Settlement subsidies	29,250	47,470				
Subsidies for budget-level adjustment of enterprises and institutions	15,040	15,040				
Fixed amount subsidies	150,300	157,140				
Transfers for old revolutionary base areas		12,480				
Transfers for poor areas		95,280				
Transfers for old revolutionary base areas, ethnic areas, border areas and poor areas	8,540					
Other general transfers	3,770	130,850				
Total non earmarked grants	623,310	967,410	1,439,165.6	-471,755.6	471,755.6	32.8%
<b>Earmarked grants</b>						
Tax rebate for refined oil tax and pricing system reform	21,000	21,000	48,487.1	-27,487.1	27,487.1	56.7%
Transfer for resource exhausted cities		16,200	0.0	16,200.0	16,200.0	
Transfers for Public Security, Prosecution and legal department		9,760	0.0	9,760.0	9,760.0	
Transfers for compulsory education	269,120	262,460	621,373.4	-358,913.4	358,913.4	57.8%
Transfers for basic old-age insurance	200	196,880	461.8	196,418.2	196,418.2	42534.9%
Transfers for urban and rural basic medical insurance	2,600	226,130	6,003.2	220,126.8	220,126.8	3666.8%
Transfer for rural comprehensive reform	4,320	28,750	9,974.5	18,775.5	18,775.5	188.2%
Rewarding fund for large grain (oil) producing counties	12,900	17,370	29,784.9	-12,414.9	12,414.9	41.7%
Transfer for key ecological functional areas	77,570	80,850	179,102.0	-98,252.0	98,252.0	54.9%
Sum of rest	244,790	1,072,740	565,197.6	507,542.4	507,542.4	89.8%
Total revenue	1,255,810	2,899,550	2,899,550.0	0.0	1,937,645.9	
<b>Outturn as percentage of budget</b>						<b>230.9%</b>
<b>Composition variance</b>						<b>66.8%</b>

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

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

Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public service expenditure	318,230	435,650	815,060.0	-379,410.0	379,410.0	46.5%
Public security expenditures	99,620	190,640	255,149.7	-64,509.7	64,509.7	25.3%
Defense expenditure			0.0	0.0	0.0	
Expenditures on education	423,730	777,320	1,085,269.7	-307,949.7	307,949.7	28.4%
Expenditures on science and technology	25,410	45,580	65,080.8	-19,500.8	19,500.8	30.0%
Cultural Sports and media expenditure	9,520	94,800	24,382.9	70,417.1	70,417.1	288.8%
Social security and employment expenditure	143,810	559,960	368,330.4	191,629.6	191,629.6	52.0%
Health and family planning expenditure	89,040	410,950	228,051.9	182,898.1	182,898.1	80.2%
Energy saving and environmental protection expenditure	27,380	133,130	70,126.5	63,003.5	63,003.5	89.8%
Urban and rural community expenditure	30,420	275,560	77,912.6	197,647.4	197,647.4	253.7%
Agricultural, forestry and water expenditure	199,310	887,200	510,478.6	376,721.4	376,721.4	73.8%
Transportation expenditure	40,610	234,390	104,011.5	130,378.5	130,378.5	125.4%
Expenditure for resources exploration information	34,010	116,990	87,107.4	29,882.6	29,882.6	34.3%
Business services and other expenditures	27,140	41,170	69,511.8	-28,341.8	28,341.8	40.8%
Financial expenditure			0.0	0.0	0.0	
Expenditure on land, ocean and meteorology	6,690	50,990	17,134.6	33,855.4	33,855.4	197.6%
Housing security expenditure	29,890	208,260	76,555.1	131,704.9	131,704.9	172.0%
Expenditure on stockpiling grain	3,740	16,920	9,579.0	7,341.0	7,341.0	76.6%
Other general public budget expenditure	46,600	33,670	119,353.3	-85,683.3	85,683.3	71.8%
Urban and rural community affairs expenditure	208,200		533,248.0	-533,248.0	533,248.0	100.0%
Expenditure for resources exploration and power information	2,000		5,122.5	-5,122.5	5,122.5	100.0%
Other government fund expenditure	3,000	15,970	7,683.7	8,286.3	8,286.3	107.8%
Allocated expenditure	1,768,350	4,529,150	4,529,150.0	0.0	2,847,531.5	
Interests	40,000	29,030				
Contingency	28,000					
Total expenditure	1,836,350	4,558,180				
<b>Aggregate outturn, as % of budget (PI-1)</b>						<b>248.2%</b>
<b>Composition (PI-2) variance</b>						<b>62.9%</b>
<b>Contingency share of budget</b>						<b>0.0%</b>

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

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

Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public service expenditure	351,210	345,970	706,117.9	-360,147.9	360,147.9	51.00%
Defence Expenditure		2,300	0.0	2,300.0	2,300.0	
Public security expenditures	104,630	138,970	210,361.7	-71,391.7	71,391.7	33.94%
Expenditures on education	492,230	623,190	989,642.7	-366,452.7	366,452.7	37.03%
Expenditures on science and technology	26,770	20,820	53,821.9	-33,001.9	33,001.9	61.32%
Cultural Sports and media expenditure	12,210	95,820	24,548.6	71,271.4	71,271.4	290.33%
Social security and employment expenditure	154,250	580,170	310,124.1	270,045.9	270,045.9	87.08%
Health and family planning expenditure	103,090	402,390	207,265.4	195,124.6	195,124.6	94.14%
Energy saving and environmental protection expenditure	29,010	100,570	58,325.4	42,244.6	42,244.6	72.43%
Urban and rural community expenditure	39,430	381,350	79,275.2	302,074.8	302,074.8	381.05%
Agricultural, forestry and water expenditure	194,320	624,470	390,686.0	233,784.0	233,784.0	59.84%
Transportation expenditure	35,560	165,140	71,494.4	93,645.6	93,645.6	130.98%
Expenditure for resources exploration information	19,290	46,520	38,783.1	7,736.9	7,736.9	19.95%
Business services and other expenditures	17,270	31,920	34,721.8	-2,801.8	2,801.8	8.07%
Financial expenditure			0.0	0.0	0.0	
Expenditure on land, ocean and meteorology	8,910	64,190	17,913.8	46,276.2	46,276.2	258.33%
Housing security expenditure	72,960	175,900	146,688.2	29,211.8	29,211.8	19.91%
Expenditure on stockpiling grain	1,840	4,490	3,699.4	790.6	790.6	21.37%
Other general public budget expenditure	29,520	2,670	59,350.8	-56,680.8	56,680.8	95.50%
Urban and rural community affairs expenditure	209,300		420,803.7	-420,803.7	420,803.7	100.00%
Expenditure for resources exploration and power information	1,500		3,015.8	-3,015.8	3,015.8	100.00%
Other government fund expenditure		19,790	0.0	19,790.0	19,790.0	
Allocated expenditure	1,903,300	3,826,640	3,826,640.0	0.0	2,628,592.7	
Interests	84,900	83,140				
Contingency	28,000					
Total expenditure	2,016,200	3,909,780				
<b>Aggregate outturn, as % of budget (PI-1)</b>						<b>193.9%</b>
<b>Composition (PI-2) variance</b>						<b>68.7%</b>
<b>Contingency share of budget</b>						<b>0.0%</b>

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

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

Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public service expenditure	382,840	355,720	595,733.8	-240,013.8	240,013.8	40.29%
Defence Expenditure		2,450	0.0	2,450.0	2,450.0	
Public security expenditures	124,310	138,840	193,437.7	-54,597.7	54,597.7	28.22%
Expenditures on education	838,160	656,160	1,304,253.2	-648,093.2	648,093.2	49.69%
Expenditures on science and technology	32,060	38,480	49,888.3	-11,408.3	11,408.3	22.87%
Cultural Sports and media expenditure	14,690	96,090	22,859.0	73,231.0	73,231.0	320.36%
Social security and employment expenditure	278,500	653,860	433,371.3	220,488.7	220,488.7	50.88%
Health and family planning expenditure	63,960	428,370	99,527.6	328,842.4	328,842.4	330.40%
Energy saving and environmental protection expenditure	36,790	101,010	57,248.6	43,761.4	43,761.4	76.44%
Urban and rural community expenditure	735,410	902,140	1,144,364.8	-242,224.8	242,224.8	21.17%
Agricultural, forestry and water expenditure	277,050	641,210	431,115.0	210,095.0	210,095.0	48.73%
Transportation expenditure	32,580	119,050	50,697.4	68,352.6	68,352.6	134.82%
Expenditure for resources exploration information	16,560	69,250	25,768.9	43,481.1	43,481.1	168.74%
Business services and other expenditures	9,060	47,820	14,098.2	33,721.8	33,721.8	239.19%
Financial expenditure		1,330	0.0	1,330.0	1,330.0	
Expenditure on land, ocean and meteorology	17,700	80,080	27,542.8	52,537.2	52,537.2	190.75%
Housing security expenditure	5,020	222,070	7,811.6	214,258.4	214,258.4	2742.83%
Expenditure on stockpiling grain	4,070	3,870	6,333.3	-2,463.3	2,463.3	38.89%
Other general public budget expenditure	17,780	3,820	27,667.3	-23,847.3	23,847.3	86.19%
Other government fund expenditure	52,350	11,560	81,461.4	-69,901.4	69,901.4	85.81%
Allocated expenditure	2,938,890	4,573,180	4,573,180.0	0.0	2,585,099.4	
interests		121,840				
Contingency	50,000					
Total expenditure	2,988,890	4,695,020				
<b>Aggregate outturn, as % of budget (PI-1)</b>						<b>157.1%</b>
<b>Composition (PI-2) variance</b>						<b>56.5%</b>
<b>Contingency share of budget</b>						<b>0.0%</b>

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

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

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Tax revenues</b>						
VAT	54,262	93,590	53,123.8	40,466.2	40,466.2	76.2%
Business tax changed to VAT	9,894		9,686.4	-9,686.4	9,686.4	100.0%
Business tax	123,252	60,780	120,667.6	-59,887.6	59,887.6	49.6%
Corporate income tax	33,484	29,500	32,781.4	-3,281.4	3,281.4	10.0%
Individual income tax	16,912	12,840	16,557.5	-3,717.5	3,717.5	22.5%
Resource tax	31,119	24,130	30,466.7	-6,336.7	6,336.7	20.8%
City maintenance and construction tax	22,791	23,220	22,313.0	907.0	907.0	4.1%
Property tax	47,254	25,260	46,263.0	-21,003.0	21,003.0	45.4%
Stamp duty	5,708	4,140	5,588.7	-1,448.7	1,448.7	25.9%
Urban land use tax	13,217	7,030	12,939.5	-5,909.5	5,909.5	45.7%
Land appreciation tax	24,751	16,860	24,231.5	-7,371.5	7,371.5	30.4%
Vehicle and vessel tax	8,967	9,120	8,779.2	340.8	340.8	3.9%
Farmland conversion tax	59,225	15,980	57,982.6	-42,002.6	42,002.6	72.4%
Deed tax	23,281	72,850	22,792.6	50,057.4	50,057.4	219.6%
Tobacco taxes	26,146	29,320	25,597.4	3,722.6	3,722.6	14.5%
Other tax revenue			0.0	0.0	0.0	
<b>Social contributions</b>						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
<b>Grants</b>						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0		
Grants from other government units			0.0	0.0	0.0	
<b>Other revenues</b>						
Special Revenue	69,310	69,680	67,856.6	1,823.4	1,823.4	2.7%
Income from administrative fees	132,774	38,300	129,989.0	-91,689.0	91,689.0	70.5%
Fines, penalties and forfeits	100,291	68,330	98,187.7	-29,857.7	29,857.7	30.4%
Income from state capital operation	0		0.0	0.0	0.0	
Income from paid use of state-owned resources (assets)	212,201	267,570	207,750.9	59,819.1	59,819.1	28.8%
Government housing fund revenue		8,050	0.0	8,050	8,050	
Other Revenue	229,060	478,430	224,256.3	254,174.0	254,174.0	113.3%
Government fund income	213,200	71,560	208,728.7	-137,168.7	137,168.7	65.7%
Total revenue	1,457,099	1,426,540	1,426,540	0	838,720	
<b>Overall variance against budget</b>						<b>97.9%</b>
<b>Composition variance against adjusted budget</b>						<b>58.8%</b>

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

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

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Tax revenues</b>						
VAT	200,530	161,730	143,240.1	18,489.9	18,489.9	12.9%
Corporate income tax	35,830	18,140	25,593.6	-7,453.6	7,453.6	29.1%
Individual income tax	18,096	15,550	12,926.1	2,623.9	2,623.9	20.3%
Resource tax	33,300	25,970	23,786.4	2,183.6	2,183.6	9.2%
City maintenance and construction tax	24,386	26,270	17,419.4	8,850.6	8,850.6	50.8%
Property tax	50,562	28,520	36,116.7	-7,596.7	7,596.7	21.0%
Stamp duty	6,108	5,070	4,363.0	707.0	707.0	16.2%
Urban Land Use tax	14,140	12,040	10,100.3	1,939.7	1,939.7	19.2%
Land appreciation tax	26,480	35,410	18,914.9	16,495.1	16,495.1	87.2%
Vehicle and Vessel tax	9,600	10,620	6,857.4	3,762.6	3,762.6	54.9%
Farmland conversion tax	63,370	61,140	45,265.9	15,874.1	15,874.1	35.1%
Deed tax	24,910	62,790	17,793.4	44,996.6	44,996.6	252.9%
Tobacco taxes	27,960	31,830	19,972.0	11,858.0	11,858.0	59.4%
Other tax revenue			0.0	0.0	0.0	
<b>Social contributions</b>						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
<b>Grants</b>						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units			0.0	0.0	0.0	
<b>Other revenues</b>						
Special Revenue	74,162	57,770	52,974.4	4,795.6	4,795.6	9.1%
Income from administrative fees	142,068	50,410	101,480.0	-51,070.0	51,070.0	50.3%
Fines, penalties and forfeits	107,311	35,030	76,653.4	-41,623.4	41,623.4	54.3%
Income from state capital operation			0.0	0.0	0.0	
Income from paid use of state-owned resources (assets)	227,055	77,800	162,187.3	-84,387.3	84,387.3	52.0%
Government housing fund revenue		16,500	0.0	16,500.0	16,500.0	
Other Revenue	245,090	71,700	175,069.6	-103,370	103,370	59.0%
Government fund income	210,800	297,000	150,576.0	146,424.0	146,424.0	97.2%
Total revenue	1,541,759	1,101,290	1,101,290	0	591,001	
<b>Overall variance against budget</b>						<b>71.4%</b>
<b>Composition variance against adjusted budget</b>						<b>53.7%</b>

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

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

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Tax revenues</b>						
VAT	165,500	202,740	159,003.1	43,736.9	43,736.9	27.5%
Corporate income tax	25,500	19,270	24,499.0	-5,229.0	5,229.0	21.3%
Individual income tax	16,060	18,550	15,429.5	3,120.5	3,120.5	20.2%
Resource tax	27,960	40,810	26,862.4	13,947.6	13,947.6	51.9%
City maintenance and construction tax	30,860	33,760	29,648.6	4,111.4	4,111.4	13.9%
Property tax	32,620	27,130	31,339.5	-4,209.5	4,209.5	13.4%
Stamp duty	6,000	7,620	5,764.5	1,855.5	1,855.5	32.2%
Urban Land Use tax	11,480	14,570	11,029.3	3,540.7	3,540.7	32.1%
Land appreciation tax	33,770	42,350	32,444.3	9,905.7	9,905.7	30.5%
Vehicle and Vessel tax	13,970	11,450	13,421.6	-1,971.6	1,971.6	14.7%
Farmland conversion tax	52,890	28,980	50,813.7	-21,833.7	21,833.7	43.0%
Deed tax	88,630	76,650	85,150.7	-8,500.7	8,500.7	10.0%
Tobacco taxes	37,500	23,400	36,027.9	-12,627.9	12,627.9	35.1%
Environmental protection tax	2,200	1,140	2,113.6	-973.6	973.6	46.1%
Other tax revenue			0.0	0	0.0	
<b>Social contributions</b>						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
<b>Grants</b>						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units			0.0	0.0	0.0	
<b>Other revenues</b>						
Special Revenue	29,430	73,320	28,274.7	45,045.3	45,045.3	159.3%
Income from administrative fees	35,300	32,270	33,914.3	-1,644.3	1,644.3	4.8%
Fines, penalties and forfeits	45,630	50,050	43,838.7	6,211.3	6,211.3	14.2%
Income from state capital operation			0.0	0.0	0.0	
Income from paid use of state-owned resources (assets)	96,260	31,590	92,481.2	-60891.2	60,891.2	65.8%
Government housing fund revenue	3,800	35,680	3,650.8	32,029.2	32,029.0	877.3%
Other Revenue	130,260	45,000	125,146.5	-80,146.0	80,146.0	64.0%
Government fund income	766,350	770,790	736,266.0	34,524.0	34,524.0	4.7%
Total revenue	1,651,970	1,587,120	1,587,120	0	396,056	
<b>Overall variance against budget</b>						<b>96.1%</b>
<b>Composition variance against adjusted budget</b>						<b>25.0%</b>

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

## Annex 7: Fiscal risks of main public corporations

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

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

Yizhang government confirmed that there was only one LGFV in operation at the time of assessment—Yizhang UDIC. All other previous LGFVs in Yizhang had been merged into Yizhang UDIC in 2019.

Table A7.1 provides key information on Yizhang UDIC and its subsidiaries. Yizhang UDIC is no longer allowed to borrow to finance public benefit projects, an activity about which it reports to, and which is closely monitored by, the Finance Bureau. Non-LGFVs are not required to report to the Finance Bureau about their borrowing.

**Table A7.1: Yizhang UDIC and its Subsidiaries**

Name of PC	Main activities	Shares owned by Yizhang Government	Assets (million RMB)	Stock of debt (million RMB)
Yizhang UDIC	Land and infrastructure development	100%	—	—
<b>Subsidiaries of Yizhang UDIC</b>				
1. Yizhang Xingyi Construction Investment co.LTD	Land and infrastructure development	100%	5723.92	1351.77
2. Yizhang Xingcheng Construction Investment co.LTD	Land and infrastructure development	100%	815.62	508.75
3. Yizhang Agricultural Development co. LTD	Land and infrastructure development	100% (through FB)	2252.35	30.00
<b>Total</b>			<b>8791.90</b>	<b>1890.52</b>

Data source: Yizhang Finance Bureau.

## PI-6. Operations outside financial reports

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



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

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

### PI-6.1 Expenditure outside financial reports

Total gross expenditure of the Yizhang UDIC amounted to RMB853.8 million in 2018, equivalent to 53.79 percent of the BG's total expenditures. Score D.

### PI-6.2 Revenue outside financial reports

Total gross revenue of the Yizhang UDIC amounted to RMB1454.4 million in 2018, equivalent to 30.98 percent of BG's total revenues. Score D.

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

	Gross amount	As % of Government Budget
Revenues	0.8538	53.79%
Expenditures	1.4544	30.98%

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

### PI-11.4 Investment project monitoring

This indicator assesses the extent to which prudent project monitoring and reporting arrangements have been put in place by SOEs for ensuring value for money and fiduciary integrity. The monitoring system should maintain records on both physical and financial progress, including estimates of work in progress, and produce periodic project-monitoring reports. Monitoring should cover projects from the point of approval and throughout implementation. The system should allow supplier payments to be linked to evidence of physical progress. Such a system should also identify deviations from plans and allow for identification of appropriate actions in response.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>11.4. Investment project monitoring</b>	The rules and procedures are prescribed in the Measures for project Management of Yizhang UDIC. Yizhang UDIC strictly complies with these rules and procedures. Before the reform, the three LGFVs were managed by the State-Owned Investment Center and the Urban Investment Center respectively. Since 2019, the Investment and Financing Service Center has set up to manage Yizhang UDIC, but the specific management plan is still being improved. The physical progress is monitored monthly and submitted to the Investment and Financing Service Center. However, the information on implementation progress of major investment projects is not published.	C

### PI-13. 1 Recording and reporting of debt and guarantees

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

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

**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	Statistical reports (covering debt service, stock and operations prepared) M/Q/A/N	Additional information from reconciliation reported (if no statistical report) Y/N	Submission of report to the county (Y/N)
Yizhang UDIC	Y	M	Y	M	M	Y	Monthly

Yizhang UDIC reports on all its public-benefit investment projects, their financing, borrowing, outstanding debt, amortization and interest payment to the County Finance Bureau. This data is updated every month.



Hunan Finance  
Department



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