



Hunan Finance  
Department



World Bank Group

**CHINA**  
**RUCHENG COUNTY, HUNAN PROVINCE**  
**PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA)**  
**PERFORMANCE ASSESSMENT REPORT**





Hunan Finance  
Department



World Bank Group

**Rucheng 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 Rucheng City for their cooperation, and the peer reviewers and PEFA Secretariat for their guidance. A substantial number of Rucheng 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 Rucheng County comprised Dong Yi (Task Team Leader, WB), Julia Dhimitri (Adviser/ PFM Specialist, PEFA Secretariat), Guillaume Brule (Adviser/ Financial Management Specialist, PEFA Secretariat), Du Li (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 USD = RMB 7.0**

**Fiscal Year (FY): January 1 - December 31**

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





**The People's Republic of China  
Hunan province – Rucheng 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>CAFS</b>	China Academy of Fiscal Sciences
<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>DRB</b>	Development and Reform Bureau
<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
<b>WB</b>	World Bank
<b>USD</b>	United States Dollar
<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 Rucheng 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 Rucheng County can be measured.

The assessment covers the county of Rucheng, 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 Rucheng County, the social security fund is managed separately from the core budget system—that is, the general public budget (GPB) and the government fund budget (GFB), and thus is classified as an extrabudgetary operation in this assessment. Following China’s legislative classification, state-owned enterprises (SOEs) are assessed as a public corporation (PCs). China’s laws and regulations prohibit any SOE, including local government financing vehicles (LGFV), from financing government investment projects on behalf of the government. LGFVs that have been undertaking quasi-fiscal operations are required to be transformed into commercial entities, operating according to market rules, producing goods and services at market price, and bearing risks on their own. The government does not have any legislative obligation to bail out any SOE. Considering that they may present potential fiscal risk to the government, Annex 7 provides complementary information on the financial management performance of the LGFV in Rucheng. At the time of assessment, there was one LGFV in Rucheng still in the process of transforming into a commercial entity.

The assessment was undertaken from March 2 to 6, 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 Rucheng perform well in budget preparation process, in-year budget reporting and reporting of extra-budgetary expenditures, its internal control system, financial data integrity, and legislative scrutiny, particularly of its annual audit reports. The main weaknesses pertain to budget reliability and budget transparency, performance and medium-term orientation of the budget, public investment and procurement management, the predictability of in-year resource allocation, the monitoring of expenditure arrears, annual financial reporting, external audit, and public access to fiscal information. The context in which Rucheng sets its budget is important. Rucheng generally complies with the PFM practices mandated by the central and provincial governments. The predictability of information on transfers to be received from higher-level governments (HLGs) need to be improved to better the county’s PFM performance.

### ***Fiscal discipline***

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

In-year resource allocation is frequent and unpredictable (PI-21, rated D+), and modern cash management and monitoring for expenditure arrears are missing (PI-21.2 and PI-22.2 are rated D).

Effective control over expenditures by budgetary units helps to enhance fiscal discipline. No government operations take place outside financial reports (PI-6, rated A). Payroll control is effectively supported by centralized payment arrangements and auto-reconciliation through an IT system (PI-23.1 and PI-23.3 are rated A). A strong internal control of non-salary expenditures (PI-25, rated B) and a solid internal audit system (PI-26, rated C+) have ensured strict control over spending during budget execution. Moreover, there is a good reporting and recording system for debts (PI-13.1, rated C) and contingent liabilities (PI-10.3, rated B).

Major threats to fiscal discipline in Rucheng are posed where critical control and monitoring functions are lacking in the PFM system. System weaknesses leading to these threats include the entanglement of government units and the LGFV; the fact that investment financing is delinked from the government budget; that large procurements and contracts are supervised by the 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 assurance for hard budget constraints. Consequently, off-budget borrowing may arise.

Another issue undermining fiscal discipline lies in the weak external audit system (PI-30, rated D+).

### ***Strategic allocation of resources***

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

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

Other indicators that relate to the strategic allocation of resources were rated as satisfactory. Budget documentation meets all basic requirements (PI-5, rated C), but the budget classification system is not fully in accord with international standards (PI-4, D).

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

The PFM system of Rucheng encourages the efficient use of resources for service delivery. To this end, the budgetary units in Rucheng regularly publish performance targets for service delivery (PI-8.1, C) and information on the performance achieved (PI-8.2, C), and they report available resources (PI-8.3, A). However, the low budget reliability and predictability of in-year resource allocations (PI-21, D+) may adversely affect the capacity of service delivery units in making efficient resource use. Independent evaluations of the efficiency or effectiveness of service delivery were carried out for few service delivery units, and in the assessed period, no evaluation report was published (PI-8.4, D).

Required mechanisms are in place to reduce the possible leakage of funds, such as the asset management

system (PI-12, C) and the internal controls over payroll (PI-23, C+) and non-salary expenditures (PI-25, B).

As for the procurement management system, data are not fully available to allow for an evaluation of the procurement monitoring and procurement methods (PI-24.1 and 24.2, both 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 for oversight arrangements are mixed (D+ for PI-30 and B for PI-31). The external audit reports are submitted to the People's Congress within nine months. The required follow-up actions are taken by the concerned entities effectively and timely. However, coverage of external audit is still low, the follow-up reports are not published on the government website, and hearings on audit reports are not accessible to the public.

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

The assessment results shall be interpreted with an important caveat in mind. As Annex 7 shows, LGFVs carry out sizeable quasi-governmental activities while operating outside of the PFM system (Annex 7, PI-6, D). The Rucheng Government has basic monitoring obligations over the investment projects that LGFVs implement (Annex 7, PI-11.4, C) and their liabilities (Annex 7, PI-13.1, B). A comprehensive assessment for LGFVs is warranted to reveal the impact of LGFVs on the PFM performance of Rucheng 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	<b>D</b>
HLG-2	Fiscal rules and monitoring of fiscal position	M1					<b>NU</b>
<b>Pillar One: Budget reliability</b>							
PI-1	Aggregate expenditure outturn	M1	D				<b>D</b>
PI-2	Expenditure composition outturn	M1	D	NA	A		<b>D+</b>
PI-3	Revenue outturn	M2	D	D			<b>D</b>

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



# 1 INTRODUCTION

## 1.1 Rationale and purpose

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

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

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

## 1.2 Assessment management, oversight and quality assurance

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

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

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

Huang Weixiong, Mayor, Pingjiang Government	Oversight Team Member
Wang Kunqiu, Vice Mayor, Liuyang Government	Oversight Team Member
Liu Zhengkai, Vice Mayor, Liling Government	Oversight Team Member
Li Zishan, Vice Mayor, Youxian Government	Oversight Team Member
Jiang Xiaozhong, Vice Mayor, Chaling Government	Oversight Team Member
Wu Zhiping, Mayor, Guidong Government	Oversight Team Member
Huang Zhiwen, Mayor, Rucheng Government	Oversight Team Member
Zhang Runhuai, Mayor, Yizhang Government	Oversight Team Member
<b>Quality Assurance</b>	
<b>Concept note</b>	
Date submitted for review to Hunan Provincial Government and other peer reviewers:	November 19, 2019
Reviewers:	Liu Shangxi (President, CAFS of the MOF), Deng Weiping (Director, Hunan Provincial Finance Department), Lewis Hawke (Lead Public Sector Specialist, EEAG1), Sanjay Vani (Lead Financial Management Specialist, EEAG1), John Litwack (Lead Economist, EA1M2), Christoph Ungerer (Economist, EECM2), IMF Representative, and PEFA Secretariat. Reviewers who provided comments: Liu Shangxi (CAFS of the MOF), Deng Weiping (Hunan Provincial Finance Department), Lewis Hawke (EEAG1), Sanjay Vani (EEAG1), Christoph Ungerer (EECM2), and Martin Bowen (PEFA Secretariat). Comments from Deng Weiping represent those of Hunan Provincial DOF and all 8 county governments.
Date of final CN to PEFA Secretariat:	December 3, 2019
<b>PEFA assessment report</b>	
Date submitted for review:	The first draft was submitted to the WB peer reviewers and PEFA Secretariat on November 14, 2020. The revised version incorporating comments from the peer reviewers of the WB and PEFA Secretariat was submitted to the Hunan provincial DOF and the Rucheng 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.
PEFA CHECK:	The two stages of the PEFA CHECK process were adhered to for the concept note and the response to comments on the draft report.

### 1.3 Assessment methodology

5. **Scope and coverage:** The assessment covers Rucheng 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 Rucheng Country, there are no EBUs

and no financially independent local governments below the county level. The social security fund is managed separately from the core budget system— the general public budget (GPB) and government fund budget (GFB), and thus is classified as an extrabudgetary operation in this assessment. In addition, Rucheng has 21 PCs (state-owned enterprises, SOEs). These entities are legally separated from the government and incorporated under corporate law, and as such are not considered to be part of the government for the purpose of this assessment. China’s laws and regulations prohibit any SOE, including LGFVs, from financing on behalf of the government. LGFVs that have been undertaking quasi-fiscal operations are required to be transformed into commercial entities, operating according to market rules, producing goods and services at market prices, and bearing risks on their own. The government does not have any legislative obligation to bail out SOEs. Considering that they may present potential fiscal risk to the government, Annex 7 provides complementary information on the financial management performance of the LGFV in Rucheng. At the time of assessment, there was one LGFV in Rucheng still in the process of transforming into a commercial entity.

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

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

<b>Training for assessors and local government officials:</b>	
<b>In-country field work:</b>	March 2-6, 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 followed the methodology in terms of coverage and application. Indicators not applicable were scored Not Applicable (NA).

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



## 2 COUNTRY AND SNG BACKGROUND INFORMATION

### 2.1 Economic situation

#### 2.1.1 China and Hunan Province

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

11. China has made remarkable economic achievements in the past 40 years and has risen from a least-developed country to an upper-middle income country. Since the start of China's 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 the 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)**

<b>Economic indicators</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
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>	<b>21.6</b>	<b>22.6</b>	<b>24.0</b>

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.

### 2.1.2 Intergovernmental fiscal arrangements

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

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

#### *Assignment of expenditure responsibility*

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

18. Building on the functional division between the CG and the SNGs, Hunan Province has been formulating the functional division between province and sub-provincial governments accordingly. For the shared functionalities, while county governments will take the ultimate responsibility for the delivery of services, the financing share undertaken by counties varies depending on their level of development and fiscal capacity. Rucheng, as a national poverty county, receives 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 on the tax-sharing arrangements between the provincial government and the city/county governments within their jurisdiction. SNGs in China generally do not have the authority to set tax rates. Since 2017, local governments have been granted the right to set rates for resources tax and environmental tax, however, within the parameters set by the CG. Table 2.3 lists the tax sharing arrangements between the CG, Hunan Provincial Government, and the sub-provincial governments of Hunan Province.

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

Tax	Central	Hunan	
		Provincial	Sub-provincial
Custom duty	100	0	0
Consumption tax	100	0	0
Vehicle purchase tax	100	0	0
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: Rucheng Finance Bureau.

### *Intergovernmental transfer*

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

### *Subnational borrowing*

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

### 2.1.3 Main facts and economic indicators of Rucheng

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

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

Rucheng County	Detail
Tier of government	As a county, Rucheng is subordinated to Chenzhou, a prefecture-level city of Hunan Province. With regard to PFM, Rucheng 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	353,000
Main characteristics	With per capita GDP at USD 2,856, Rucheng is one of the poorest counties in Hunan Province, having been lifted above the national poverty line only in 2019. About 58 percent of the population lives in rural areas, while urban-rural income disparity remains significant.
Economy	Main industries are minerals, small hydropower and real estate. Agriculture, manufacturing, and services accounted for 19, 33 and 48 percent of GDP, respectively, in 2018. Major economic challenges for the county include expanding the volume of economic output, accelerating industrial development, and narrowing disparity, in particular between rural and urban areas.
Services provided by the SNG	Rucheng provides a wide range of public services to its citizens, including education, health care, infrastructure, transportation etc.

Data source: Rucheng Statistics Bureau and Rucheng Finance Bureau.

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

Economic indicators	2016	2017	2018
<b>GDP (billion RMB)</b>	5.7	6.3	6.5
<b>Share of sectors</b>			
Agriculture	23%	21%	19%
Industry	33%	33%	33%
Services	44%	46%	48%
<b>GDP per capita (RMB)</b>	16,444	18,001	18,565
<b>GDP growth rate</b>	7.8%	7.8%	8.1%
<b>Average disposable income of urban residents (RMB)</b>	18,410	19,958	21,674
<b>Average disposable income of rural residents (RMB)</b>	8,323	9,107	9,990

Data source: Rucheng *Statistics Bureau*.

## 2.2 Fiscal and budgetary trends in Rucheng

23. For FYs 2016 to 2018, the overall financial situation in Rucheng County was not very stable (see Table 2.6 and Table 2.7). Rucheng relied heavily on transfers from HLGs, but the total received transfers declined from 36.9 to 32.9 percent of GDP from 2016 to 2018. Of the own-source GPB revenues, tax revenues stood at around five percent of GDP, but non-tax revenue dropped from 6.9 percent in 2016 to 1.6 percent in 2018 due to the implementation of a national policy to reduce administrative fees and charges. Thanks to the vibrant real estate market, the government's land sales revenues in the GFB increased from 2.8 percent of GDP in 2016 to 3.6 percent in 2018. Overall, the combined overall balance of the GPB and the GFB declined dramatically from -1.3 to -7.6 percent of GDP from 2016 to 2018, despite a noticeable decrease in the expenditures of both GPB and GFB.<sup>2</sup>

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

	RMB million			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
<b>Expenditure</b>	<b>2,820</b>	<b>2,898</b>	<b>3,130</b>	<b>49.5%</b>	<b>46.0%</b>	<b>48.2%</b>
<b>Revenue</b>	<b>640</b>	<b>413</b>	<b>429</b>	<b>11.2%</b>	<b>6.6%</b>	<b>6.6%</b>
Tax	245	293	322	4.3%	4.7%	5.0%
Non-tax	395	120	107	6.9%	1.9%	1.6%
<b>Transfer from HLGs</b>	<b>2,106</b>	<b>2,173</b>	<b>2,141</b>	<b>36.9%</b>	<b>34.5%</b>	<b>32.9%</b>
Tax rebate	50	44	44	0.9%	0.7%	0.7%
General transfer	1,068	1,192	1,414	18.7%	18.9%	21.8%
Special transfer	1,001	943	717	17.6%	15.0%	11.0%
(-) Transfer to HLGs	(13)	(6)	(34)	-0.2%	-0.1%	-0.5%
<b>Overall balance</b>	<b>(73)</b>	<b>(312)</b>	<b>(560)</b>	<b>-1.3%</b>	<b>-5.0%</b>	<b>-8.6%</b>
<b>Transfer from GFB and others</b>	<b>17</b>	<b>248</b>	<b>418</b>	<b>0.3%</b>	<b>3.9%</b>	<b>6.4%</b>
<b>Change in cash balance</b>	<b>(5)</b>	<b>(46)</b>	<b>47</b>	<b>-0.1%</b>	<b>-0.7%</b>	<b>0.7%</b>
<b>Withdrawal from reserve</b>	<b>(6)</b>	<b>-</b>	<b>-</b>	<b>-0.1%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Financing</b>	<b>68</b>	<b>110</b>	<b>95</b>	<b>1.2%</b>	<b>1.7%</b>	<b>1.5%</b>
Borrowing	2,734	807	501	48.0%	12.8%	7.7%
Debt amortization	(2,667)	(697)	(406)	-46.8%	-11.1%	-6.2%

Data source: Rucheng Finance Bureau.

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

Source of funding	Million RMB			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
<b>Expenditures</b>	<b>213</b>	<b>292</b>	<b>198</b>	<b>3.7%</b>	<b>4.6%</b>	<b>3.0%</b>
ow. Urban and rural community services	183	231	162	3.2%	3.7%	2.5%
(land and infrastructure development)	19	26	12	0.3%	0.4%	0.2%

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

Source of funding	Million RMB			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
Social security and jobs	0	12	12	0.0%	0.2%	0.2%
Interest	164	242	236	2.9%	3.8%	3.6%
<b>Revenues</b>	<b>162</b>	<b>240</b>	<b>232</b>	<b>2.8%</b>	<b>3.8%</b>	<b>3.6%</b>
ow. Land sales revenues	49	51	24	0.9%	0.8%	0.4%
<b>Net grants from HLGs</b>	<b>-1</b>	<b>0</b>	<b>62</b>	<b>0.0%</b>	<b>0.0%</b>	<b>1.0%</b>
<b>Overall balance</b>	<b>214</b>	<b>235</b>	<b>126</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>
<b>Withdrawal from reserves and other sources</b>	<b>2</b>	<b>1</b>	<b>2</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>137</b>	<b>0.0%</b>	<b>0.0%</b>	<b>2.1%</b>
<b>Financing</b>	<b>0</b>	<b>0</b>	<b>527</b>	<b>0.0</b>	<b>0.0</b>	<b>0.4</b>
Debt	2,675	21	527	2.2	0.0	0.4
Debt amortization	2,675	21	0	2.2	0.0	0.0
<b>Carry-over to next year</b>	<b>235</b>	<b>126</b>	<b>55</b>	<b>0.2</b>	<b>0.1</b>	<b>0.0</b>

Data source: Liuyang Finance Bureau.

24. The core public services are financed from the GPB. The size of total expenditures of the GPB decreased from 49.6 percent in 2016 to 47.9 percent of GDP in 2018 (Table 2.6). The major functions by rank of their share in GPB are education, agriculture, social security and employment, health care, transport, and housing. Of these, the expenditure on social security and employment gained most, with its share in GPB non-interest expenditures increasing by three percentage points (Table 2.8). The overall deficit of GPB expanded to 3.6 percent of GDP in 2018. It was financed through the transfer from the GFB surplus (2.1 percent of GDP) and through debt (1.5 percent of GDP).

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

Expenditures by function	2016	2017	2018	2016	2017	2018
<b>Total GPB Non-Interest Expenditures</b>	<b>2,782</b>	<b>2,792</b>	<b>2,997</b>	<b>Proportion</b>		
Education	554	576	599	19.9%	20.6%	20.0%
Agriculture, forestry and water conservation	495	537	579	17.8%	19.2%	19.3%
Social security and employment	354	439	459	12.7%	15.7%	15.3%
Health care and family planning	314	348	367	11.3%	12.5%	12.2%
General public service	178	188	217	6.4%	6.7%	7.2%
Transportation	358	163	157	12.9%	5.8%	5.2%
Housing	144	109	150	5.2%	3.9%	5.0%
Energy conservation and environmental protection	87	88	106	3.1%	3.2%	3.5%
Public security	75	114	82	2.7%	4.1%	2.7%
Culture, sports and media	68	70	71	2.4%	2.5%	2.4%

Data source: Rucheng Finance Bureau.

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

31 percent of total expenditure. The second largest spending component was capital expenditure, taking a 25 percent share. Subsidies, mainly to households and social security funds, took 20 percent. The spending on goods and services accounted for 20 percent. Of those, expenditures on GAUs amounted to only 6 percent of total GPB expenditures, equivalent to 3 percent of GDP.

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

Expenditures by economic classification	Million RMB	Share in total
<b>Total</b>	<b>3,130</b>	<b>100%</b>
<b>Labor</b>	<b>959</b>	<b>31%</b>
GAUs	305	10%
PSUs	654	21%
<b>Goods and services</b>	<b>615</b>	<b>20%</b>
GAUs	417	13%
PSUs	198	6%
<b>Interest</b>	<b>133</b>	<b>4%</b>
<b>Subsidies</b>	<b>641</b>	<b>20%</b>
Subsidies to firms	6	0%
Subsidies to households	289	9%
Subsidies to social security funds	336	11%
Subsidies to non-profit entities and others	10	0%
<b>Capital Expenditures</b>	<b>781</b>	<b>25%</b>
GAUs	529	17%
PSUs	202	6%
Capital subsidies to firms	50	2%

Data source: Rucheng Finance Bureau.

26. Revenues from government funds were ringfenced for specified purposes according to the rules for each fund. Revenues from transfer of land-use rights dominated GFB revenues, accounting for 50-85 percent, and were mainly used for land and infrastructure development. When GFB revenues needed to be used to finance other public services, the latter were transferred to GPB. These transfers amounted to 0.4, 1.2 and 2.5 percent of GDP in the years 2016 to 2018.

27. Since 2015, Rucheng 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 had been entirely swapped with subnational bonds. By the end of 2018, Rucheng's total debt amounted to RMB 5.6 billion, equivalent to 86.8 percent of GDP (see Table 2.10).

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

Subnational debt	Million RMB	% of GDP
<b>Debt outstanding</b>	<b>5,639</b>	<b>86.8%</b>
General obligation bonds	4,978	76.6%
Project bonds	661	10.2%

Data source: Rucheng Finance Bureau.

## 2.3 Legal and regulatory framework for PFM

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

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

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

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

31. The Audit Law, enacted in 1994 and revised in 2016, empowers the audit institutions to carry out audit on revenues and expenditures of all GAUs, PSUs, financial and non-financial corporations of both the 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.

## 2.4 Institutional arrangements for PFM

### 2.4.1 Overall institutional arrangements for PFM

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

34. With gradual and continued improvements made since the revision of the Budget Law in 2014, China has established a budget framework that serves the basic functions of 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 749,000 budget units with 40.4 million public employees across China's five levels of administration. Over the course of ongoing market-oriented reforms, government agencies tend to limit themselves to being administrators and regulators, and assign most public services delivery functions to PSUs and SOEs (e.g. Rucheng Urban Construction and Development Corporation, Ltd.). The government's budget financially intertwines with the latter 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 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 whole-province budget consolidates the budgets of the provincial level-government budget and those of all municipalities and counties within the province. This turns budget preparation into a lengthy process, starting with 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. 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 participants their entitled social security benefits. The financing gap is filled by the 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 budget 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 following 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. Rucheng County has established an internal control system that segregates duties throughout the whole budget execution process, with responsibilities clearly defined for each unit. Control on public expenditure is exercised through the centralized TSA system. Internal audit functions are required for all budgetary units.

#### 2.4.2 Subnational institutional arrangements for PFM

42. Table 2.11 presents the structure of Rucheng County in terms of its spending units. The county is divided into 14 townships. As these townships do not have independent PFM systems, they are regarded as regional spending units in this assessment. In total, there are 482 budgetary units, including 78 GAUs, 14 townships and 390 PSUs. 104 of the 482 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 Rucheng.

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

Budgetary units	Primary budgetary units	Secondary budgetary units	All budgetary units
<b>Subtotal</b>	<b>104</b>	<b>378</b>	<b>482</b>
GAUs	52	26	78
Townships	14	0	14
PSUs	38	352	390

Data source: Rucheng Finance Bureau.

43. As shown in Table 2.12, there are 21 SOEs that are directly controlled by the Rucheng County Government or government entities, of which only one is a financial institution. All these SOEs are treated as PCs in this assessment. SOEs in Rucheng are supervised by the State Asset Management Center under the Rucheng Finance Bureau. China's laws and regulations require SOEs to operate on commercial basis and the government to provide no guarantee for any SOE. A number of SOEs that carry out quasi-governmental activities, such as managing the government investment projects, were classified as LGFVs. Under the recent reform program to restore government budget constraints and contain subnational fiscal risks, the legacy SNG debt of LGFVs has been swapped with the proceeds of SNG bonds. Most ex-LGFVs have been either closed or transformed into commercial SOEs. At the time of this assessment, Rucheng has kept only one LGFV, and it was still in the process of transformation to a commercial entity. Although it is no longer allowed to borrow on behalf of the SNG, it can still present the government with potential fiscal risks. An additional assessment has been carried out for this LGFV, the results of which are presented in Annex 7.

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

Type	Number	Assets (million RMB)	Liabilities (million RMB)	Equity (million RMB)
Non-financial	21	19,706,540.3	7,985,257.1	11,721,283.1
Financial	/	/	/	/
<b>TOTAL</b>	<b>21</b>	<b>19,706,540.3</b>	<b>7,985,257.1</b>	<b>11,721,283.1</b>

Data source: Rucheng Finance Bureau.

44. The parties involved in Rucheng'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 Rucheng, the Finance Bureau and the County Audit Office share their functions at different stages of the budget process. One unique feature of Rucheng 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 Rucheng County budget process

- **The Finance Bureau of Rucheng.** 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.
  - Finance and Debt Division: Responsible for debt management and oversight of investment finance, PPPs, and other contingent liabilities.
  - Fiscal Supervision and Inspection Office: Responsible for internal audit.
  - Non-tax Revenue Management Bureau: Collects non-tax revenues (administrative fees and charges).
  - Fiscal Investment Evaluation Center: Conducts fiscal capacity assessments of proposed government investment projects.
  - Payment Division: Supervises and processes non-salary payments.
  - Enterprises State Assets Management Center: Oversees SOE operations.
  - Administrative State Assets Management Division: Oversees assets of all GAUs.
  - Fiscal Performance Management Division: Oversees the performance evaluation of all budgetary units.
  - Government Procurement Supervision Office: Administrates public procurement above the threshold.
  - The Economic and Construction Division: Oversees the budget and budget execution of the Development and Reform Department, the Housing and Construction Department, the Land, Planning, and Urban Management Department, the Transportation Department, and the Grain and Environmental Protection Department.
  - The Social Security Division: Oversees the budget and budget execution related to human resources, social security, civil affairs, and health and the associated departments.
  - The Information Management Center: Responsible for fiscal information management.
- **The County Development and Reform Commission (DRC):** Prepares the development plan for the whole county and reviews and approves major government investment projects.
  - **The County Urban Development and Investment Management Center:** It is run by the UDIC, and it prepares annual investment plans, mobilizes financing, and manages the implementation of major development and investment projects. It operates under the direct supervision of the government executive and files the annual investment plan with an itemized project list to the Standing Committee of the County People's Congress for review.
  - **The County People's Congress and its Standing Committee:** Reviews and approves the county's five-year social and economic development plan; the government's budget, adjustment to the budget and the budget execution report; the government's investment plan; and the audit report on the county government budget.
  - **The County Audit Office:** Carries out audits of county finance; develops proposals and recommendations on measures to be taken, such as measures for the elimination and prevention of violations; and transfers cases for further inspection when severe violation or clues of criminality are identified. The head of the Audit Office is nominated by the government executive and approved by the County People's Congress.
  - **The Mayor** is an elected official and chief executive of the county. The mayor is responsible, and takes full accountability, for budgeting and strategic planning of the county.



## 3 ASSESSMENT OF PFM PERFORMANCE



### SNG PILLAR: Intergovernmental fiscal relations

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

45. This indicator assesses the extent to which transfers to the SNG from an HLG are consistent with original approved budgets of the HLG and are provided according to 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>	Actual transfer outturns for 2016, 2017, and 2018 were 232.7%, 170.4%, and 139.9% of the original budget, respectively, and therefore above 116% of the original budget in all three years.	D
<b>HLG-1.2: Earmarked grants outturn</b>	The variance of transfer composition outturn of ear-marked grants was 94.5%, 58.4%, and 18.6% for FYs 2016-2018, respectively, and therefore higher than 15% for each of the three completed FYs.	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 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, balanced transfers or institutional adjustment transfers - can be freely allocated by the local governments. Other items of the general transfers must be used for their specified purposes, such as transfers for compulsory education, transfers for key ecological functional areas, transfers for resource-exhausted regions. All special transfers must be used for their specified purposes.

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

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

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 in Rucheng compares to the approved budget amounts of HLG transfers for the 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 transfers from HLG**

Aggregate expenditure	2016	2017	2018
Approved budget (in 10, 000 RMB)	91,048	127,921	155,527
Outturn (in 10, 000 RMB)	211,896	217,963	217,522
Outturn as a percentage of budget	232.7%	170.4%	139.9%
Composition variance of earmarked grants	94.5%	58.4%	18.6%

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

### Dimension HLG-1.2 Earmarked grants outturn

49. As indicated in Table 3.2, the composition variance of earmarked transfers in the last three completed FYs was 94.5, 58.4, and 18.6 percent respectively. In 2016, there was no special transfer in the approved budget, so the composition variance was extremely high. 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 HLG

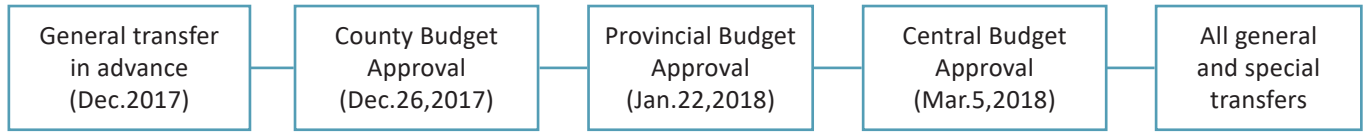
50. The schedule of transfers to SNGs is codified in the Budget Law. General transfers and special transfers from the CG to the provinces are to be disbursed within 30 days and 90 days, respectively, upon the NPC's approval of the central budget. After receiving the central transfers, the provincial 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 special 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, Rucheng is not yet in the possession of a computerized transfer management system to record disbursement dates, and the transfer disbursement list manually prepared by the Finance Bureau indicates 63.54 percent actual transfers were on time in 2016, 69.54 percent in 2017 and 71.79 percent in 2018. The score for dimension HLG-1.3 therefore is C.

### Dimension HLG-1.4 Predictability of transfers

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

Figure 3.1: 2018 HLG transfer disbursement process of Rucheng



## 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 Rucheng County Government chose not to use this indicator in this assessment.



## PILLAR 1: Budget reliability

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

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

### PI-1. Aggregate expenditure outturn

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<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, amounting to 130.9%, 121.1%, and 121.8% of the approved budget respectively. It was between 85% and 115% of the approved budgeted aggregate expenditure in none of the last three years.	<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.

**Table 3.3: Aggregate expenditure outturn**

Aggregate expenditure (billion RMB)	2016	2017	2018
Approved budget	2.3166	2.6345	2.7328
Outturn	3.0334	3.1902	3.3283
<b>Outturn as a percentage of budget</b>	<b>130.9%</b>	<b>121.1%</b>	<b>121.8%</b>

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

59. The significant deviations in all three years was mainly caused by the weak predictability of HLG transfers. The transfer amounts in the budget estimate were less than 50 percent of the actual transfers. Moreover, Rucheng County is highly dependent on HLG transfers. In 2018, the percentage of actual transfers against the actual budget was 69.5 percent. The assigned score is D.

## PI-2. Expenditure composition outturn

60. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. This indicator has three dimensions. The assessment covers Rucheng'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>	Expenditure composition outturn by functional classification was above 15% in each of the three assessed years. Variance was 50.5%, 28.9%, and 35.9% for FY 2016, 2016, and 2018, 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 years.	NA
<b>2.3 Expenditure from contingency reserves</b>	In the last three FYs, the budget for contingency reserves was arranged but not used. Therefore, actual expenditure charged to a contingency vote was on average less than three percent of the original budget.	A

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

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

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

Variance	2016	2017	2018
Functional classification	50.5%	28.9%	35.9%

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

62. For expenditures from own sources, the Rucheng Government has a strong capacity of estimation and allocation. Also, general transfers from HLGs are relatively predictable based on previous years. It is particularly the special transfers that are hard to predict, both in terms of amount and composition. It is for this reason that the amount of transfers is not included in the year-beginning budget, but it is included in mid-year budget adjustment and final budget execution report. This has caused the high variation of expenditure composition outturn. As the variance was above 15 percent for each of the last three FYs (Table 3.5), 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 (see Table 3.5). Hence, dimension PI-2.2 was rated as NA.



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

Variance	2016	2017	2018
Economic classification	NA	NA	NA

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

### Dimension PI-2.3 Expenditure from contingency reserves

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

**Table 3.6: Expenditure from contingency reserves**

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

Data source: Budget documents for 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 neither reported nor fully covered by the main budget, they are assessed by PI-6 (dimension PI-6.2).

Indicators/ Dimensions	Assessment of performance	2019 Score
<b>PI-3. Revenue outturn (M2)</b>		<b>D</b>
<b>3.1 Aggregate revenue outturn</b>	In 2016, 2017, and 2018, aggregate revenue outturn was 55.0%, 48.1%, and 65.0% of budgeted revenue, respectively. The performance was less than required for a C score.	D
<b>3.2 Revenue composition outturn</b>	Composition variance in revenue collection in the last three years was 75.2%, 66.5%, and 58.0% 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	1.4628	1.3603	1.0224
Outturn	0.8042	0.6544	0.6648
<b>Variance (as a % of original budget)</b>	<b>55.0%</b>	<b>48.1%</b>	<b>65.0%</b>
<b>Composition Variance</b>	<b>75.2%</b>	<b>66.5%</b>	<b>58.0%</b>

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

68. Actual revenue was generally smaller than budgeted revenue (Table 3.7). In 2016, 2017, and 2018, variance of aggregate revenue was 55.0 percent, 48.1 percent, and 65.0 percent. It was caused mainly by the gap of land sales revenues in the GFB. As the revenue outturn was therefore less than 92 percent in each of the last three FYs, the score for this indicator dimension is D.

#### Dimension PI-3.2 Revenue composition outturn

69. In 2016 and 2017, the variance in revenue composition outturn was 75.2 and 66.5 percent, respectively (Table 3.7). In 2018, Hunan Province issued a new policy which allowed Rucheng to sell transferrable land-

use rights to developed regions - a means to mobilize resources to finance its poverty reduction program. This pushed up the land revenue of Rucheng significantly. Because of this new land policy, variance in 2018 fell to 58.0 percent. Score D.



## PILLAR 2: Transparency of public finances

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

### PI-4. Budget classification

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

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

#### Dimension PI-4.1 Budget classification

72. In 2007, the Chinese MOF updated the budget classification 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 updates the budget classification code annually. Prior to 2018, only functional classification and economic classification for budgetary units had been issued, economic classification for the whole government was not issued until 2018. China's budget classification code is largely consistent with international standards (Table 3.8). The main deviation from international standards is the treatment of tax expenditures, which are deducted directly from revenues rather than being recorded as expenditures.

74. GPB formulation, execution, and reporting in Rucheng 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	
Subsidies to individuals and families	Subsidies	Defense	Defense
Subsidies to enterprises and institutions		Public safety	Public order and safety

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

## PI-5. Budget documentation

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<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 quite 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 six applicable additional elements. The missing elements include fiscal deficit forecasts, a complete presentation of macroeconomic assumptions, financial assets information, and an explanation of the budget implications of new policies. Also, no documentation is included on the quantification of tax expenditures. Elements regarding the documentation of deficit financing and medium-term fiscal forecasts are not applicable to the Rucheng County Government.

**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 must be balanced, and deficit financing can 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 FY 2018 budget execution and the FY 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 FY 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 FY 2019.

Item	Included (Y/N)	Source of evidence and comments
<b>Additional elements</b>		
5 Deficit financing, describing its anticipated composition.	NA	The local government receives information on quota of subnational borrowing after the beginning of the FY. The Budget Law stipulates the 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 FY 2018 budget execution and the FY 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 FY 2018 budget execution and the FY 2019 budget draft disclose the amount of contingent liabilities by the end of FY 2018, including 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 (see 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 Rucheng Government does not have any EBUs. But the expenditure of two 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. A number of LGFVs have been undertaking quasi-governmental activities. Although the government doesn't have legislative obligation to bail them out, they still present potential fiscal risk to the government. Since the scoring of this indicator doesn't reflect the reporting on the quasi-fiscal activities, the performance of LGFVs is separately assessed in Annex 7 to complement 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 two public hospitals with extrabudgetary activities. However, all extrabudgetary expenditures were recorded in the financial reports of the Health Bureau in the last three FYs.	A
<b>6.2 Revenue outside financial reports</b>	There are two public hospitals in Rucheng with extrabudgetary activities. However, all extrabudgetary revenues were 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 - supported by a reconciled cash flow statement - are submitted to the SNG annually within one month of the end of the FYs.	A

### Dimension PI-6.1 Expenditure outside financial reports

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

81. The revenue of the public hospitals in Rucheng has three sources, the GPB, the social security funds, and the self-allocated funds, for example in the form of patient fees. The latter are outside the treasury systems and represent the major extrabudgetary operations. It is this portion of revenue that is defined as extrabudgetary revenue. However, all revenues and all expenditures were recorded in the financial reports of the Health Bureau in the last three FYs. Score A.



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

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

### **Dimension PI-6.3 Financial reports of extrabudgetary units**

83. In each assessed year, the Rucheng Government presented the financial report of the 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 of social security funds to the Country Finance Bureau on January 16, 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 Rucheng Government. It considers the system for allocating transfers and whether the lower-level SNGs receive information on their allocations in time to facilitate budget planning. It contains two dimensions. Time period assessed is the last completed FY (2018).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<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 Rucheng, 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 Rucheng. Services managed and financed by other tiers of government were included if Rucheng 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 the Education Bureau and various schools.

89. To assess dimension 8.1, assessors collected PIs for all service delivery programs of the departments, to check whether policy or program objectives, planned outputs, outcomes or activities were specified for each program, service or function, and whether the planned outputs and planned outcomes specified for each indicator are measurable. Dimension 8.2 measures the results (i.e., outputs and outcomes) achieved by the programs and services delivered directly by the SNG and its entities, both budgetary units and EBUs. It covers programs and services funded from all funding sources. For dimension 8.3 and 8.4, according to the scale of resources received by the service delivery units, assessors selected the three largest subnational public service departments, which are the Education Bureau for Compulsory Education, the Sanitary Bureau for Public Health, and the Transportation Bureau for Road Building and Maintenance. All resources received by the 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 of all service delivery units is published annually. 69.37% of expenditures of service delivery units have a framework of PIs relating to outputs or outcomes. That is the majority.	C

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>8.2. Performance achieved for service delivery</b>	All of the 13 largest service delivery departments published the performance achieved in FY 2018 on their websites. Information on the activities performed covered 91.87% of total service delivery expenditure in FY 2018. However, performance achievement measured by quantitative outputs or outcomes covered only 28.39% of total service delivery expenditure.	C
<b>8.3. Resources received by service delivery units</b>	Information on resources received by frontline service delivery units is collected and recorded for the selected service delivery units, disaggregated by the 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 10 percent of the expenditures of the service delivery units in 2017. But no evaluation report was published.	D

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

90. Of the 13 largest departments in Rucheng, some have specified highly detailed and quantified PIs as part of their budget documentation (Table 3.10). 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., the number of students enrolled) and outcomes (e.g., the rate of attendance, national minimum education standards) have been achieved. Nonetheless, all PIs are annually published on the official website of the Rucheng Government: [http://www.rc.gov.cn/zwgk/czys/xczys/content\\_2857335.html](http://www.rc.gov.cn/zwgk/czys/xczys/content_2857335.html)

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

	Name of service delivery department	Total budget expenditure (thousand RMB)	Budget expenditure with performance plans (thousand RMB)	Program objectives specified (Y/N)	Key PIs (Y/N)	PI-8.1 Planned performance	
						Planned outputs (Y/N)	Planned outcomes (Y/N)
1	Education	562,121.9	499,520.0	Y	Y	Y	Y
2	Civil Affairs	77,319.0	16,480.0	Y	Y	Y	Y
3	Housing	13,420.2	8,590.0	Y	Y	Y	Y
4	Science and Information Technology	2,160.8	7,680.0	Y	Y	Y	Y
5	Human Resources and Social Security	28,926.4	18,960.0	Y	Y	Y	Y
6	Transportation	31,868.0	29,580.0	Y	Y	Y	Y
7	Water Resources	39,402.0	16,090.0	Y	Y	Y	Y
8	Agriculture and Rural Affairs	45,376.0	32,260.0	Y	Y	Y	Y

	Name of service delivery department	Total budget expenditure (thousand RMB)	Budget expenditure with performance plans (thousand RMB)	Program objectives specified (Y/N)	Key PIs (Y/N)	PI-8.1 Planned performance	
						Planned outputs (Y/N)	Planned outcomes (Y/N)
9	Forestry	116,547.5	42,340.0	Y	Y	Y	Y
10	Commerce	23,183.8	16,490.0	Y	Y	Y	Y
11	Culture and Tourism	48,506.4	14,580.0	Y	Y	Y	Y
12	Health	169,690.6	106,380.0	Y	Y	Y	Y
13	Natural Resources	25,796.0	12,640.0	Y	Y	Y	Y
<b>Total</b>		<b>1,184,318.6 (a)</b>	<b>821,590.0 (b)</b>				
<b>Percentage</b>			<b>69.37%(b/a)</b>				

Data source: Rucheng Finance Bureau.

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

91. For FY 2018, 13 service delivery departments published performance information on their respective websites. While general information on their performed activities in FY 2018 covered 91.87 percent of total service delivery expenditure, performance achievement measured by quantitative outputs or outcomes only covered 28.39 percent of total service delivery expenditures (Table 3.11). Therefore, the assigned dimension score is C.

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

	Name of service delivery agency	Final accounts (thousand RMB)	Final accounts that meets the requirements (thousand RMB)	% of service delivery expenditures	Actual performance			
					Data on outputs (Y/N)	Data on outcomes (Y/N)	Information on activities (Y/N)	
			508,125.4(x)	90.39 (x/m)	N	N	Y	
1	Education	562,121.9 (m)	562,121.9 (n=x+y+z)	49,531.7(y) (n/m)	100 (y/m)	Y	N	Y
			4,464.8(z)	0.79 (z/m)	Y	Y	Y	
2	Civil Affairs	77,319.0 (a)	4,029.0(b)	5.21(b/a)	Y	Y	Y	
3	Housing and Urban-Rural Development	13,420.2	9,530.2	71.01	N	N	Y	
4	Science and Information Technology	2,160.8	2,160.8	100	Y	N	Y	

	Name of service delivery agency	Final accounts (thousand RMB)	Final accounts that meets the requirements (thousand RMB)	% of service delivery expenditures	Actual performance			
					Data on outputs (Y/N)	Data on outcomes (Y/N)	Information on activities (Y/N)	
5	Human Resources and Social Security	28,926.4	28,926.4	100	54.98	N	N	Y
					45.02	Y	Y	Y
6	Transport	31,868.0	31,868.0	100	28.54	N	N	Y
					71.46	Y	Y	Y
7	Water Resources	39,402.0	35,822.0	90.91		N	N	Y
8	Agricultural	45,376.0	38,776.0	85.45		N	N	Y
9	Forestry	116,547.5	110,457.5	94.77	30.68	N	N	Y
					64.09	Y	N	Y
10	Commerce	23,183.8	20,383.8	87.92		N	N	Y
11	Culture and Tourism	48,506.4	48,506.4	100	90.81	N	N	Y
					9.19	Y	N	Y
12	Health Commission	169,690.6	169,690.6	100	5.04	N	N	Y
					94.96	Y	Y	Y
13	Natural Resource	25,796.0	25,796.0	100		N	N	Y
<b>Total</b>		<b>1,184,318.6 (A)</b>	<b>1,088,068.6(B)</b>					
<b>Percentage</b>			<b>91.87%(B/A)</b>					

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

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

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

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

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

94. The score for this dimension is A.

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

95. Performance evaluations on the efficiency and effectiveness of service delivery have been carried out for several key service delivery units. Independent evaluation is required for performance evaluation. But there is no requirement for publicization. Moreover, the performance results and the performance objectives stated in annual budget documents are not linked, and no explanation is provided for possible deviations.

96. For FY 2017, independent evaluations of the efficiency or effectiveness of service delivery were carried out for less than 10 percent of expenditures of the service delivery units. No evaluation report was publicized. Evaluations of the efficiency or effectiveness of service delivery have not been carried out between 2016 and 2018. Thus, the score is D.

**Table 3.12: Information on program evaluation**

Department	Program or service evaluated	Expenditure with performance evaluation (thousand)	Type of evaluation	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)
Housing and Urban-Rural Development	2017 Urban Village Environmental Sanitation Project	2,440	Independent	Y	Y
<b>Total Expenditure with performance evaluation (A)</b>		<b>2,440</b>			
<b>Total expenditure of 13 service delivery agencies (B)</b>		<b>1,184,318.6</b>			
<b>Percentage(=A/B)</b>		<b>0.21%</b>			

Data source: Rucheng Finance Bureau.

## PI-9. Public access to fiscal information

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

98. In Rucheng, the transparency of public finances is undermined by the fact that some relevant documents are not made publicly available. As shown in Table 3.13, only two basic elements are made available to the public within the specified time frame.

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 Rucheng Government made available to the public two basic elements 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	The budget document for FY 2018 was submitted on December 26, 2017, as mentioned in PI-17.3. It was available to the public on January 16, 2018.	<a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_1702923.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_1702923.html</a>
2	N	The 2018 Budget Law was approved by the People's Congress on December 28, 2017. It was publicized on January 16, 2018.	<a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_1702923.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_1702923.html</a>
3	N	Biannual budget execution reports were produced ,but not published.	
4	Y	The budget execution report for 2017 was publicized on January 16, 2018.	<a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_1702923.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_1702923.html</a>
5	Y	The summarized report for FY 2017 prepared by the Audit Office and discussed in the hearing chaired by the Standing Committee was posted on the county government website on November 5, 2018.	<a href="http://www.rc.gov.cn/sjj/syzs/sjbggg/content_2992379.html">http://www.rc.gov.cn/sjj/syzs/sjbggg/content_2992379.html</a>



Item	Criteria met (Y/N)	Explanation	Source of evidence
<b>Additional elements</b>			
6	N	There was no pre-budget statement.	
7	N	<b>Other external audit reports was not available to the public.</b>	
8	N	The summary of the budget proposal ('citizens' budget') was produced and submitted to the legislature, but was not made available to the public.	

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

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

100. This is a pilot indicator. Rucheng County Government chose not to use this indicator in this assessment.



## PILLAR 3: Management of assets and liabilities

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

### PI-10. Fiscal risk reporting

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

103. 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, there was only one LGFV left in Rucheng, the Rucheng Urban Construction and Development Corporation Ltd.. 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 public corporations</b>	Three out of the ten largest PCs in Rucheng submitted financial reports to the controlling entities within three months after the FY.	D
<b>10.2. Monitoring of SNGs</b>	There are no SNGs within Rucheng.	NA
<b>10.3. Contingent liabilities and other fiscal risks</b>	There are no state insurance schemes and guarantees in Rucheng. 2 out of 8 operating PPP projects active in FY 2018 incurred significant contingent liabilities. They were recorded in the government debt management system and updated and consolidated monthly, but they are not published.	B

### Dimension PI-10.1. Monitoring of PCs

104. In 2018, there were 21 PCs in Rucheng. They were administered directly by the Rucheng County Government (reporting to the Finance Bureau), or by PSUs or GAUs other than the Finance Bureau (see Table 2.12). There is an Enterprises State Assets Management Center under the Finance Bureau which took the responsibility of overseeing the operations of all PCs.

105. Due to the decentralized administration of PCs, monitoring data are difficult to collect, so the assessors adopted a sampling method. The ten largest PCs were identified in terms of assets held by the government (Table 3.14).

106. Rucheng Urban Construction and Development Co. Ltd. is the largest PC in Rucheng. It is an LGFV (referring to PI-10.3) which holds several other large PCs and plays a key role in the financing and implementation of government investment projects in Rucheng. Rucheng Urban Construction and Development Co. Ltd. is invested by Rucheng Urban Construction Investment Management Center, which is a PSU type budgetary unit.

107. For 2018, seven out of the ten largest PCs in Rucheng submitted their financial reports to the government within three months of the end of the year. However, though all these financial reports were audited within four months of the end of the FY, none of the audited financial reports were published. Moreover, no consolidated report was prepared for all PCs.

108. The score is D.

**Table 3.14: Financial reports of PCs**

Ten largest PCs	Held or administered by	Total assets, thousand RMB (Government share)	Percentage of ten largest PCs	Date of audit of the financial report	Date of submitting financial report to govt.
1. Rucheng Hydropower Co. LTD	Rucheng Government	4718504.27(100%)	24.45	2019.4.12	2019.3.13
2. Rucheng Urban Construction Development Co. LTD	Urban Construction And Development Office	6755451.98(63.64%)	35.01	2019.4.20	2019.3.20
3. Rucheng Daping Forest Farm Co. LTD	Rucheng Hydropower Co. LTD	2465630.16(100%)	12.78	2019.4.12	2019.3.13
4. Rucheng Fudayinglin Development Co. LTD	Rucheng Hydropower Co. LTD	861067.88(100%)	4.46	2019.4.12	2019.3.13
5. Rucheng Shunxing Development Co. LTD	State-Owned Asset Center And Economic Development Zone (60%,40%)	824393.62(100%)	4.27	2019.4.26	2019.3.18
6. Rucheng Yijiang Forest Farm Co. LTD	Rucheng Hydropower Co. LTD	770790.18(100%)	3.99	2019.4.12	2019.3.13
7. Rucheng Water Investment Co. LTD	Water Resources Bureau	702767.71(100%)	3.64	N	N
8. Kaiyuan Rucheng Investment Co. LTD	Urban Construction And Development Office	1496304.81(43.48%)	7.75	N	N
9. Rucehng Agricultural Development Co. LTD	Urban Construction And Development Office	589298.37(100%)	3.05	N	N
10. Rucheng Long Hu Dong Reservoir Co. LTD	Rucheng Hydropower Co. LTD	112810.06(100%)	0.58	2019.4.12	2019.3.13

Data source: Rucheng Bureau of Finance

## Dimension PI-10.2. Monitoring of SNGs

109. Within Rucheng County, there are 14 townships. The township governments are treated as

deconcentrated budgetary units in Rucheng, so there are no SNGs. This dimension is NA.

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

110. 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.

111. More 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.

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

113. In 2018, there were eight PPP projects active in Rucheng. The estimated annual fiscal expenditures during the operation period of the project were between 0.11% and 1.78% of the GPB expenditure of the same year. Accordingly, two PPP projects were incurring significant contingent liabilities. These were recorded in the debt management system. The data were updated and consolidated monthly by the PPP centre, but not published.

114. The score is B.

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

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

Data source: Rucheng Finance Bureau.

## PI-11. Public investment management

115. 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 Rucheng Government participates in the selection process and is in charge of their implementation. The time period assessed is the last completed FY (2018).

116. For the purpose of this indicator, ‘major investment projects’ are defined as the ten largest projects of the Rucheng Government by total investment cost.

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, are reviewed by a third party (DRB); but they are not published.	C
<b>11.2 Investment project selection</b>	Rucheng County Major Investment Management Center is responsible for selecting projects and making proposals to the County Committee. But no clear criteria are applied during project selection.	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 part of the major investment projects are monitored monthly throughout project duration by the Rucheng DRB. Information on the implementation of ‘major investment projects’ is prepared annually but not published.	D

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

117. Rucheng County produced the Rucheng Government Investment Project Management Interim Method in 2017 which provides guidance on the application, approval, and implementation of government investment projects. According to these Methods, a feasibility study report shall be prepared for all projects and be reviewed by the DRB. In practice, all feasibility study reports are produced according to the Outline of Contents for the Preparation of Feasibility Study Reports (NDRC, 2012, Standard Edition). Economic analyses are included in the feasibility study reports, but the reports are not published (Table 3.16). Therefore, the economic analysis of investment proposals in Rucheng meets the criteria for a C score.

### Dimension PI-11.2. Investment project selection

118. The Major Investment Projects Management Center (MIPMO) is responsible for selecting the major investing projects for the current year and making proposals to the County Committee. However, no clear criteria are applied during project selection. The score is C.

### Dimension PI-11.3. Investment project costing

119. In Rucheng, information about the capital costs of some investment projects is included in the investment plan submitted to the Rucheng People's Congress, but not together with the budget documents (Table 3.16). Therefore, investment project costing in Rucheng receives a D score.

**Table 3.16: Investment project costing and monitoring of the five largest major investment projects in FY 2018**

10 largest major investment projects	Data for PI-11.3 Investment project costing			Data for PI-11.4 Investment project monitoring				
	Life cycle cost in budget documents (Y/N)	Capital cost breakdown in budget documents (Annual/Three-year)	Recurrent costs included in budget documents (Annual/Three-year)	Monitoring of total cost (Y/N)	Physical progress monitoring (Y/N)	Standard rules and procedures exist (Y/N)	High level of compliance with procedures (Y/N)	Information on total cost and physical progress published annually (Y/N)
Rucheng Tungsten Mine Water, Power, Heating Supply and Property Management Infrastructure (Phase I) Project	N	-	-	Y	Y	Y	Y	N
Heping Road public rental housing construction project	N	-	-	N	N	N	N	N
Rucheng Diqi High School Primary School Building Construction Project	N	-	-	N	N	N	N	N
'One Heart And Two Wings' Nuanshui Town Environmental Renovation Construction Project	N	-	-	N	N	N	N	N
Rural Environmental Improvement Project	N	-	-	N	N	N	N	N
Construction Project of the Comprehensive Building of the Primary Department Of Lingxiu School in Civilized Yao Nationality Township	N	-	-	N	N	N	N	N
Tuqiao Town Central Primary School Canteen and Teachers' House Construction Project	N	-	-	N	N	N	N	N
Comprehensive Service Platform Construction Project	N	-	-	N	N	N	N	N

10 largest major investment projects	Data for PI-11.3 Investment project costing			Data for PI-11.4 Investment project monitoring				
	Life cycle cost in budget documents (Y/N)	Capital cost breakdown in budget documents (Annual/Three-year)	Recurrent costs included in budget documents (Annual/Three-year)	Monitoring of total cost (Y/N)	Physical progress monitoring (Y/N)	Standard rules and procedures exist (Y/N)	High level of compliance with procedures (Y/N)	Information on total cost and physical progress published annually (Y/N)
Renovation and Expansion Project of the Fuzhen Home	N	-	-	N	N	N	N	N
Cultural Plaza Construction Project	N	-	-	N	N	N	N	N
<b>Total/Coverage</b>								

Data source: Development and Reform Bureau, Rucheng County.

### Dimension PI-11.4. Investment project monitoring

120. In Rucheng, the MIPMO is responsible for the monitoring of major investment projects, and monthly reports on cost and physical progress are submitted by each construction control unit to the Office. However, the assessors found that only one of the sampled ten largest investments projects was monitored. The reports on implementation of the major investment projects have been prepared annually but not published. Investment project monitoring in Rucheng obtains a D score.



## PI-12. Public asset management

122. 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</b>		<b>C</b>
<b>12.1. Financial asset monitoring</b>	The Rucheng Government maintains records of its holdings in all major categories of financial assets (including cash, term deposits, account receivables, leases, equity). The information is not available to the public.	C
<b>12.2. Non-financial asset monitoring</b>	The Rucheng Government maintains a register of its holdings of fixed assets, including information on their usage and age. Registers of land and mineral resources are also maintained. But information on non-financial assets is not made available to the public.	C
<b>12.3. Transparency of asset disposal</b>	Procedures and rules for the disposal of financial and non-financial assets are established. Partial information on asset disposal is included in the state-owned assets management report.	C

### Dimension PI-12.1. Financial asset monitoring

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

124. The Rucheng Finance Bureau compiled The Summary Table of the Department's Final Balance in 2018 and The Leases Table of State-owned Assets of GAUs in 2018, where balances of cash, term deposits, receivables, and leases were recorded. The Enterprises State Assets Management 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 Rucheng Government maintains records for its holdings in all categories of financial assets. However, the information is not available to the public (Table 3.17).

125. Financial asset monitoring in Rucheng receives a C score.

**Table 3.17: Financial asset monitoring – check list of record of holdings**

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

Data source: *Summary Table of the Department's Final Balance in 2018; Leases Table of State-Owned Assets of GAUs in 2018*; statistics with basic information of SOEs, Rucheng County.

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

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

127. The Rucheng Finance Bureau has an infrastructure asset register which covers intangible assets, land, and fixed assets (such as office buildings, economic affordable housing, roads and bridges, urban facilities, vehicles, and other machinery and equipment), where detailed records including on usage and age are kept.

128. The Rucheng Finance Bureau does not keep information on natural resources other than land, but relevant records are maintained in other departments, e.g.the records on reserves of mineral resources are kept by the Rucheng Natural Resources Department, including their amounts and market value. The information for the abovementioned natural resources is not disclosed to the public. There is no information about water resources and forest resources.

129. Therefore, the Rucheng Government maintains records of its holdings of fixed assets, including their usage and age, on land and on mineral resources, but the information is not available to the public. This meets the criteria for a C score.

**Table 3.18: Non-financial asset monitoring – check list of record of holdings**

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

Data source: Infrastructure Asset registers.

## Dimension PI-12.3. Transparency of asset disposal

130. Rucheng County manages the disposal of financial assets (current assets) and non-financial assets (fixed assets and intangible assets) according to the Interim Measures for the Disposal of State-Owned Assets of Hunan Province in 2008, *the Interim Management of State-Owned Assets of GAUs* issued by the MOF in 2006 (MOF Decree, No.35), and *the Interim Management of State-Owned Assets of PSUs* issued by the MOF in 2006 (MOF Decree,,No.36). For FY 2018, Rucheng Government prepared a special report analyzing the disposal and transfer of its fixed assets, which was not submitted to the People’s Congress.

131. Transparency of asset disposal and transfer in Rucheng meets the criteria for a C score.

**Table 3.19: 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	Partial	Y	N

Data source: Rucheng Finance Bureau.

## PI-13. Debt management

132. This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. For assessment of this indicator, both budgetary units and EBUs of the SNG were included. The time period assessed 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 Rucheng Finance Bureau is the responsible debt management entity and is authorized to borrow on behalf of the county government and monitor the financing transactions according to the debt management rules. Annual borrowing is approved by the Rucheng 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 or refinancing alternatives.	D

Data source: Rucheng Finance Bureau.

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

133. 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).

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

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

**Table 3.20: 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: Rucheng Finance Bureau.

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

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

137. Rucheng County has published the Government Debt Management Methods of Rucheng 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 the use of debt proceeds.

138. Evidence shows that the Budget Law and the above Methods have been strictly adhered to. The borrowing amount of Rucheng 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 3.21: Approval of debt and guarantees, FY 2018**

Primary legislation exists (Y/N; Name of Act)	Documented policies and guidance (Y/N, Name of regulation/policy)		Debt management responsibility (Y/N; Name and location of unit)		Annual borrowing approved by government or legislature (Y/N, specify last date of approval)
	Guidance to single debt management entity	Guidance to several entities	Authorization of debt granted to single responsible entity	Transactions reported to and monitored only by single responsible entity	
Budget Law of the PRC	Y (Government Debt Management Methods of Rucheng County)	N	Y (Debt Division of Finance Bureau)	Y (Debt Division of Finance Bureau)	Y (December 27, 2018)

Data source: Rucheng Finance Bureau.

### Dimension PI-13.3. Debt management strategy

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



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

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

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

141. 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, and some key demographic and macroeconomic indicators, but the referred data are not submitted to the legislature. There is no evidence that the government's fiscal strategy or sectoral strategies are considered or that estimates of revenue and expenditure for the two following FYs are prepared.	C
<b>14.2. Fiscal impact of policy proposals</b>	No estimates about the fiscal impacts of policy changes have been conducted.	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

142. According to a number of reference documents for budget preparation, the budget for FY 2019 in Rucheng has been prepared on basis of the following information:

- A table from Rucheng Finance Bureau depicting the changes in tax revenue arrangements among the CG, provincial, and county governments for FYs 2010-2018.
- The FY 2018 report on tax sources from Rucheng Finance Bureau.
- A table from Rucheng Finance Bureau containing the fiscal revenue and expenditure data of Rucheng County for FYs 2010-2018.
- The report on government debt of Rucheng County prepared by Rucheng Finance Bureau in 2018.
- The implementation plan for the new-round township financial management system in Rucheng County issued by Rucheng Finance Bureau in 2017.

- The allocation table for balanced current funds under the sixth-round township financial management system prepared by Rucheng Finance Bureau in 2017.
- The three-year action plan for improving fiscal revenue quality issued by Rucheng Finance Bureau in 2017.
- The 13<sup>th</sup> Five-Year Plan of Rucheng County prepared by Rucheng DRB, which sets the rough overall targets for fiscal revenue, expenditure and other indicators for FYs 2016 to 2020.
- The statistical bulletin on the 2018 economic and social development of Rucheng County prepared by the Rucheng DRB.
- Macroeconomic data prepared by the Rucheng DRB and the Rucheng Bureau of Statistics.
- Key demographic indicators prepared by the Rucheng Bureau of Statistics.

143. Inflation and interest rates were not considered in preparation of the FY 2019 budget. It has not referred to the fiscal strategy or any sectoral strategy, and estimates of revenue and expenditure for the two following FYs have not been prepared.

144. Preparation of the budget in Rucheng meets the criteria for a C score.

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

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

146. During the budget preparation process for FY 2019, Rucheng did not provide estimates for the fiscal impacts of policy changes. Moreover, the list of policy changes has not been provided to the assessors. The score is D.

**Table 3.22: 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, Rucheng Finance Bureau.

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

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

**Table 3.23: Medium-term expenditure estimates**

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

Data source: Interview, Rucheng Finance Bureau.

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

148. No medium-term expenditure and revenue estimates are prepared, so this dimension is NA.



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

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

## PI-17. Budget preparation process

150. 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 submitted (2019) 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 and is generally adhered to. Date of issuance of the FY 2019 budget circular was October, 18 2018. The deadline for submission of estimates was November 30, 2018. Six weeks were provided to allow budgetary units to meaningfully complete their detailed estimates on time.	A
<b>17.2 Guidance on budget preparation</b>	The budget circular covers total budget expenditure for the full FY. The approved expenditure ceilings were provided on November 20, 2018, after the circular's distribution to the budgetary units, but before budgetary units completed their submission on November 30, 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

151. In accordance with a predetermined calendar, budget preparation in Rucheng follows a clear annual process, requiring the orderly and timely engagement of all parties. The government issues two budget circulars. The first circular requests the budgetary units to prepare their budget proposals and submit them 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, notifies the budgetary units of their respective budgets.

152. The annual budget calendar is generally adhered to. The date of the FY 2019 first budget circular was October 18, 2018 (Table 3.24). The deadline for the first submission of budget estimates was set for November 30, 2018. This means that budgetary units were given more than six weeks from receipt of the budget circular to submission of the estimates. All budgetary units were able to meaningfully complete their estimates on time.

**Table 3.24: 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	2018.10.18	2018.11.30	Covering total expenditure for the full FY	100%	2018.11.20	NA

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

### Dimension PI-17.2. Guidance on budget preparation

153. Before budgets are prepared, clear guidance on the budget process is provided. This includes information on the expenditure ceilings covering total budget expenditure for the full FY as approved by the Rucheng Government. For the FY 2019, the expenditure ceilings were provided on November 20, 2018, after the circular had been distributed to the budgetary units, but before budgetary units completed their submission on November 30, 2018. The score is B.

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

154. 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.

155. C score requires that the executive submitted the annual budget proposal to the subnational legislature at least one month before the start of the FY in two of the last three FYs. In Rucheng, only in one of the three assessed years, the submission took place one month before the start of the FYs (Table 3.25). Thus, the score is D.

**Table 3.25: Budget submission to legislature**

Budget of FY	Date of submission of budget proposal
2017	November 26, 2016
2018	December 26, 2017
2019	December 05, 2018

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

## PI-18. Legislative scrutiny of budgets

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-18. Legislative scrutiny of budgets (M1)</b>		<b>C+</b>
<b>18.1. Scope of budget scrutiny</b>	Budget scrutiny by the Rucheng 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 PRC and the Interim Methods for Budget Examination and Supervision of the Standing Committee of the Rucheng County 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. However, no evidence is available to show that the public consultation arrangements have been followed.	B
<b>18.3. Timing of budget approval</b>	In two of the last three FYs, the county legislature approved the annual budget proposal before the start of the FY. The delay in the third year did not exceed one month.	B
<b>18.4. Rules for budget adjustments by the executive</b>	Clear rules about budget adjustments exist and were adhered to in the majority of instances.	C

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

157. The legislature in Rucheng 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 (Table 3.26). The assessors collected evidence about the scrutiny procedure, like the agenda, the minutes, and resolutions of the plenary meeting of the County People's Congress, as well as the budget documents presented in the plenary, including a report on the scrutiny.

158. The scope of budget scrutiny in Rucheng meets the criteria for a B score.

**Table 3.26: 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: Rucheng Finance Bureau.

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

159. The budget review procedure of the legislature was stipulated in the 2014 Budget Law and the 2013 Interim Methods for Budget Examination and Supervision of the Standing Committee of the Rucheng County People's Congress. In accordance with the provisions of this Law and these Methods, prior to the meeting of the County People's Congress to scrutinize the budget proposal, the Standing Committee of the County People's Congress shall conduct a preliminary scrutiny, and the representatives to the People's Congress be organized in various forms to hear the views of voters and all sectors of society. During the plenary meeting of the County People's Congress, the County Government shall report to the People's Congress on the budget proposal, then the Standing Committee of the People's Congress shall report to the presidium the findings of the preliminary scrutiny of the budget proposal. After that, the People's Congress may approve the budget proposal. The above Law and Methods also stipulate in detail the contents of the Standing Committee's scrutiny of the budget proposal and the key points that the People's Congress shall pay attention to in budget scrutiny.

160. Evidence shows that organizational arrangements have been strictly complied with in Rucheng. According to the description of the staff of the Rucheng County People's Congress, the public consultation arrangements have been followed. However, no evidence about the public consultation is presented to the assessors. The legislative procedures for budget scrutiny in Rucheng meet the criteria for a B score.

**Table 3.27: Legislative procedures for budget scrutiny**

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

Data source: Rucheng County People's Congress.

## Dimension PI-18.3. Timing of budget approval

161. As shown in Table 3.28, in 2016, 2017, and 2018, the annual budget proposals were approved by the Rucheng People's Congress on January 21, 2016, November 29, 2016, and December 28, 2017 respectively. China's FY begins on January 1. Therefore, in two of the last three FYs, the county legislature approved the annual budget proposal before the start of the FY. The delay in the third year did not exceed one month. The timing of budget approval in Rucheng meets the criteria for a B score.

**Table 3.28: Timing of budget approval**

Budget for FY	Date of budget approval
2016	January 21, 2016
2017	November 29, 2016
2018	December 28, 2017

Data source: Rucheng County People's Congress.

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

162. 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.

163. In 2018, the Rucheng People's Congress officially approved the budget adjustment on December 21, which covered the bonds on-lent by Hunan Province and part of the earmarked transfers. About 57.7 percent of all budget adjustments did go through the approval procedures of the legislature. This accounted for about 27.4 percent of the actually executed expenditure.

**Table 3.29: Budget adjustments in Rucheng for the 2018 FY (thousand RMB)**

Item		GPB (D)	GFB (E)	Total ( D + E )	
Budget adjustments	In accordance with rules	Earmarked transfers	716,810.0	24,800.0	741,610.0
		Bonds, on-lending	95,000	74,000.0	169,000.0
		Subtotal (A)	811,810.0	98,800.0	910,610.0
	Not in accordance with rules	Tax rebate			0
		General transfer	154,170.0		154,170.0
		Carry-over from last year	53,120.0	1,320.0	54,440.0
		Transferred-in from other budgets	417,990.0		417,990.0
		Other		-137,200.0	137,200.0
	Expenditure in adjusted budget		3136,410.0	198,680.0	3335,090.0
	Expenditure in originally approved budget		1702,060.0	343,680.0	2045,740.0
Total budget adjustment (B)		1434,350.0	-145,000.0	1579,350.0	
Actually executed expenditure (C)		3130,000.0	198,260.0	3328,260.0	
<b>Actual amount of reallocations in accordance with rules (% of BCG budget) (A/C)</b>			27.4		
<b>Extent of adherence to rules (A/B)</b>			57.7		

Data source: Rucheng Finance Bureau.

164. Therefore, clear rules exist. They were adhered to in some instances. The rules for budget adjustments by the executive in Rucheng thus meet the criteria for a C score.

**Table 3.30: Rules for budget adjustments**

Clear rules exist (Y/N)	Rule include strict limits (extent and value)	Actual amount of reallocations in accordance with rules (% of BCG budget)	Extent of adherence to rules (All, most, some)
Y	Y	27.4	Majority

Data source: Rucheng Finance Bureau.



## PILLAR 5: Predictability and control in budget execution

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

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

166. 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.

167. 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 many small revenue-generating taxes would overly complicate the assessment process.

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

169. 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 the 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 government. 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 Rucheng'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.

170. 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 taxes (corporate income tax and individual income tax) and major indirect tax (VAT) - have been administrated and collected by the State Tax Administration and its subordinate entities at provincial and county level. Governments at county level are not authorized to administrate and collect these core taxes.	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

171. 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 Finance Bureau obtains revenue data from the departments responsible for collecting fiscal revenue (the Taxation Bureau and the Non-Tax Revenue Administration) and compiles a monthly unified income completion statement which details the monthly completion and cumulative completion for each revenue type.	A
<b>20.2. Transfer of revenue collections</b>	All tax revenues are transferred to the Rucheng 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 NA to Rucheng County.	NA

### Dimension PI-20.1 Information on revenue collections

172. Referring to PI-19, fiscal revenues in Rucheng include tax revenues and non-tax revenues. Tax revenues are collected by the Rucheng 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 Rucheng County. The non-tax revenues are collected by the Non-Tax Revenue Office under the Rucheng Finance Bureau, all of which will accrue to Rucheng County.

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

### Dimension PI-20.2 Transfer of revenue collections

174. Rucheng set up the TSA system in 2009, which is composed of the Rucheng County Treasury and eight special accounts: the non-tax income settlement account, the social security account, the food risk fund account, the escrow funds account, the ear-marked education transfer account, the agricultural subsidy account, the debt service reserve account and the non-tax income management account which actually manages education funding.

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



**Table 3.31: Accounting for revenue of FY 2019**

Entity	Revenue and % of Total CG Revenue		Data collected by the MOF			Revenue collections deposited		Reconciliation	
	Revenue type (million RMB)	% of Total	At least monthly (Y/N) - entered into IFMIS	By revenue type (Y/N)	Consolidated report (Y/N) – prepared by IFMIS	Fre-quency	To Treasury Account	Fre-quency	Within
<b>Revenue collected by budgetary units</b>									
Rucheng Tax Bureau	Tax (325.01)	20.81%	Y	Y	Y	Daily	Treasury Account	Daily	
Rucheng Tax Bureau	Non-tax (20.62)	1.32%	Y	Y	Y	Daily	Treasury Account	Daily	
Rucheng Finance Bureau	Non-tax (1,215.87)	77.87%	Y	Y	Y	Daily	Special Financial Account	Daily	
<b>Sub-total</b>	<b>156,150</b>	<b>100</b>							
<b>Revenues collected by EBUs: none</b>									

Data source: Rucheng Finance Bureau.

### Dimension PI-20.3 Tax accounts reconciliation

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

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

177. 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 Rucheng Finance Bureau obtains a daily balance report from the Treasury, while the balances of special accounts are consolidated monthly. Most cash balances are therefore consolidated on a monthly basis, the balance of the Treasury that is consolidated daily accounting for 12% of all bank balances.	C
<b>21.2. Cash forecasting and monitoring</b>	The Rucheng Finance Bureau has not conducted cashflow forecasting and monitoring for the fiscal year.	D
<b>21.3. Information on commitment ceilings</b>	Payment can be made within the approved budget, but expenditure commitment ceilings for budgetary units are not effectively applied.	D
<b>21.4. Significance of in-year budget adjustments</b>	Significant in-year budget adjustments are frequent. They are partially transparent.	C

### Dimension PI-21.1 Consolidation of cash balances

178. The TSA system set up in Rucheng in 2009 covers all accounts of the budgetary units, but it involves a number of bank accounts. The Treasury account is opened at the Rucheng branch of the People’s Bank of China (PBOC); the non-tax settlement account is opened at the Hunan Rucheng Rural Commercial Bank, the China Post Savings Bank, the Agricultural Bank of China, the China Construction Bank, the Huarong Xiangjiang Bank, and the Bank of Changsha; the food risk fund account is opened at the Agricultural Development Bank of China; the specially established account at the Agricultural Bank of China; the escrow funds account and the agricultural subsidy account at the Hunan Rucheng Rural Commercial Bank; the debt service reserve account at the Huarong Xiangjiang Bank; and the non-tax income management account is opened at the China Construction Bank. While the PBOC is China’s central bank, all the other banks are commercial banks.

179. The Rucheng Treasury, managed by the Rucheng branch of the PBOC, provides a daily balance report to the Treasury Office of the Rucheng Finance Bureau (Table 3.32). The balances of the special accounts at the commercial banks are consolidated monthly. As the balance of the Treasury that is consolidated daily accounts for 12 percent of all the bank balances, the majority of bank balances is consolidated monthly (Table 3.33). The score is C.

**Table 3.32: Consolidation of bank and cash balances in Rucheng (summary)**

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

Data source: Rucheng Finance Bureau.

**Table 3.33: Consolidation of bank and cash balances in Rucheng (by accounts)**

Account	Frequency of consolidation	Time	Amount (thousand RMB)
Treasury	Daily (A)	2019 average	93,419.48
	Monthly	2019.Jan.	756,310.0
	Monthly	2019..Feb.	688,860.0
	Monthly	2019.Mar.	623,070.0
	Monthly	2019.Apr.	640,990.0
	Monthly	2019.May	682,520.0
	Monthly	2019.Jun	554,990.0
Special accounts	Monthly	2019.Jul.	585,030.0
	Monthly	2019.Aug.	723,510.0
	Monthly	2019.Sep.	672,290.0
	Monthly	2019.Oct.	709,660.0
	Monthly	2019.Nov.	908,880.0
	Monthly	2019.Dec,	877,070.0
	Average (B)		701,931.667
Percentage of daily consolidated bank balance(A/A+B)			12%

Data source: Rucheng Finance Bureau.

### Dimension PI-21.2 Cash forecasting and monitoring

180. In Rucheng, the Treasury Division under Finance Bureau conducts monthly forecasting on tax revenue, non-tax revenue, and overall GPB expenditure. However, no cashflow forecasting for the fiscal year has been conducted. The score for cash forecasting and monitoring is D.

### Dimension PI-21.3 Information on commitment ceilings

181. The budgetary units can make payments within the approved budget, but there is no monitoring of commitment. Though monthly payment plans should be submitted and approved in advance, the actual expenditures frequently differ from the planned expenditures (according to the payment application records provided by the Treasury Division under the Finance Bureau).

182. In Rucheng, the originally approved budget expenditure accounted for 76 percent, 83 percent, and 82 percent of the actually executed expenditure in 2016, 2017, and 2018 respectively, for the GPB and GFB. As expenditure ceilings for the budgetary units are not effectively applied, the score is D.

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

183. In Rucheng, 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 the Rucheng People's Congress on October 31. Therefore, significant in-year budget adjustments to budget allocations are frequent, and they are partially transparent. The score is C.

## PI-22. Expenditure arrears

184. 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 the following 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 Rucheng County has not set up a monitoring system for expenditure arrears. Data on the stock of arrears for FYs 2016-2018 are not available.	D*
<b>22.2. Expenditure arrears monitoring</b>	There is no monitoring system for expenditure arrears in Rucheng county.	D

### Dimension PI-22.1 Stock of expenditure arrears

185. Since there is no expenditure arrears monitoring system in Rucheng (see 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

186. The Payment Center under the Rucheng Finance Bureau makes payments upon request of the budgetary units. Although budgetary units can only apply for payments within the approved budget, as there is no effective expenditure commitment control (see PI-25.2), expenditure commitments may occur before approval of the budget, and if not settled timely, 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. Therefore, expenditure arrears are not identified or monitored. The score is D.

## PI-23. Payroll controls

187. 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 Rucheng budgetary units and EBUs.

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 linked to each other through the documents approved. The Centralized Wage Payment Centre reconciles and compares the data of wages with the personnel database whenever changes are made to the latter. This 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. But there are retroactive adjustments, with total amount equivalent to 14.9 percent of total payroll.	C
<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 the integrity of data.	A
<b>23.4. Payroll audit</b>	Payroll audits were undertaken partially within the last three completed FYs.	C

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

188. In Rucheng, the budgetary units are responsible for editing the payment records of wages of the personnel hired, while the right of reviewing and checking those records is centrally handled by the Centralized Wage Payment Center under the Finance Bureau. This is different from other counties. The payroll is generated and maintained through a personnel information management system at the Human Resource and Social Security Bureau, the authority in charge of personnel affairs.

189. 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 (Table 3.34). In case there are vacant positions, a budgetary unit can recruit new staff members according to established procedures and upon approval of the Organization Department, the Government Employee Staffing Office, and the Human Resources and Social Security Bureau.

190. Once the information of new staff is checked and entered into the personnel database at the Human Resources and Social Security Bureau, the wage payment is initiated based on the standards and personal information. The budgetary units will then enter the wage into the payment system after it has been checked by the Centralized Wage Payment Center. Any changes to the personal information of the staff, such as promotion, leave or change in wage level, can be recorded and traced in the personnel information

management system and will be compared with changes of wages made by the Centralized Wage Payment Centre, in order to ensure data consistency.

191. As staff hiring and promotion is strictly controlled by the staffing quota and the approved staff list, personnel records and payroll are linked to each other through the documents approved by the relative units, and reconciled at least monthly before payoff. Budget control and data consistency are therefore ensured. Score A.

**Table 3.34: Payroll controls**

Function	Y/N	By whom	Frequency (if applicable)
Hiring and promotion checked against approved staff list	Y	Organization Department, Government Employee Staffing Offices, Human Resources and Social Security Bureau	Once hiring and promotion take place.
Reconciliation of payroll and personnel database	Y	Organization Department, Human Resources and Social Security Bureau, and budgetary units	Reconciliation in real time, according to the documents approved.
Documentation maintained for payroll changes	Y	Organization Department, Human Resources and Social Security Bureau, and Centralized Wage Payment Centre under Finance Bureau	Permanent maintenance by all the relative units.
Payroll checked and reviewed for variances from last payroll	Y	Organization Department, 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	Government Employee Staffing Office, Organization Department, Human Resources and Social Security Bureau, and Centralized Wage Payment Centre under Finance Bureau	Once personnel records and payroll updates take place.
Updates include validation with approved staff list.	Y	Government Employee Staffing Office, Organization Department, and Human Resources and Social Security Bureau	Once personnel records and payroll updates take place.
Audit trail of internal controls	Y	Centralized Wage Payment Centre under Finance Bureau	Once payroll variance occurs.
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 each year.

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

### Dimension PI-23.2 Management of payroll changes

192. Upon completion of the necessary approval procedures, changes to the personnel records are manually entered into the personnel information management system by staff of the Human Resource and Social Security Bureau together with the supporting documents. A new payroll will be generated accordingly and recorded in the payment system by the budgetary units with the approval of the Centralized Wage Payment Centre.

193. Retroactive adjustments occur when the promotion of a staff member is not accurately captured, that is, if the approval procedures are not completed within the current month and payment of the increased wage is therefore postponed. In 2019, the amount of retroactively adjusted wage payments accounted for 14.9 percent of total wage expenditure, which was less than 25 percent. The score thus is C.

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

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

195. The Centralized Wage Payment Center is then checking the wages through the wage payment system, according to the payroll determined by the Human Resources and Social Security Bureau. Only if the wages have been approved by the Center, the budgetary units can confirm the records in the system. In other words, recording and review of payrolls are assigned to different units. The Finance Bureau itself implements post separation with regard to the record of payrolls, review of payrolls, the approval of payment, and the execution of payment.

196. In the wage payment system, the authority of approval is limited, each post is assigned a separate password, and all operations can be traced.

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

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

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

199. The Rucheng Audit Office does not conduct general payroll audits. Payroll audits are conducted to a certain extent by the internal auditors, together with the revenue and expenditure audits and the economic responsibility audits. However, the Rucheng Audit Office has conducted audits on the Centralized Wage Payment Centre as part of the financial audit. They have covered the segregation of duties, payment procedures, etc. Payroll audits between 2016-2018 were undertaken partially. The score is C.



## PI-24. Procurement

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

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

### Dimension PI-24.1 Procurement monitoring

201. 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.

202. In Rucheng, 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 3.35).

**Table 3.35: Responsible agencies for procurement**

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

203. The responsible agencies for contract data recording and maintenance and consequently for the relevant records are presented in Table 3.36.

**Table 3.36: Responsible agencies for procurement contract data recording and maintenance**

Contract Value	Works: >= RMB 0.5 million Goods: >= RMB 0.2 million Services: >= RMB 0.2 million	Works: < RMB 0.5 million Goods: < RMB 0.2 million Services: < RMB 0.2 million
Procurement following the Tendering and Bidding Law	Complete records are maintained by the Rucheng Tendering and Bidding Supervision and Administration Office under the Rucheng DRB.	N/A.
Procurement following the Government Procurement Law	Complete records are maintained by the Rucheng Government Procurement Supervision and Administration Office under the Rucheng Finance Bureau in a system called Local Government Procurement Information Statistics Management System. This system is replaced by a new system called the Financial Integration Information System of Hunan which came into operation on November 1, 2019.	The contract data are not recorded and maintained centrally by any supervision agency or office.

204. As indicated in Tables 3.38 and 51, for contracts with a contract value less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services, contract data are not recorded and maintained centrally by any supervision agency or office.

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

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

207. Since contract data for small contracts (with a contract value less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services) are not available, and there is no sound document to help assess 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

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

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

**Table 3.37: Procurement methods and corresponding value**

Procurement method	Total value of procurement (ten thousand RMB )	Total value of contracts procured through non-competitive method (ten thousand RMB)
Procurement following the Tendering and Bidding Law	51,620.88	Nil
Procurement following the Government Procurement Law	51,775.53	3,243.35

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

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

Total value of procurement (10,000RMB)	Total value of contracts procured through non-competitive method (10,000RMB)	Total value of contracts procured through competitive method (10,000RMB)	Percentage of competitive method by value
(1)	(2)	(3)	(3)/(1)x100%
103,396.41	3,243.35	100,153.06	96.9

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

210. 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.

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

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

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

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

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

213. The findings for each type of information are summarized in Table 3.39.

**Table 3.39: Public access to procurement information**

Type of procurement information	Findings	Public access
Legal and regulatory framework for procurement	Both the Tendering and Bidding Law and the Government Procurement Law as well as relevant implementation regulations issued by the government at central, provincial, and prefectural levels are publicly available on various websites of the government.	Yes
Government procurement plans	Government procurement plans are not disclosed publicly.	No
Bidding opportunities	<p>For procurement following the Tendering and Bidding Law, the bidding opportunities are published on the website of the Hunan Provincial Tendering and Bidding Supervision (<a href="http://www.bidding.hunan.gov.cn">http://www.bidding.hunan.gov.cn</a>, with the new website <a href="http://218.76.24.90/flow">http://218.76.24.90/flow</a> effective since December 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>).</p> <p>For procurement following the Government Procurement Law, the bidding opportunities for contracts with a value of not less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services are published on the website of 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 value of less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services, the bidding opportunities are not disclosed to the public.</p>	No (The public has no access to information of small value contracts.)
Contract award (purpose, contractor, value)	<p>For procurement following the Tendering and Bidding Law, contract award information is published on the website of the Hunan Provincial Tendering and Bidding Supervision (<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 since December 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>).</p> <p>For procurement following the Government Procurement Law, contract award information for contracts with a value of not less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services is published on the website of 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 value of less than 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services, contract award information is not disclosed to the public.</p>	No (The public has no access to information of small value contracts.)
Data on resolution of procurement complaints	<p>For procurement following the Tendering and Bidding Law, information on the resolution of procurement complaints is only issued to the client and the bidder. The information is not disclosed to the public.</p> <p>For procurement following the Government Procurement Law, information on the resolution of procurement complaints is disclosed to the public on the website of Hunan Provincial Government Procurement (<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. For example, for Rucheng, it can be found at <a href="http://www.ccgp-hunan.gov.cn/page/content/more_city.jsp?column_code=6&amp;area_id=86">http://www.ccgp-hunan.gov.cn/page/content/more_city.jsp?column_code=6&amp;area_id=86</a>.</p>	No (The public has access only to information of procurement following the Government Procurement Law.)

Type of procurement information	Findings	Public access
Annual procurement statistics	<p>For procurement following the Tendering and Bidding Law, the Rucheng Tendering and Bidding Supervision and Administration Office under the Rucheng DRB keeps complete data but the data are not publicly disclosed.</p> <p>For procurement following the Government Procurement Law: For contracts with a value of not less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services, the Rucheng Government Procurement Supervision and Administration Office under the Rucheng Finance Bureau used to maintain complete data in a system called Local Government Procurement Information Statistics Management System. The system has been replaced by a new system called the Financial Integration Information System of Hunan which came into operation on November 1, 2019. However, the data are only accessible to the Hunan Provincial Department of Finance, the Chenzhou Prefectural Finance Bureau, and the Rucheng Finance Bureau. They are not disclosed to the public.</p> <p>For contracts with a value of less than RMB 0.5 million for works, RMB 0.2 million for goods, and RMB 0.2 million for services, contract data are not recorded and maintained centrally by any supervision agency or office. They are not disclosed to the public.</p>	No

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

### Dimension PI-24.4 Procurement complaints management

215. As shown in Table 3.40, the complaint handling system meets all six criteria. The score of A is assigned to this dimension.

**Table 3.40: Procurement complaints management**

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

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

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 the payments are in line with regular payment procedures, and all exceptions are authorized in advance.	A

### Dimension PI-25.1 Segregation of duties

217. The internal control system for non-salary expenditure in Rucheng follows the regulation for post separation of the Treasury Office under the Rucheng Finance Bureau. 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 or operating and accounting are separated from each other.

218. To give an example, according to the Notice on the Affairs of Standardizing the Centralized Payment Operation, Posts, and Responsibilities issued by the Rucheng Finance Bureau in 2012, the following procedures shall be followed before sending a payment order to the bank:

- (a) Issue the budget payment quota to the budgetary units (Budget Division under Finance Bureau).
- (b) Edit the payment schedule by month (Budgetary units).
- (c) Check the monthly payment schedule (Treasury Office at the Finance Bureau).
- (d) Issue the monthly payment schedule (Treasury Office at the Finance Bureau).
- (e) Edit the direct payment application in the centralized payment system (Budgetary units).
- (f) Submit the direct payment application in the centralized payment system (Budgetary units).
- (g) Check and review the direct payment application (Payment Center at the Finance Bureau).
- (h) Send the approved payment order to the bank (Payment Center at the Finance Bureau).

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

220. 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. The Information Office at the Finance Bureau keeps a list of

authorized persons at all stages of the payment process, and the well-designed IT system ensures that nobody can override authorized responsibilities.

221. 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.

222. The score is A.

**Table 3.41: Segregation of duties and commitment controls**

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

Data source: Regulation on post separation of the Treasury Office at the Rucheng Finance Bureau; Notice on the Affairs of Standardizing the Centralized Payment Operation, Posts and Responsibilities of the Treasury Division; Interim provisions of the Administration of Financial Funds of Rucheng County.

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

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

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

224. All payments in Rucheng 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 0.49 percent of total expenditures. However, they were all approved through established procedures.

225. Therefore, all payments are in line with regular payment procedures, and all the exceptions are authorized in advance. The score is A.



## PI-26. Internal audit

226. 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 in the last three completed FYs (2016-2018). Both budgetary units and EBUs of the SNG are covered.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-26. Internal audit (M1)</b>		<b>C+</b>
<b>26.1. Coverage of internal audit</b>	Internal audit is operational for budgetary units representing all of the budget revenues and the majority of budget expenditures.	C
<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 no established quality assurance process, but audit activities meet professional standards, including the adoption of a risk-based approach.	B
<b>26.3. Implementation of internal audits and reporting</b>	The two sampled budgetary units have completed the majority of their annual audit plans, as evidence by the distribution of their reports to the appropriate parties.	C
<b>26.4. Response to internal audits</b>	Management of two sampled departments proactively responded to the auditors' suggestions disclosed in the audit reports within 12 months after the audit reports were issued.	A

### Dimension PI-26.1 Coverage of internal audit

227. 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 units, accounted for 67.8 percent of total budget expenditures in FY 2018 (Table 3.42). The revenues collected by the Rucheng Finance Bureau covered 100 percent of total budget revenues (excluding tax revenue, see PI 20.3) and Rucheng Finance Bureau was subject to internal audit.

228. Therefore, internal audit in Rucheng County covered the majority of budget expenditures and all budget revenues. The score is C.

**Table 3.42: Calculation of the internal audit coverage in terms of expenditures**

No.	Service Delivery Department	Budget expenditure (thousand RMB)	With internal audit office (Y/N)	Expenditure covered by internal audit (thousand RMB)
1	Education	562,121.9	Y	562,121.9
2	Civil affairs	77,319.0	N	0.0
3	Housing	13,420.2	N	0.0
4	Science and information technology	2,160.8	N	0.0
5	Human resources and social security	28,926.4	N	0.0
6	Transportation	31,868.0	N	0.0
7	Water resources	39,402.0	N	0.0
8	Agriculture and rural affairs	45,376.0	N	0.0

No.	Service Delivery Department	Budget expenditure (thousand RMB)	With internal audit office (Y/N)	Expenditure covered by internal audit (thousand RMB)
9	Forestry	116,547.5	N	0.0
10	Commerce	23,183.8	N	0.0
11	Culture and tourism	48,506.4	N	0.0
12	Health	169,690.6	Y	169,690.6
13	Natural resources	25,796.0	N	0.0
	Total	1,184,318.6 (A)		562,121.9(B)
	Percentage			67.8% (=B/A*100%)

Data sources: Rucheng Finance Bureau, Rucheng Audit Office.

**Table 3.43: Calculation of the internal audit coverage in terms of revenues**

Departments responsible for revenue collection with an internal audit office	Amount (billion RMB)	Formula
GPB non-tax revenue	0.11	A
GFB revenue (all are non-tax)	0.24	B
Subtotal	<b>0.35</b>	C=A+B
Finance Bureau (collecting all non-tax revenue)	<b>0.35</b>	D
Internal audit coverage ratio	100%	E=C/D x 100%

Data sources: Rucheng Finance Bureau, Rucheng Audit Office.

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

229. In Rucheng, internal audit covers the Education Department and the Health Department. The internal auditors are required to follow the professional standards issued by the China Institute for Internal Audit. The audit process is outlined in a number of documents, for example, the internal audit work plan of the Rucheng Health Bureau for FY 2019 states clearly the annual audit objectives and provides audit guidance, such as on basis for audit, focus of audit, key points to address during audit, audit methods, and audit scope. The Rucheng Education Bureau entrusted an accounting firm to conduct internal audits in 2019, so audit quality would be guaranteed and high-risk areas focused on.

230. All audit evidence is maintained in the audit files. The internal audit units also prepare a summarized report for their annual audit work every year.

231. In sum, the internal audit function is focused on evaluating the adequacy and effectiveness of internal control at the budgetary units, and the internal audit tasks are conducted in line with professional standards, including the adoption of a risk-based approach. However, a quality assurance process has not yet been established. The score is B.

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

232. The Education Bureau and the Health Bureau prepare an annual internal audit work plan and a summary report of their audit work. As shown in Table 3.45, for FY 2018, the rate of internal audit completion at the two selected bureaus was 73 percent.

233. The score is C.

**Table 3.44: Percentage of completion of internal audit plans**

Departments	Number of planned audit for FY 2018 (A)	Number of completed audits in FY 2018 (B)	Completion rate (=B/A100%)
Education	4	4	100%
Health	7	4	57%
<b>Total</b>	<b>11</b>	<b>8</b>	<b>73%</b>

Data sources: Rucheng Education Bureau, Rucheng Health Bureau.

### Dimension PI-26.4 Response to internal audits

234. After receiving the audit reports, management staff of the Education and Health Bureau required entities with issues disclosed by the internal auditors to take remedial action. In FYs 2016- 2018, the management of both Bureaus paid attention to the audit findings, all necessary actions were taken, and submitted the rectification reports to the internal auditors within twelve months. The score is A.



## PILLAR 6: Accounting and Reporting

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

### PI-27. Financial data integrity

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-27. Financial data integrity (M2)</b>		<b>B</b>
<b>27.1. Bank account reconciliation</b>	Reconciliation of all active government bank accounts is completed within 5 days after the end of each month.	B
<b>27.2. Suspense accounts</b>	There is no suspense account in Rucheng County.	NA
<b>27.3. Advance accounts</b>	There is no advance account in Rucheng County.	NA
<b>27.4. Financial data integrity processes</b>	Access and changes to the financial records are restricted. The network passed the Grade III of the Computer Information System Security Protection Certification, which means an audit trail is in place.	B

#### Dimension PI-27.1 Bank account reconciliation

237. In addition to the TSA, there are eight other types of special bank accounts in Rucheng County: (i) the non-tax settlement account, (ii) the social security account, (iii) the food risk fund account, (iv) the escrow funds account, (v) the specially established account, (vi) the agricultural subsidy account, (vii) the debt service reserve account, and (viii) the non-tax income management account. Except for the TSA, which is opened at the Rucheng branch of the PBOC, the other accounts are opened at different commercial banks. These accounts are reconciled once a month within 5 days after the end of each month. Thus, the score is B.

#### Dimension PI-27.2 Suspense accounts

238. There is no suspense account in Rucheng County.

#### Dimension PI-27.3 Advance accounts

239. There is no advance account in Rucheng County.

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

240. The Golden Finance Project network system, which is being used by the Rucheng Finance Bureau, is

managed by its Financial Information Centre. The head of the Financial Information Centre confirmed that everyone who requests access to the network system needs authentication of their IP address, unit, identity, terminal, and software. Any illegal entry can be detected and rejected by the Information Centre. However, no illegal access to the financial information platform has been detected so far.

241. In addition, each terminal and server has a hardware firewall, network audit machine, and genuine anti-virus software. The financial network passed the third level Computer Information System Security Protection Certification issued by the Public Security Bureau of Chenzhou City, which means an audit trail is in place.

242. Moreover, the information system can connect with all budgetary units so financial data can be shared. But no unit is in charge of verifying financial data integrity, thus the score is B.

## PI-28. In-year budget reports

243. This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow for monitoring of budget performance and, if necessary, timely use of corrective measures. The assessment 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>	There are monthly reports and analyses on budget execution. Coverage and classification of data allow for direct comparison to the original budget. All revenues and expenditures including those from transfers to de-concentrated units within the SNG are included in the in-year budget reports.	A
<b>28.2. Timing of in-year budget reports</b>	There are monthly reports 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 analysis of budget execution. An analysis report is prepared once a month and covers information at all expenditure stages.	B

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

244. In FY 2018, the Rucheng Finance Bureau prepared monthly reports and analyses of budget execution (Table 3.45). Coverage and functional classification of data are comparable to the original budget. All revenues and expenditures including those from transfers to deconcentrated units within the SNG are included in these reports. The score is A.

**Table 3.45: In-year budget reports, FY 2018**

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

Data source: Rucheng Finance Bureau.

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

245. In FY 2018, the Rucheng Finance Bureau prepared the budget execution report 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 reports with exact dates of issuance. This meets the criteria for an A score.

**Table 3.46: 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	4.3	5.5	6.3	7.1	8.2	9.3	10.8	11.4	12.2	2019.1.1

Data source: Rucheng Finance Bureau.

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

246. The in-year budget execution reports for FY 2018 remained unaudited. However, referring to dimension 27.4, the report data were largely consistent and useful for the analysis of budget execution, which, in 2018, was prepared on a monthly basis. 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

247. 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 no information on financial or tangible assets.	C
<b>29.2. Submission of reports for external audit</b>	Budget execution reports 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 are prepared in line with the national standards stipulated by MOF. However, the accounting standards adopted are not disclosed in notes or other parts of the financial reports.	D

248. As of 2015, the MOF initiated a public accounting reform in China and selected county governments were required to prepare accrual basis financial reporting on a pilot basis, but these reports were neither submitted to the People's Congress nor audited by the Audit Office. In 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

249. The budget execution report, which is comparable with the approved budget, is prepared annually by the Finance Bureau (Table 3.47). 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 3.47: 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 17, 2019 (for FY 2018 audit)	3 months

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



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

250. The Finance Bureau has not recorded the dates of submission of its annual financial reports to the Audit Office, but the financial report is usually submitted to the Audit Office in April or May every year. An official from the Treasury Division also confirmed that the Audit Bureau usually required units to be audited to provide their financial statements by the first day the auditors start their field work. In FY 2018, the audit of the financial report started on April 17, 2019, so it can be assumed that the financial report was submitted to the Audit Office no later than April 17, 2019.

251. The annual financial reports of Rucheng County are therefore assumed to have been submitted to the County Audit Office within six months of the end of the FY. The score is B.

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

252. 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 also audited these financial reports during their financial audit, however, no consolidated accrual basis financial reporting was prepared.

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



## PILLAR 7: External Scrutiny and Audit

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

### PI-30. External audit

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-30. External audit (M1)</b>		<b>D+</b>
<b>30.1. Audit coverage</b>	In the past three FYs, the expenditures audited by external auditors accounted for less than 50% of total expenditure.	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 nine months after receiving the financial reports.	C
<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 in response 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 the appointment and removal of the head of the institution, the planning of audit engagements, and the execution of the institution's budget. Moreover, the institution has unrestricted and timely access to records, documentation and information. However, the Audit Office does not independently operate from the executive regarding the approval of its budget. As one of the line bureaus under the leadership of the County Government, it uses the executive procedure for budget request submission and execution. Also it does not operate independently with respect to arrangements for publicizing reports.	B

### Dimension PI-30.1 Audit coverage

256. The Rucheng Audit Bureau adopts an approach called '1+N' when carrying out its audit. That means, besides conducting the annual budget execution audit, some special audits are carried out, including audits of certain budgetary units, audits of government investment projects, and medical insurance fund audits.

257. The special audits that were conducted by the Rucheng Audit Office during the FYs 2016-2018 are listed in Table 3.48.

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

FY	Coverage of Special Audit	Audited budget execution report at county level (Y/N)
2016	The forest recovery and development project fund The international rural power grid reform fund	Y
2017	The poverty alleviation program The medical insurance fund	Y
2018	The poverty alleviation program	Y

Data source: Rucheng Audit Office.

258. For the sampled 13 largest service delivery departments (in terms of budget expenditure, see PI-8.1), the expenditures that were covered at least once by external auditors in the past three years accounted for only 19.7 percent of total expenditures (Table 3.49). Accordingly, the score for this dimension is D.

**Table 3.49: 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	562,121.9	N	N	N	
2	Civil affairs	77,319.0	N	N	Y	77,319.0
3	Housing	13,420.2	N	N	N	
4	Science and information technology	2,160.8	N	N	N	
5	Human resources and social security	28,926.4	N	N	N	
6	Transportation	31,868.0	N	N	N	
7	Water resources	39,402.0	Y	N	N	39,402.0
8	Agriculture and rural affairs	45,376.0	N	Y	N	45,376.0
9	Forestry	116,547.5	N	N	N	
10	Commerce	23,183.8	N	Y	N	23,183.8
11	Culture and tourism	48,506.4	N	Y	N	48,506.4
12	Health	169,690.6	N	N	N	
13	Natural resources	25,796.0	N	N	N	
<b>Total</b>		<b>1,184,318.6 (A)</b>				<b>233,787.2(B)</b>
<b>Percentage</b>						<b>19.7% (=B/A*100%)</b>

Data source: Rucheng Audit Office.

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

259. The Rucheng legislature recorded the dates of submission of the audit reports, which indicate that the Audit Office submitted the audit reports to the legislature no later than nine months upon receipt of the

financial reports in all three assessed FYs (Table 3.50). The score for this dimension is C.

**Table 3.50: Submission of audit reports to legislature**

FY	Receipt of financial reports	Submission of the audit reports	Days of preparing the audit reports
2016	March 14, 2016	September 18, 2016	188 days
2017	May 3, 2017	August 21, 2017	110 days
2018	June 11, 2018	October 25, 2018	136 days

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

260. In FY 2016, the annual audit report was reviewed at the meeting of the Standing Committee of the Rucheng People's Congress on September 27, 2016. The rectification report was scrutinized on May 5, 2017. Of the ten 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.

261. In FY 2017, the annual audit report was reviewed at the meeting of the Standing Committee of the Rucheng People's Congress on August 28, 2017 and the rectification report was scrutinized on October 26, 2017. The report stated three issues had been entirely rectified, and nine were partially rectified. All audit recommendations were accepted. The follow-up ratio was 100 percent.

262. Similarly, in FY 2018, the annual audit report was reviewed at the meeting of the Standing Committee of the Rucheng People's Congress on October 31, 2018 and the rectification report was scrutinized on March 11, 2019. By then, seven out of the thirteen problems disclosed in the audit report had been rectified, and six problems had been partially rectified. All recommendations were accepted by the auditees. The follow-up ratio was 100 percent.

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

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

264. According to Article 15 of the Audit Law of the PRC, the heads of auditing organizations are appointed or dismissed in accordance with statutory procedures. None of them may be dismissed or replaced unless they are found guilty of illegal acts, negligence, or no longer qualified for the position. Meanwhile, Article 13 of the Regulation on the Implementation of the Audit Law of the PRC states that higher level audit entities should be consulted on the appointment and removal of the chief or deputy leaders of the auditing organizations of the local governments at all levels (see Table 3.50). 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.

265. Both the above-mentioned Law and Regulation provide a concrete basis for securing the independence of China's audit entities from the executive. In Rucheng County, the appointment of the director of the Audit Office is approved solely by the County People's Congress. The Audit Office can independently operate from the executive with respect to planning and carrying out its audit and it has timely and unrestricted access to

any required data. Moreover, the executive does not interfere in the budget of the Audit Office once funds for conducting audits have been secured and the budget of the Audit Office approved by the People's Congress. However, as one of the line bureaus under the leadership of the Rucheng Government, the Audit Office needs to use executive procedures for budget request submission and execution. Also, it does not operate independently from the executive with respect to arrangements for publicizing reports (Table 3.51).

266. The score is B.

**Table 3.51: SAI independence**

Independence criteria	Extent to which criteria met and materiality (where relevant)
Appointment and removal of head of SAI in charge of SNGs	The appointment or removal of the head of the SAI must be approved by the County People's Congress and a higher-level audit entity should be consulted in advance.
Planning audit engagements	The Audit Office can plan its audit tasks independently and is free from interference of any other entities.
Arrangements for publicizing reports	All audit reports are required to be published on the government website.
Approval of budget	Since the Audit Office is one of the line bureaus under the leadership of the County Government, it needs to prepare its budget in line with the instructions of the County Finance Bureau. Moreover, the Audit Law requires that the funds for conducting audit must be secured and the budget of the SAI be approved by the People's Congress.
Execution of budget	The SAI can execute its budget independently but staff salaries and the recruitment of consultants should follow the related government requirements.
Legal basis for independence	Both the Constitution and the Audit Law provide a concrete basis to secure 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: Rucheng Audit Office.

## PI-31. Legislative scrutiny of audit reports

267. 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).

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 reports was completed by the Standing Committee of the County People's Congress within one month in all three FYs from receipt of the reports.	A
<b>31.2. Hearings on audit findings</b>	An in-depth hearing takes place on the main findings of the audit report once every year. While in FY 2016 some, and in FY 2017 most, audited entities which received a qualified or adverse audit opinion or disclaimer in the audit report participated in the hearing, in FY 2018, it was only a few.	C
<b>31.3. Recommendations on audit by legislature</b>	For three consecutive years, once receiving the follow-up reports from auditees, a summarized report was prepared by the Audit Office and submitted to the Standing Committee. The County People's Congress required the audied units to rectify their existing problems and issued recommendations on actions to be implemented at the audit hearing. Following this, another official meeting was organized by the Committee to hear about the remedial actions that have been taken.	A
<b>31.4. Transparency of legislative scrutiny of audit reports</b>	The hearing on the audit report for FY 2018 was not open to the public, and the follow-up report for FY 2018 was not published on the government's website.	D

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

268. In the past three FYs, the annual audit report was submitted to the Standing Committee of the County People's Congress for first scrutiny in August, September or October. The Standing Committee meeting was held the same month. At the meeting, the County Finance Bureau gave a presentation on the draft budget execution report of the previous year and the first half year of the current year. The County Audit Office also presented its audit results on budget execution of the previous year. The Standing Committee then approved the audit reports after in-depth discussions. In the three assessed FYs, it took no longer than one month from submission of the audit report to the approval of the report by the Standing Committee (see Table 3.52). The dimension is rated A.

**Table 3.52: 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	September 18, 2016	September 27, 2016
2016	August 21, 2017	August 28, 2017
2017	October 25, 2018	October 31, 2018
2018	September 6, 2019	September 11, 2019

Data source: Rucheng Audit Office.

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

269. The 2016 audit report hearing was held on September 27, 2016. Only the Finance Bureau and therefore one of the four budgetary units concerned attended the hearing. The remaining three units, the Land and Mineral Resources Office, the Water Conservancy Bureau and the Immigration Office, did not participate the hearing. The participation rate of the audited entities with issues disclosed was 25 percent.

270. Only three units participated in the hearing in 2017, the Finance Bureau, the DRB, and the Agriculture Bureau. The remaining two units, the Bureau of Economy, Technology and Commerce and the Bureau of Culture, Sports, Radio, Television, Press and Publication, did not participate the hearing. The attendance rate was 60 percent.

271. Although the audit report for 2018 disclosed a number of problems, only one of the six mentioned units attended the hearing, the Finance Bureau. The remaining five units, the Land and Mineral Resources Office, the Material Management Office, the Grain Bureau, the Commercial Bank Management Office and the Supply and Marketing Cooperatives, did not participate the hearing. The attendance rate was 16 percent.

272. In sum, in-depth hearings on audit findings were held annually. But while in FY 2016 some, and in FY 2017 most, audited entities which received a qualified or adverse audit opinion or disclaimer in the audit report participated in the hearing, in FY 2018, it was only a few. Therefore, the score is C.

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

273. In the past three years, while the Standing Committee of the County People's Congress called for its meeting 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) in August, September or October, those audited units with issues disclosed in the audit report were required to rectify their existing problems. At the meeting, the County People's Congress issued recommendations on actions to be implemented.

274. Within the following eight 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**

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





## 4 CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS

### 4.1 Integrated assessment across the PIs

#### 4.1.1 Budget reliability

276. Rucheng 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 Rucheng 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 121.1 to 130.9 percent, and composite variances in expenditure by administrative classification were between 28.9 and 50.5 percent.

277. However, the context Rucheng sets its budget in is important. The weak budget reliability in Rucheng 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).

278. On the revenue side, the variance in aggregate revenue outturn ranged between 48.1 to 65.0 percent during the 2016 to 2018 period. The composition variance of revenue was also high, 75.2, 66.5, and 58.0 percent in 2016, 2017, and 2018 respectively (PI-3, Score D).

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

#### 4.1.2 Transparency of public finances

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

281. The majority of the expenditures of the service delivery units within Rucheng County is covered by the performance plans, all service delivery units publish information on the performance achieved. However, the independent evaluations of the efficiency or effectiveness of service delivery were carried out for less than 25% of the service delivery units in FY 2017, the evaluation report was not published, and there are significant deficiencies in the evaluation methodology - outcomes and outputs are often described vaguely, and PIs

are often not sufficiently specified to facilitate the capturing information on whether planned outputs and outcomes have been achieved. PI-8 is hence rated C+.

#### 4.1.3 Management of assets and liabilities

282. The performance of the 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 Rucheng 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 B). Economic analyses are conducted of all major public investment projects and are reviewed by the Rucheng 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).

283. However, costing information of the public investment projects is not included in the budget documents, and monitoring of total cost and physical progress has not covered all major projects (PI-11.3 and PI-11.4 scored D). Meanwhile, in 2018, only three of the ten largest PCs in Rucheng submitted their financial reports to the government within three months of the end of the FY (PI-10.1 rated D).

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

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

285. Although the government prepares a five-year development plans and other strategies, the budget was at the time of review framed in a purely annual perspective. Budget preparation is informed by projections of some key macroeconomic and demographic indicators, as well as the prevailing development strategies. But no clear linkage is established between the budget and these development strategies, and no explanation is provided about the fiscal implications of policy changes (PI-14 is rated D+).

286. The budget process follows a prescribed annual budget calendar. According to this calendar, the budgetary units are provided six weeks to complete their detailed budget estimates. However, the budgetary units receive notice of their respective budget ceilings only ten days before they submit their final budget proposals. PI-17 is rated B.

287. The annual budget proposal is submitted to the People's Congress, and budget scrutiny by the People's Congress covers both aggregated and detailed information on expenditures and revenues, as well as fiscal policies. However, the legislature was provided less than one month to review the budget proposal in two of the last three FYs, and in one year, the legislature did not approve the annual budget before the start of the FY (PI-18 is rated C+).

288. Significant budget adjustments are made by the executive during the year (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 adjustments are reflected in the mid-year budget adjustment proposal submitted to the Standing Committee of Congress for approval.

#### 4.1.5 Predictability and control in budget execution

289. All taxes are administered and collected by the State Administration of Taxation and transferred to the SNGs according to the existing 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).

290. Predictability of in-year resource allocation is very low (PI-21 scored D+). The Rucheng 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 only 12 percent of all bank balances. The Finance Bureau does not monitor or forecast cash flows. Moreover, the budget is not reliable, in-year budget adjustment is frequent and only partially transparent. As a result, budgetary units cannot properly administer commitments. The incurred expenditure arrears are not monitored, and data on the stock of expenditure arrears are consequently not available to the Finance Bureau (PI-22 scored D).

291. Payroll control in the county is reasonable (PI-23 scored C+). It is assured through a shared database and centralized payment system directly from the Treasury to each regular employee of the GAUs and PSUs. The approved employee list, personnel database, and payroll are all directly linked through an IT system and updated on real time basis, which constitutes an effective assurance for budget control, data consistency, and automatic monthly reconciliation. There is no delay in payroll payment by the Centralized Payment Center of the Treasury. However, a few retroactive adjustments are made, and payroll audits are generally not conducted.

292. All procurements of works, goods, and services above a certain threshold are processed via the Chenzhou Public Resources Transaction Center, all by competitive method. The DRC keeps record of large contracts, while the Finance Bureau keeps record of medium-sized contracts. There is no recording of small value procurements. Citizens have access to certain basic procurement information. A complaints handling system is in place and meets good practice criteria, but 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+).

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

294. The internal audit function is good. 67.8 percent of budget expenditure and all budgetary revenues were audited in FY 2018. Internal audit activities meet professional standards, including adopting a risk-based approach, though a quality assurance process is yet to be established. All departments with an internal audit unit prepare an annual internal audit work plan and a summary report of their annual internal audit work. Two sampled budgetary units completed the majority of their FY 2018 annual audit plans. Moreover, the management of the two sampled audited departments proactively responded to the auditors' suggestions disclosed in the internal audit report within 12 months after the audit report was issued (PI-26 scored C+).

#### 4.1.6 Accounting and reporting

295. Overall financial data integrity is high (PI-27 rated B). All accounts are regularly reconciled, within five 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.

296. 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 those from transfers to de-concentrated units within the county. The coverage and classification of these reports are comparable to the original budget. Monthly reports and analyses on budget execution are released within ten days of the end of the reported period and provide useful information for analysis. However, in-year budget reports are not audited (PI-28 scored B+).

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

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

298. The external audit system is not well developed. Less than 50 percent of total expenditures were covered by external audit in FYs 2016-2018. The Audit Office submits its audit reports to the legislature within nine months after receiving the financial reports. In the three assessed FYs, the County Audit Office could independently carry out its audit and had access to the necessary data without restriction. A number of material issues and systemic and control risks were detected and disclosed in the audit reports, and remedial action was taken by the audited units both effectively and timely. However, while its budget for conducting audit is secured by law, it is contingent on the appropriation of the Finance Bureau. 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. PI-30 scored D+.

299. The Standing Committee of the County People's Congress provides timely approval (no longer than one month) of the audit reports and calls for an in-depth hearing on the main findings of the audit reports once a year. A few audited entities with issues disclosed in the audit reports participate in the hearing. The Standing Committee follows up and conducts hearings on the rectification taken by the auditees. However, the hearing for FY 2018 on the audit report was not open 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**

300. This is the first assessment of Rucheng County.

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

301. The main strengths of PFM in Rucheng County are related to its budget preparation process, in-year budget reporting and reporting of extra-budgetary expenditures, its internal control system, financial data integrity, and legislative scrutiny, particularly of its annual audit reports. Main weaknesses are related to

budget reliability and budget transparency, performance and medium-term orientation of the budget, public investment and procurement management, the predictability of in-year resource allocation, the monitoring of expenditure arrears, annual financial reporting, external audit, and public access to fiscal information.

#### 4.3.1 Fiscal discipline

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

303. Effective control over expenditures by budgetary units helps to enhance fiscal discipline. No government operations take place outside financial reports (PI-6, rated A). Payroll control is effectively supported by centralized payment arrangements and auto-reconciliation through an IT system (dimensions of PI-23.1 and PI-23.3 are rated A). A strong internal control of non-salary expenditures (PI-25, rated B) and a solid internal audit system (PI-26, rated C+) have ensured strict control over spending during budget execution. Moreover, there is a good reporting and recording system for debts (PI-13.1, rated C) and contingent liabilities (PI-10.3, rated B).

304. Major threats to fiscal discipline in Rucheng are posed where critical control and monitoring functions are lacking in the PFM system. System weaknesses leading to these threats include the entanglement of government units and the LGFV; the fact that investment financing is delinked from the government budget; that large procurements and contracts are supervised by the 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 assurance for hard budget constraints. Consequently, off-budget borrowing may arise.

305. Another issue undermining fiscal discipline lies in the weak external audit system (PI-30, rated D+).

#### 4.3.2 Strategic allocation of resources

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

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

308. Other indicators that relate to the strategic allocation of resources were rated as satisfactory. Budget documentation meets all basic requirements (PI-5, rated C), but the budget classification system is not fully in accord with international standards (PI-4, D).

### 4.3.3 Efficient use of resources for service delivery

309. The PFM system of Rucheng encourages the efficient use of resources for service delivery. To this end, the budgetary units in Rucheng regularly publish performance targets for service delivery (PI-8.1, C) and information on the performance achieved (PI-8.2, C), and they report available resources (PI-8.3, A). However, the low budget reliability and predictability of in-year resource allocations (PI-21, D+) may adversely affect the capacity of service delivery units in making efficient resource use. Independent evaluations of the efficiency or effectiveness of service delivery were carried out for few service delivery units, and in the assessed period, no evaluation report was published (PI-8.4, D).

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

311. The ratings for oversight arrangements are mixed (D+ for PI-30 and B for PI-31). The external audit reports are submitted to the People's Congress within nine months. The required follow-up actions are taken by the concerned entities effectively and timely. However, coverage of external audit is still low, the follow-up reports are not published on the government website, and hearings on audit reports are not accessible to the public.

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

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

## 5 GOVERNMENT PFM REFORMS

### 5.1 Approach to PFM reforms

314. 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.

315. 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

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

#### **Division of expenditure responsibility**

317. 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.

318. 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

319. 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

320. 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

321. 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

322. 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 by large 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

323. 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, 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.

324. 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.

325. 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

326. 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

327. 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

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

## ANNEX 1: SUMMARY OF PERFORMANCE INDICATORS

Indicator/dimension	Score	Description of requirements met
<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	Actual transfer outturns for 2016, 2017, and 2018 were 232.7%, 170.4%, and 139.9% of the original budget, respectively, and therefore above 116% of the original budget in all three years.
HLG-1.2 Earmarked grants outturn	D	The variance of transfer composition outturn of ear-marked grants was 94.5%, 58.4%, and 18.6% for FYs 2016-2018, respectively, and therefore higher than 15% for each of the three completed FYs.
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 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. Rucheng 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, amounting to 130.9%, 121.1%, and 121.8% of the approved budget respectively. It was between 85% and 115% of the approved budgeted aggregate expenditure in none of the last three years.
<b>PI-2. Expenditure composition outturn</b>	<b>D+</b>	<b>Scoring Method M1</b>
PI- 2.1 Expenditure composition outturn by function	D	Expenditure composition outturn by functional classification was above 15% in each of the three assessed years. Variance was 50.5%, 28.9%, and 35.9% for FY 2016, 2016, and 2018, respectively.
PI- 2.2 Expenditure composition outturn by economic type	NA	There was no economic classification for governmental funds in the last three completed 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>D</b>	<b>Scoring Method M2</b>
PI- 3.1 Aggregate revenue outturn	D	In 2016, 2017, and 2018, aggregate revenue outturn was 55.0%, 48.1%, and 65.0% of budgeted revenue, respectively. The performance was less than required for a C score.
PI- 3.2 Revenue composition outturn	D	Composition variance in revenue collection in the last three years was 75.2%, 66.5%, and 58.0% respectively, all more than 15%.
<b>Pillar II. Transparency of public finances</b>		
<b>PI-4. Budget classification</b>	<b>D</b>	<b>Scoring Method M1</b>

Indicator/dimension	Score	Description of requirements met
PI- 4.1 Budget classification	D	Budget documentation is nationally consistent. The GPB is based on functional and economic classification, but the GFB is only based on functional classification.
<b>PI-5. Budget documentation</b>	<b>C</b>	<b>Scoring Method M1</b>
PI- 5.1 Budget documentation	C	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 two public hospitals with extrabudgetary activities. However, all extrabudgetary expenditures were recorded in the financial reports of the Health Bureau in the last three FYs.
PI- 6.2 Revenue outside financial reports	A	There are two public hospitals in Rucheng with extrabudgetary activities. However, all extrabudgetary revenues were recorded in the financial reports of the Health Bureau in the last three FYs.
PI- 6.3 Financial reports of extrabudgetary units	A	Financial reports of all extrabudgetary activities, containing full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations - 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 of all service delivery units is published annually. 69.37% of expenditures of service delivery units have a framework of PIs relating to outputs or outcomes. That is the majority.
PI- 8.2 Performance achieved for service delivery	C	All of the 13 largest service delivery departments published the performance achieved in FY 2018 on their websites. Information on the activities performed covered 91.87% of total service delivery expenditure in FY 2018. However, performance achievement measured by quantitative outputs or outcomes covered only 28.39% of total service delivery expenditure.
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 the source of funds. A report compiling the information is prepared at least annually.
PI- 8.4 Performance evaluation for service delivery	D	Independent evaluations of the efficiency or effectiveness of service delivery were carried out for less than 10 percent of the expenditures of the service delivery units in 2017. But no evaluation report was published.

Indicator/dimension	Score	Description of requirements met
<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 Rucheng Government made available to the public two basic elements within the specified time frame.
<b>PI-9bis. SNG public consultation</b>	<b>D</b>	<b>This is a pilot indicator. Pingjiang 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	Three out of the ten largest PCs in Rucheng submitted financial reports to the controlling entities within three months after the FY.
PI- 10.2 Monitoring of subnational governments	NA	There are no SNGs within Rucheng.
PI- 10.3 Contingent liabilities and other fiscal risks	B	There are no state insurance schemes and guarantees in Rucheng. 2 out of 8 operating PPP projects active in FY 2018 incurred significant contingent liabilities. They were recorded in the government debt management system and updated and consolidated monthly, but they are not published.
<b>PI-11. Public investment management</b>	<b>D+</b>	<b>Scoring Method M2</b>
PI- 11.1 Economic analysis of investment proposals	C	Economic analyses are conducted according to national guidelines to assess all major investment projects, are reviewed by a third party (DRB); but they are not published.
PI- 11.2 Investment project selection	C	The DRB is responsible for selecting projects and making proposals to the County Committee. But no clear criteria are applied during project selection.
PI- 11.3 Investment project costing	D	Investment project costing information is not included in the budget documents.
PI- 11.4 Investment project monitoring	D	The total costs and physical progress of part of the major investment projects are monitored monthly throughout project duration by the Rucheng DRB. Information on the implementation of 'major investment projects' is prepared annually but not published.
<b>PI-12. Public asset management</b>	<b>C</b>	<b>Scoring Method M2</b>
PI- 12.1 Financial asset monitoring	C	The Rucheng Government maintains records of its holdings in all major categories of financial assets (including cash, term deposits, account receivables, leases, equity). The information is not available to the public.
PI- 12.2 Nonfinancial asset monitoring	C	The Rucheng Government maintains a register of its holdings of fixed assets, including information on their usage and age. Registers of land and mineral resources are also maintained. But information on non-financial assets is not made available to the public.
PI- 12.3 Transparency of asset disposal	C	Procedures and rules for the disposal of financial and non-financial assets are established. Partial information on asset disposal is included in the state-owned assets management report.
<b>PI-13. Debt management</b>	<b>C+</b>	<b>Scoring Method M2</b>

Indicator/dimension	Score	Description of requirements met
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 Rucheng Finance Bureau is the responsible debt management entity and is authorized to borrow on behalf of the county government and monitor the financing transactions according to the debt management rules. Annual borrowing is approved by the Rucheng People's Congress.
PI- 13.3 Debt management strategy	D	There is no mid-term DMS indicating risk indicators such as interest rates, exchange rates or 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	Budget preparation is based on information of transfers, revenue, and expenditure, and some key demographic and macroeconomic indicators, but the referred data are not submitted to the legislature. There is no evidence that the government's fiscal strategy or sectoral strategies are considered or that estimates of revenue and expenditure for the two following FYs are prepared.
PI- 14.2 Fiscal impact of policy proposals	D	No estimates about the fiscal impacts of policy changes have been conducted.
PI- 14.3 Medium-term expenditure and revenue estimates	D	No medium-term expenditure and revenue estimates are prepared.
PI- 14.4 Consistency of budget with previous year estimates	NA	No medium-term expenditure and revenue estimates are prepared.
<b>PI-15. Fiscal strategy</b>	<b>NU</b>	<b>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	A clear annual budget calendar exists and is generally adhered to. Date of issuance of the FY 2019 budget circular was October, 18 2018. The deadline for submission of estimates was November 30, 2018. Six weeks were provided to allow budgetary units to meaningfully complete their detailed estimates on time.
PI- 17.2 Guidance on budget preparation	B	The budget circular covers total budget expenditure for the full FY. The approved expenditure ceilings were provided on November 20, 2018, after the circular's distribution to the budgetary units, but before budgetary units completed their submission on November 30, 2018.
PI- 17.3 Budget submission to the legislature	D	Only in one of the last three years, the executive submitted the annual budget proposal to the legislature at least one month before the start of the FY.
<b>PI-18. Legislative scrutiny of budgets</b>	<b>C+</b>	<b>Scoring Method M1</b>

Indicator/dimension	Score	Description of requirements met
PI- 18.1 Scope of budget scrutiny	B	Budget scrutiny by the Rucheng People's Congress covers details of expenditure and revenue and fiscal policies, but not medium-term fiscal forecasts and medium-term priorities.
PI- 18.2 Legislative procedures for budget scrutiny	B	The Budget Law of PRC and the Interim Methods for Budget Examination and Supervision of the Standing Committee of the Rucheng County 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. However, no evidence is available to show that the public consultation arrangements have been followed.
PI- 18.3 Timing of budget approval	B	In two of the last three FYs, the county legislature approved the annual budget proposal before the start of the FY. The delay in the third year did not exceed one month.
PI- 18.4 Rules for budget adjustment by the executive	C	Clear rules about budget adjustments exist and were adhered to in the majority of instances.
<b>Pillar V. Predictability and control in budget execution</b>		
<b>PI-19. Revenue administration</b>	<b>NA</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 PI-19 is not applicable.
<b>PI-20. Accounting for revenue</b>	<b>A</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 monthly unified income completion statement which details the monthly completion and cumulative completion for each revenue type.
PI- 20.2 Transfer of revenue collections	A	All tax revenues are transferred to the Rucheng County Treasury on a daily basis, while non-tax revenues are paid directly into the special accounts under the TSA system
PI- 20.3 Revenue accounts reconciliation	NA	Governments at county level are not authorized to administrate and collect taxes. The duty of tax revenue reconciliation is NA to Rucheng 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 Rucheng Finance Bureau obtains a daily balance report from the Treasury, while the balances of special accounts are consolidated monthly. Most cash balances are therefore consolidated on a monthly basis, the balance of the Treasury that is consolidated daily accounting for 12% of all bank balances.
PI- 21.2 Cash forecasting and monitoring	D	The Rucheng Finance Bureau has not conducted cashflow forecasting and monitoring.
PI- 21.3 Information on commitment ceilings	D	Payment can be made within the approved budget, but expenditure commitment ceilings for budgetary units are not effectively applied.

Indicator/dimension	Score	Description of requirements met
PI- 21.4 Significance of in-year budget adjustments	C	Significant in-year budget adjustments are frequent. They are partially transparent.
<b>PI-22. Expenditure arrears</b>	<b>D</b>	<b>Scoring Method M1</b>
PI- 22.1 Stock of expenditure arrears	D*	Since Rucheng County has not set up a monitoring system for expenditure arrears, data on the stock of arrears for FYs 2016-2018 are not available.
PI- 22.2 Expenditure arrears monitoring	D	There is no monitoring system for expenditure arrears in Rucheng 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. The Centralized Wage Payment Centre reconciles and compares the data of wages with the personnel database whenever changes are made to the latter. This constitutes an effective assurance for budget control and data consistency.
PI- 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. But there are retroactive adjustments with total amount equivalent to 14.9 percent of total payroll.
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 the integrity of data.
PI- 23.4 Payroll audit	C	Payroll audits were undertaken partially within the last three completed FYs.
<b>PI-24. Procurement management</b>	<b>C</b>	<b>Scoring Method M2</b>
PI- 24.1 Procurement monitoring	D*	The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.
PI- 24.2 Procurement methods	D*	Since contract data for small contracts are not available, it is not feasible to calculate the total value of contracts awarded through competitive methods.
PI- 24.3 Public access to procurement information	D	One out of six criteria is met.
PI- 24.4 Procurement complaints management	A	The procurement complaint handling mechanism meets every criterion.
<b>PI-25. Internal controls on nonsalary expenditure</b>	<b>B</b>	<b>Scoring Method M2</b>
PI- 25.1 Segregation of duties	A	Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage.
PI- 25.2 Effectiveness of expenditure commitment controls	D	No effective expenditure commitment control system has been established.
PI- 25.3 Compliance with payment controls	A	Most (more than 75% but less than 90%) the payments are in line with regular payment procedures, and all exceptions are authorized in advance.

Indicator/dimension	Score	Description of requirements met
<b>PI-26. Internal audit</b>	<b>C+</b>	<b>Scoring Method M1</b>
PI- 26.1 Coverage of internal audit	C	Internal audit is operational for budgetary units representing all of the budget revenues and the majority of budget expenditures.
PI- 26.2 Nature of audits and standards applied	B	Internal audit activities are focused on verifying the adequacy and effectiveness of internal control. The internal audit function has no established quality assurance process, but audit activities meet professional standards, including the adoption of a risk-based approach.
PI- 26.3 Implementation of internal audits and reporting	C	The two sampled budgetary units have completed the majority of their annual audit plans, as evidence by the distribution of their reports to the appropriate parties.
PI- 26.4 Response to internal audits	A	Management of two sampled departments proactively responded to the auditors' suggestions disclosed in the audit reports 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 active government bank accounts is completed within 5 days after the end of each month.
PI- 27.2 Suspense accounts	NA	There is no suspense account in Rucheng County.
PI- 27.3 Advance accounts	NA	There is no advance account in Rucheng County.
PI- 27.4 Financial data integrity processes	B	Access and changes to the financial records are restricted. The network passed the Grade III of the Computer Information System Security Protection Certification, which means an audit trail is in place.
<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. Coverage and classification of data allow for direct comparison to the original budget. All revenues and expenditures including those from transfers to de-concentrated units within the SNG are included in the in-year budget reports.
PI- 28.2 Timing of in-year budget reports	A	There are monthly budget execution reports released within ten days of the end of the reported period.
PI- 28.3 Accuracy of in-year budget reports	B	The in-year budget report data are largely consistent and useful for the analysis of budget execution. An analysis report is prepared once a month and covers information at all expenditure stages.
<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 is prepared and is comparable with the approved budget. The report includes information on revenues, expenditures, cash balances and liabilities, but no information on financial or tangible assets.
PI- 29.2 Submission of reports for external audit	B	Budget execution reports are submitted to the County Audit Office within 6 months of the end of the FY.
PI- 29.3 Accounting standards	D	The budget execution reports are prepared in line with the national standards stipulated by MOF. However, the accounting standards adopted are not disclosed in notes or other parts of the financial reports.



Indicator/dimension	Score	Description of requirements met
<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 audited by external auditors accounted for less than 50% of total expenditure.
PI- 30.2 Submission of audit reports to the legislature	C	During the past three FYs, the Audit Office submitted the audit reports to the legislature within nine 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 in response to the issues disclosed by the auditors.
PI- 30.4 Supreme Audit Institution independence	B	The Audit Office operates independently from the executive with respect to procedures for the appointment and removal of the head of the institution, the planning of audit engagements, and the execution of the institution's budget. Moreover, the institution has unrestricted and timely access to records, documentation and information. However, the Audit Office does not independently operate from the executive regarding the approval of its budget. As one of the line bureaus under the leadership of the County Government, it uses the executive procedure for budget request submission and execution. Also it does not operate independently with respect to arrangements for publicizing reports.
<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	Scrutiny of the audit reports was completed by the Standing Committee of the County People's Congress within one month in all three FYs from receipt of the reports.
PI- 31.2 Hearings on audit findings	C	An in-depth hearing takes place on the main findings of the audit report once every year. While in FY 2016 some, and in FY 2017 most, audited entities which received a qualified or adverse audit opinion or disclaimer in the audit report participated in the hearing, in FY 2018, it was only a few.
PI- 31.3 Recommendations on audit by the legislature	A	For three consecutive years, once receiving the follow-up reports from auditees, a summarized report was prepared by the Audit Office and submitted to the Standing Committee. Following this, an official meeting was organized by the Committee to hear about the remedial actions that have been taken.
PI- 31.4 Transparency of legislative scrutiny of audit reports	D	The hearing on the audit report for FY 2018 was not open to the public, and the follow-up report for FY 2018 was not published on the government's website.

## ANNEX 2: SUMMARY OF OBSERVATIONS ON THE INTERNAL CONTROL FRAMEWORK

Internal Control Components and Elements	Summary of Observations
<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 - No evidence shows that the Pingjiang Finance Bureau has conducted cashflow forecasting and monitoring.
2.2 Risk assessment (significance and likelihood)	See risk identification (2.1 above)

Internal Control Components and Elements	Summary of Observations
2.3 Risk evaluation	The two sampled budgetary units have completed the majority of their annual audit plans, as evidence by the distribution of their reports to the appropriate parties. (Implementation of internal audits and reporting – 26.3 rated ‘C’). Internal audit activities focus on verifying the adequacy and effectiveness of internal control. Audit activities meet professional standards, including adopting the risk-based approach. However, internal audit quality assurance is not established the county. (Nature of internal audits and standards applied – 26.2 rated ‘B’).
2.4 Risk appetite assessment	The development and implementation of identification and assessment of risk indicates a positive risk appetite which will grow as these become more mature.
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	MOF’s document requires to strengthen supervision and inspection on internal control and integrate internal control assessment with staff performance evaluation.
<b>3. Control Activities</b>	
3.1 Authorization and approval procedures	<p>Financial data integrity processes are rated ‘B’ in 27.4. Access and changes to the financial records are restricted. The network passed the Grade III of the Computer Information System Security Protection Certification, which means an audit trail is in place. .</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 Pingjiang Bureau of Finance is the responsible debt management entity and is authorized to borrow on behalf of the county government and monitor the debt transactions according to the debt management rules. Annual borrowing is approved by the Pingjiang 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 all directly linked to each other through the IT system and updated on a real time basis, which constitutes an effective assurance for budget control, data consistency and automatic monthly reconciliation.</p> <p>Management of payroll changes is rated ‘B’ in 23.2. Necessary changes to personnel records and payrolls are updated in real time. There is no delay in making payroll payments by the Centralized Payment Centre. But there are a few retroactive adjustments.</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. The data of all budgetary units are linked via an internal network that is under the control and management of the Information Centre under the Finance Bureau, which is also responsible for conducting an audit trail.</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. Most (more than 75% but less 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. Access and changes to the financial records are restricted. The network passed the Grade III of the Computer Information System Security Protection Certification, which means an audit trail is in place.</p>
3.4 Verifications	Accuracy of in-year budget reports is rated ‘B’ in 28.3. The in-year budget report data are largely consistent and useful for the analysis of budget execution. An analysis report is prepared on a quarterly basis and covers the information of the expenditure stage, but the report is not audited.

Internal Control Components and Elements	Summary of Observations
3.5 Reconciliations	Banks account reconciliations is rated 'B' in 27.1. Reconciliation of all bank accounts is completed within 15 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. Three out of the ten largest PCs in Rucheng submitted financial reports to the controlling entities within three months after the FY.</p> <p>Contingent liabilities and other fiscal risks is rated 'B' in 10.3. There are no state insurance schemes and guarantees in Rucheng. 2 out of 8 operating PPP projects active in FY 2018 incurred significant contingent liabilities. They were recorded in the government debt management system and updated and consolidated monthly, but they are not published.</p> <p>Investment project monitoring is rated 'D' in 11.4. The total costs and physical progress of part of the major investment projects are monitored monthly throughout project duration by the Rucheng DRB. Information on the implementation of 'major investment projects' is prepared annually but not published..</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 'C' in 26.3. The two sampled budgetary units have completed the majority of their annual audit plans, as evidenced by the distribution of their reports to the appropriate parties</p>
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 10 percent of the expenditures of the service delivery units in 2017. But no evaluation report was published.</p> <p>Investment project selection is rated 'C' in 11.2. Economic analyses are conducted according to national guidelines to assess all major investment projects, are reviewed by a third party (DRB); but they are not published.</p>
5.3 Management responses	<p>Response to internal audits is rated 'A' in 26.4. The management of five sampled departments proactively responded to the auditors' suggestions disclosed in the audit report within 12 months after the audit report was 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	34 major GAUs (1) Education Bureau; (2) Health Bureau; (3) Civil Affairs Bureau; (4) Housing and Urban-Rural Development Bureau; (5) Economics, science and commerce bureau; (6) Human Resources and Social Security; (7) Transportation Bureau; (8) Water Conservation Bureau; (9) Agricultural and Rural Affairs Bureau; (10) Forestry Bureau; (11) Bureau of Culture, Tourism, Radio, Television and Sports; (12) Natural Resources Bureau; (13) Forest public security sub-bureau; (14) Development and Reform Bureau; (15) Finance Bureau; (16) Audit Bureau; (17) Bureau of Veterans Affairs; (18) Emergency Management Bureau; (19) Market Supervision and Administration Bureau; (20) Bureau of Statistics; (21) Bureau of Urban Management and Comprehensive Law Enforcement; (22) Government Affairs Service Center; (23) Letters and Calls bureau; (24) Health care security Bureau; (25) Ecological environment bureau sub-bureau; (26) Poverty Alleviation and Development Leading Group Office; (27) People's court; (28) People's procuratorate; (29) Judicial Bureau; (30) Public Security Bureau; (31) Traffic police battalion; (32) Government Administration Office; (33) National People's Congress authority; (34) Political consultative conference authority.	
		44 others	
	Townships (14)	(1) Luyang, (2) Daping, (3) Quanshui, (4) Jingpo, (5) Snajiangkou, (6) Tuqiao, (7) Haotou, (8) Jiyi, (9) Reshui, (10) Nuanshui, (11) Nandong, (12) Maqiao, (13) Wenming; (14) Yanshou.	
	PSUs	Five largest in education sector	Rucheng No. 1 Middle School
			Rucheng No. 2 Middle School
Rucheng Siyuan experimental school			
Rucheng first perfect primary school			
Rucheng daping town central school			
Five largest in health sector	Rucheng People's Hospital		
	Rucheng hospital of traditional Chinese medicine		
	Rucheng maternal and child care service centre		
	Quanshui town health center		
	Central Hospital of Daping Town		
		380 others	
EBUs		None <sup>1</sup>	
PCs	Five largest PCs	Rucheng construction and development co. LTDPingjiang UDIC	
		Water and electricity liability co. LTD	
		Kaiyuan rucheng investment co. LTD	
		Shunxing development co. LTD	
		Water Investment Co., Ltd	
	16 others		

Type	Units
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>▪ Rucheng 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>▪ Rucheng budget documentation and financial reports for FYs 2016,2017,2018</li> </ul>
4. Budget classification	<ul style="list-style-type: none"> <li>▪ Rucheng budget documentation for FY 2018</li> </ul>
5. Budget documentation	<ul style="list-style-type: none"> <li>▪ Rucheng budget documentation for FY 2019</li> </ul>
6. SNG operations outside financial reports	<ul style="list-style-type: none"> <li>▪ Rucheng financial reports for FY 2018</li> <li>▪ Financial reports of Rucheng Health Bureau for FY 2018</li> <li>▪ Financial Report of Rucheng 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 Rucheng</li> <li>▪ 8.2:</li> <li>▪ Education: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003664.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003664.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003646.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003646.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003619.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003619.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003878.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003878.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003647.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003647.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003606.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003606.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003643.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003643.html</a></li> </ul> </li> <li>▪ Civil Affairs: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003591.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003591.html</a></li> </ul> </li> <li>▪ Housing and Urban-Rural Development: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003633.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003633.html</a></li> </ul> </li> <li>▪ Science and Information Technology: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003637.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003637.html</a></li> </ul> </li> <li>▪ Human Resources and Social Security: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003629.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003629.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003587.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003587.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003585.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003585.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003589.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003589.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003607.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003607.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3008660.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3008660.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3008659.htm">http://www.rc.gov.cn/zwgk/czys/xczys/content_3008659.htm</a></li> </ul> </li> <li>▪ Transport: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003626.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003626.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003605.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003605.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003621.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003621.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003599.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003599.html</a></li> </ul> </li> <li>▪ Water Resources: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003588.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003588.html</a></li> </ul> </li> </ul>

Indicators (PEFA 2016 framework)	Evidence
8. Performance information for service delivery	<ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003658.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003658.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3008665.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3008665.html</a></li> <li>▪ Agricultural: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003612.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003612.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003639.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003639.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003593.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003593.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003638.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003638.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003634.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003634.html</a></li> </ul> </li> <li>▪ Forestry: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003649.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003649.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003624.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003624.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003620.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003620.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3005313.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3005313.html</a></li> </ul> </li> <li>▪ Commerce: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003586.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003586.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003877.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003877.html</a></li> </ul> </li> <li>▪ Culture and Tourism: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3005321.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3005321.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003655.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003655.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003608.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003608.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003640.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003640.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003627.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003627.html</a></li> </ul> </li> <li>▪ Health Commission: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003609.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003609.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003603.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003603.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003656.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003656.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3005315.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3005315.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003625.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003625.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003653.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003653.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3003611.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3003611.html</a></li> </ul> </li> <li>▪ Natural Resource: <ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_3005318.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_3005318.html</a></li> </ul> </li> </ul>
9. Public access to fiscal information	<ul style="list-style-type: none"> <li>▪ <a href="http://www.rc.gov.cn/zwgk/czys/xczys/content_1702923.html">http://www.rc.gov.cn/zwgk/czys/xczys/content_1702923.html</a></li> <li>▪ <a href="http://www.rc.gov.cn/sjj/syys/sjbggg/content_2992379.html">http://www.rc.gov.cn/sjj/syys/sjbggg/content_2992379.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 Rucheng Finance Bureau..</li> <li>▪ Data on contingent liabilities from the Bureau of Finance, Rucheng County.</li> <li>▪ Data on PPP projects form the PPP Center, Rucheng Bureau of Finance</li> <li>▪ Interview with the director of the PPP Center, Rucheng Bureau of Finance.</li> </ul>
11. Public investment management	<ul style="list-style-type: none"> <li>▪ <i>Rucheng Government Investment Project Management Interim Method</i></li> <li>▪ Motions and Minutes of the executive meeting of the 17th People's Government of Rucheng County and attached tables and documents</li> <li>▪ List of investment projects approved in FY 2018 with information on total investment cost collected from Rucheng DRC</li> <li>▪ Feasibility study reports including economic analysis of the ten largest investment projects collected from Rucheng DRC</li> <li>▪ Investment plan submitted to Rucheng People's Congress including information about the capital costs of investment collected from Rucheng DRC</li> </ul>



Indicators (PEFA 2016 framework)	Evidence
12. Public asset management	<ul style="list-style-type: none"> <li>▪ the Summary Table of the Department's Final Balance in 2018 and the Leases Table of State-owned Assets of GAUs in 2018</li> <li>▪ Statistics on basic information (including holding equity、 acquisition cost、 fair value、 profit、 total liabilities, etc.) of SOEs, Rucheng County.</li> <li>▪ Asset Register System of Rucheng County.</li> <li>▪ the Interim Measures for Disposal of State-owned Assets of Hunan Province in 2008, the Interim Management of State-owned Assets of GAUs and PSUs by MoF in 2006(Circular Cai Zi [2006] No.35, No.36).</li> </ul>
13. Debt management	<ul style="list-style-type: none"> <li>▪ 2014 Budget Law of the PRC.</li> <li>▪ <i>the Implementation of Government Debt Management Methods</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>▪ Table of changes in the share of tax revenue among the CG, provincial and county governments(2010-2018)</li> <li>▪ Fiscal revenue and expenditure data table (since 2010)</li> <li>▪ A new round of township financial management system implementation plan of Rucheng County</li> <li>▪ A report on tax sources in 2018</li> <li>▪ The sixth round of township financial system expenditure balanced public funds allocation table</li> <li>▪ Statistical bulletin on the 2018 national economic and social development of Rucheng County</li> <li>▪ Three-year action to improve the standardized financial management of county-level</li> <li>▪ Report on government debt of Rucheng County</li> <li>▪ The 13th Five-Year Plan of Rucheng 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>▪ Notice of Rucheng County Finance Bureau on completing the budget preparation of county departments for FY 2019.</li> <li>▪ Report on the Budget Execution of 2016 and Budget Proposal 2017.</li> <li>▪ Report on the Budget Execution of 2017 and Budget Proposal 2018.</li> <li>▪ 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>▪ 2013 Interim Methods for Budget Examination and Supervision of the Standing Committee of the Rucheng County People's Congress.</li> <li>▪ The submission and approval document issued by the County People's Congress of the annual budgets FY 2016, 2017, 2018.</li> <li>▪ The balance sheet of FY 2018</li> <li>▪ Regulations of the Budget Law on budget adjustment</li> </ul>
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 Rucheng County for October 2019; Treasury account monthly reconciliation statement for July and August 2018, and July and August 2019; Non-tax payment certificate on December 16 and 17, 2019; tax payment certificate on March 29, 2019.</li> <li>▪ 20.2: tax payment certificate on March 29, 2019; 2016 Detailed Rules for the Implementation of the Law of the PRC on the Administration of Tax Collection ; Non-tax payment certificate on December 16 and 17, 2019.</li> </ul>

Indicators (PEFA 2016 framework)	Evidence
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; special accounts monthly balance statements for FY 2019.</li> <li>▪ 21.2: The annual budget implementation statement for 2018; monthly revenue forecast tables for FY 2018; Notification of enhancing cash forecast.</li> <li>▪ 21.3: Rucheng County Treasury centralized payment operation rules; records screenshots of expenditure plan and expenditure plan release of two budget units for FY 2019; operation log about expenditure plan release.</li> <li>▪ 21.4: Rucheng county budget adjustment proposal for FY 2019; resolution approving the Rucheng county budget adjustment proposal for FY 2019.</li> </ul>
22. Expenditure arrears	<ul style="list-style-type: none"> <li>▪ 2014 Budget Law of the PRC</li> <li>▪ Interview records with Treasury Division and Economic Construction Division under Rucheng Finance Bureau</li> <li>▪ Interim Provisions of the Administration of Financial Funds of Rucheng County on Feb. 11, 2017</li> <li>▪ Annual audit reports of FYs 2016, 2017 and 2018</li> <li>▪ Screenshots on the fiscal balance of treasury centralized payment system</li> </ul>
23. Payroll controls	<ul style="list-style-type: none"> <li>▪ Interview records with Payment Centre under Finance Bureau, Human Resource and Social Security Bureau, and Audit Office</li> <li>▪ Civil Servant Law of PRC, effective as of Jun 1, 2019</li> <li>▪ The workflow of job posting of public institutions of Guidong Human Resource and Social Security Bureau</li> <li>▪ Procedures of New Staff Entry and Personnel Variances associated with Centralized Wage Payment Centre and Human Resource and Social Security Bureau on Nov. 18, 2013</li> <li>▪ Internal Control Regulations of Guidong Treasury Payment Centre on Sep.18, 2018</li> <li>▪ Internal Control Regulations of Information Management Risks of Guidong Finance Bureau</li> <li>▪ The Implementation Plan of the Annual Audit for FY 2018</li> <li>▪ The audit evidence form on the wage payment for FY 2018</li> <li>▪ The work plan and summary of the implementation of prevention and control of “ghost staff” for FY 2017 on Sep.28, 2017 and Jan.31, 2018</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 operation log of the financial integrated operation system</li> <li>▪ Screenshots on the authorities and operation log of the centralized wage payment system</li> <li>▪ The summary sheet of payrolls of budgetary units for FY 2019</li> <li>▪ The sampling detailed lists of personnel variances for FY 2019</li> </ul>
24. Procurement management	<p>24.1:</p> <ul style="list-style-type: none"> <li>▪ The tendering and bidding record for works procured in FY 2018 maintained by the Rucheng Tendering and Bidding Supervision and Administration Office under the Rucheng Development and Reform Bureau.</li> <li>▪ The government procurement information statistics maintained by the Government Procurement Supervision and Administration Office under the Rucheng Finance Bureau.</li> <li>▪ The local government procurement information statistics management system maintained by the Rucheng 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> <p>24.2:</p> <ul style="list-style-type: none"> <li>▪ The tendering and bidding record for works procured in FY 2018 maintained by the Rucheng Tendering and Bidding Supervision and Administration Office under the Rucheng Development and Reform Bureau.</li> </ul>

Indicators (PEFA 2016 framework)	Evidence
24. Procurement management	<ul style="list-style-type: none"> <li>▪ The government procurement information statistics maintained by the Government Procurement Supervision and Administration Office under the Rucheng Finance Bureau.</li> </ul> <p>24.3:</p> <ul style="list-style-type: none"> <li>▪ Website of Hunan Provincial Tendering and Bidding Supervision (<a href="http://www.bidding.hunan.gov.cn">http://www.bidding.hunan.gov.cn</a>, with the new website <a href="http://218.76.24.90/flow">http://218.76.24.90/flow</a> effective from December 9, 2019).</li> <li>▪ Website of 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 the Rucheng Finance Bureau.</li> </ul> <p>24.4</p> <ul style="list-style-type: none"> <li>▪ The Tendering and Bidding Law of the PRC, effective as of January 1, 2000.</li> <li>▪ The implementing regulation for the Tendering and Bidding Law of the PRC issued by the State Council, effective as of March 2, 2019.</li> <li>▪ The Government Procurement Law of the PRC, effective as of January 1, 2003.</li> <li>▪ The implementing regulation for the Government Procurement Law of the PRC issued by the State Council and effective as of March 1, 2015.</li> <li>▪ The Hunan provincial complaint handling procedure and guidance for procurement following the Tendering and Bidding Law, issued by the Hunan Provincial DRC on April 29, 2019.</li> <li>▪ The complaint handling procedure and guidance for procurement following the Government Procurement Law, issued by MOF on December 26, 2017 and effective as of March 1, 2018</li> <li>▪ Complaint Handling Procedure and Guidance for Procurement Following Government Procurement Law issued by Hunan Provincial Department of Finance on Aug. 5, 2019</li> <li>▪ The general complaint record maintained by the Rucheng Tendering and Bidding Supervision and Administration Office under the Rucheng Development and Reform Bureau.</li> <li>▪ The general complaint record maintained by the Government Procurement Supervision and Administration Office under the Rucheng Finance Bureau.</li> <li>▪ A sample review of complaint resolution of a complaint regarding procurement of rehabilitation and renovation works for Shantianao-Yanshou Road (S205) in Rucheng</li> <li>▪ A sample review of complaint resolution of a complaint regarding procurement of supply and installation of the information application platform for rural land operation right contracted by farmers in Rucheng</li> </ul>
25. Internal controls on non-salary expenditure	<ul style="list-style-type: none"> <li>▪ Interview records with Payment Centre and Economic Construction Division under Guidong Finance Bureau</li> <li>▪ Internal Control Regulations of Guidong Treasury Payment Centre on Sep.18, 2018</li> <li>▪ Interim Provisions of the Administration of Financial Funds of Guidong County on Sep. 21, 2018</li> <li>▪ Annual audit report of FY 2018</li> <li>▪ The project monitoring and fund planning schedule of projects invested by Guidong government for FY 2019</li> <li>▪ Screenshots on the direct application, operation logs and authorities of the financial integrated operation system</li> <li>▪ Samples of extra-budgetary funds approved by Guidong government (application from Guidong Yangshantianxia Group) on Dec. 14, 2018; from Oucai Village on Jan. 13, 2019)</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: Compilation of Network Security and Information Management System of Finance Bureau of Rucheng County; screenshots of system log for FY 2019; screenshots of user's authority 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 Rucheng county for FY 2018.</li> <li>▪ 29.2: Notification of commencement of annual audit of FY 2018.</li> <li>▪ 29.3: The budget implementation reports and statements of Rucheng 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 Rucheng County 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 Rucheng County 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 of the Standing Committee of Rucheng County 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: <ul style="list-style-type: none"> <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 Rucheng County People's Congress.</li> </ul> </li> <li>▪ 31.4 <ul style="list-style-type: none"> <li>▪ Rucheng did not publish the follow-up report about the audit report hearing of FY 2018, which was held by the Standing Committee of Rucheng People's Congress, on the official website.</li> </ul> </li> </ul>
Annex 7 Fiscal risks of main PCs	<ul style="list-style-type: none"> <li>▪ Interview with staff of Rucheng UDIC.</li> <li>▪ The FY 2018 annual audit report of Rucheng 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
Song Hengping	Deputy Director	Rucheng People's Congress, Office
He Feixiang	Deputy Director	Rucheng Commission Office for Public Sector Reform
Chen Shuqi	Financial Officer	Rucheng Commission Office for Public Sector Reform
Chen Lingxia	Director	Rucheng DRC
Zeng Zhiyong	Deputy Director	Rucheng Education Bureau
Zhu Yuxing	Director	Rucheng Education Bureau
Song Miao	Director	Rucheng Human Resources and Social Security Bureau
He Huibing	Union Chairman, Director	Rucheng Transportation Bureau
Huang Wensheng	Director	Rucheng Transportation Bureau
Guo Yongqiang	Director	Rucheng Transportation Bureau
Yang Juan	Director	Planning and Finance Division under Rucheng Audit Bureau
Fan Youzhi	Director	Rucheng Health Bureau
Song Zhiqiang	Deputy Director	Rucheng Major Investment Project Management Office
Chen Guiyang	Clerk	Agriculture and Rural Affairs Division under Rucheng Finance Bureau
Zhong Zifang	Director	Agriculture and Rural Affairs Division under Rucheng Finance Bureau
He Weiwei	Financial Officer	Rucheng Investment Development Company
Zhu Zhiwen	Financial Officer	Government Center under Rucheng Finance Bureau
Huang Shoujun	Director	State-owned Assets Center under Rucheng Finance Bureau
Li Baixin	Deputy Director	State-owned Assets Center under Rucheng Finance Bureau
Lin Ruicheng	Deputy Director	Payment Center under Rucheng Finance Bureau
Song Hongwei	Director	Social Security Division under Rucheng Finance Bureau
He Jianqun	Director	Administration Division under Rucheng Finance Bureau
Zhu Yuguang	Director	Economic Construction Division under Rucheng Finance Bureau
Chen Wenhui	Director	Government Procurement Supervision Office under Rucheng Finance Bureau
Fan Mingxiang	Director	Finance and Debt Division under Rucheng Finance Bureau
Guo Wen	Director	Agriculture Division under Rucheng Finance Bureau
Xu Zhangwen	Director	Non-Tax Bureau Planning and Finance Division under Rucheng Finance Bureau
Cao Bo	Director	Financial Information Center under Rucheng Finance Bureau
Lu Haiqiang	Deputy Director	Budget Division and Fiscal Performance Management Division under Rucheng Finance Bureau
Guo Song	Deputy Director	Budget Division under Rucheng Finance Bureau
He Yunfeng	Deputy Director	PPP Office under Rucheng Finance Bureau

Name	Position	Institution
Lu Yao	Deputy Director	Office under Rucheng Finance Bureau
He Shuping		State-owned Assets Center under Rucheng Finance Bureau
Pan Caoli		Finance and Debt Division under Rucheng Finance Bureau
Fan Xiaomei	Director	Payment Division under Rucheng Finance Bureau
Tu Zhixiang	Director	Financial Supervision Division under Rucheng Finance Bureau
Zhang Quancheng	Deputy Chief	Rucheng Tendering and Bidding Supervision and Administration Office of Rucheng Development and Reform Bureau
Chen Wenhui	Deputy Chief	Rucheng Government Procurement Supervision and Administration Office of Rucheng Finance Bureau
Lin Duancheng	Director	Treasury Division under Rucheng 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	22,800	20,690				
Income tax rebate income	7,160	7,160				
Other tax rebate income	14,000	7,460				
Institutional adjustment subsidies						
Equalization transfer	241,470	272,080				
Transfers for old revolutionary base areas, ethnic areas, border areas and poor areas		87,670				
Awarding transfer under basic financial support mechanism for counties	84,710	120,820				
Settlement subsidies	17,890	31,830				
Subsidies for budget-level adjustment of enterprises and institutions	7,280	5,880				
Fixed amount subsidies	79,010	85,010				
Other general transfers	3,570	7,590				
Total non-earmarked grants	477,890	646,190	1,112,193.3	-466,003.3	466,003.3	41.9%
<b>Earmarked grants</b>						
Tax rebate for refined oil tax and pricing system reform	15,060	15,060	35,049.1	-19,989.1	19,989.1	57.0%
Transfers for Public Security, Prosecution and legal department	8,160	10,580	18,990.8	-8,410.8	8,410.8	44.3%
Transfers for compulsory education	78,170	124,860	181,925.0	-57,065.0	57,065.0	31.4%
Transfers for basic old-age insurance and minimum living allowance	119,100	73,490	277,181.4	-203,691.4	203,691.4	73.5%
Transfers for new cooperative rural medical system	121,790	148,500	283,441.9	-134,941.9	134,941.9	47.6%
Transfer for rural comprehensive reform	15,570	21,080	36,236.1	-15,156.1	15,156.1	41.8%
Transfer for key ecological functional areas	74,740	78,480	173,942.4	-95,462.4	95,462.4	54.9%
Rewarding fund for large grain (oil) producing counties			0.0	0.0	0.0	
Sum of rest		1,000,720	0.0	1,000,720.0	1,000,720.0	
Total revenue	910,480	2,118,960	2,118,960	0	2,001,440	
<b>Overall outturn as percentage of budget</b>						<b>232.7%</b>
<b>Composition variance</b>						<b>94.5%</b>

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



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

Unit: thousand RMB						
Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Non-earmarked grants</b>						
Income from VAT and excise tax rebate	20,690	20,690				
Income tax rebate income	7,160	7,160				
Income from VAT 50:50 sharing rebate		-12,810				
Other tax rebate income	13,970	13,970				
Institutional adjustment subsidies	0					
Equalization transfer	244,480	313,330				
Transfers for old revolutionary base areas, ethnic areas, border areas	44,820	9,780				
Awarding transfer under basic financial support mechanism for counties	84,660	105,690				
Settlement subsidies	26,900	26,220				
Subsidies for budget-level adjustment of enterprises and institutions	5,880	5,880				
Fixed amount subsidies	85,010	75,840				
Transfers for poor areas	0	87,230				
Other general transfers	17,670	58,000				
Total non-earmarked grants	551,240	710,980	939,251.0	-228,271.0	228,271.0	24.3%
<b>Earmarked grants</b>						
Tax rebate for refined oil tax and pricing system reform	15,060	15,060	25,660.5	-10,600.5	10,600.5	41.3%
Transfers for Public Security, Prosecution and legal department	7,660	12,940	13,051.8	-111.8	111.8	0.9%
Transfers for compulsory education	106,790	127,900	181,958.2	-54,058.2	54,058.2	29.7%
Transfers for basic old-age insurance	73,490	87,280	125,218.7	-37,938.7	37,938.7	30.3%
Transfers for urban and rural basic medical insurance		155,300	0.0	155,300.0	155,300.0	
Transfers for new cooperative rural medical system	148,500		253,027.3	-253,027.3	253,027.3	100.0%
Transfer for rural comprehensive reform	21,050	39,060	35,866.8	3,193.2	3,193.2	8.9%
Rewarding fund for large grain (oil) producing counties	0		0.0	0.0	0.0	
Transfer for key ecological functional areas	78,480	81,040	133,721.1	-52,681.1	52,681.1	39.4%
Transfer for resource exhausted cities		6,800	0.0	6,800.0	6,800.0	
Sum of rest	276,940	943,270	471,874.6	471,395.4	471,395.4	99.9%
Total revenue	1,279,210	2,179,630	2,179,630.0	0.0	1,273,377.1	
<b>Overall outturn as percentage of budget</b>						<b>170.4%</b>
<b>Composition variance</b>						<b>58.4%</b>

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

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

Unit: thousand RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Non-earmarked grants</b>						
Income tax rebate income	7,160	7,160				
VAT rebate income		20,680				
Income from excise tax rebate		10				
Income from VAT and excise tax rebate	22,650					
Income from VAT 50:50 sharing rebate		-12,810				
Other tax rebate income	13,970	13,970				
Institutional adjustment subsidies						
Equalization transfer	370,800	342,010				
Awarding transfer under basic financial support mechanism for counties	94,660	108,950				
Settlement subsidies	26,900	49,860				
Subsidies for budget-level adjustment of enterprises and institutions	5,880	5,880				
Fixed amount subsidies	85,010	77,780				
Transfers for old revolutionary base areas	44,820	12,490				
Transfers for poor areas		110,000				
Other general transfers	17,670	119,240				
Total non earmarked grants	689,520	855,220	964,371.3	-109,151.3	109,151.3	11.3%
<b>Earmarked grants</b>						
Tax rebate for refined oil tax and pricing system reform	15,060	15,060	21,063.1	-6,003.1	6,003.1	28.5%
Transfer for resource exhausted cities	0	12,600	0.0	12,600.0	12,600.0	
Transfers for Public Security, Prosecution and legal department	7,890	6,310	11,035.1	-4,725.1	4,725.1	42.8%
Transfers for compulsory education	109,990	171,980	153,833.4	18,146.6	18,146.6	11.8%
Transfers for basic old-age insurance	75,690	111,400	105,861.0	5,539.0	5,539.0	5.2%
Transfers for urban and rural basic medical insurance	152,960	164,630	213,931.8	-49,301.8	49,301.8	23.0%
Transfer for rural comprehensive reform	21,680	39,240	30,321.9	8,918.1	8,918.1	29.4%
Rewarding fund for large grain (oil) producing counties	0		0.0	0.0	0.0	
Transfer for key ecological functional areas	82,480	81,970	115,357.6	-33,387.6	33,387.6	28.9%
Sum of rest	400,000	716,810	559,445.0	157,365.0	157,365.0	28.1%
Total revenue	1,555,270	2,175,220	2,175,220.0	0.0	405,137.5	
<b>Overall outturn as percentage of budget</b>						<b>139.9%</b>
<b>Composition variance</b>						<b>18.6%</b>

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

Table A6.4: Expenditures by functions, FY 2016

Unit: thousand RMB						
Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public service expenditure	258,018	178,280	353,506.0	-175,226.0	175,226.0	49.6%
Public security expenditures	59,277	75,320	81,214.1	-5,894.1	5,894.1	7.3%
Defense expenditure	0	200	0.0	200.0	200.0	
Expenditures on education	473,369	554,470	648,553.5	-94,083.5	94,083.5	14.5%
Expenditures on science and technology	2,308	38,220	3,162.1	35,057.9	35,057.9	1108.7%
Cultural Sports and media expenditure	24,383	68,080	33,406.8	34,673.2	34,673.2	103.8%
Social security and employment expenditure	254,462	372,840	348,632.9	24,207.1	24,207.1	6.9%
Health and family planning expenditure	259,342	313,880	355,319.9	-41,439.9	41,439.9	11.7%
Energy saving and environmental protection expenditure	24,531	86,930	33,610.0	53,320.0	53,320.0	158.6%
Urban and rural community expenditure	123,252	208,380	168,865.1	39,514.9	39,514.9	23.4%
Agricultural, forestry and water expenditure	265,717	496,140	364,053.2	132,086.8	132,086.8	36.3%
Transportation expenditure	41,976	357,970	57,510.8	300,459.2	300,459.2	522.4%
Expenditure for resources exploration information	7,361	15,850	10,085.8	5,764.2	5,764.2	57.2%
Business services and other expenditures	15,626	51,030	21,409.5	29,620.5	29,620.5	138.4%
Financial expenditure	610		835.7	-835.7	835.7	100.0%
Expenditure on land, ocean and meteorology	11,795	19,940	16,160.3	3,779.7	3,779.7	23.4%
Housing security expenditure	43,205	144,470	59,194.5	85,275.5	85,275.5	144.1%
Expenditure on stockpiling grain	942	3,160	1,290.2	1,869.8	1,869.8	144.9%
Other general public budget expenditure	218,470	50	299,321.1	-299,271.1	299,271.1	100.0%
Urban and rural community affairs expenditure	81,420		111,551.9	-111,551.9	111,551.9	100.0%
Expenditure for principal on debt	20,500		28,086.6	-28,086.6	28,086.6	100.0%
Other government fund expenditure		10,560	0.0	10,560.0	10,560.0	
Allocated expenditure	2,186,566	2,995,770	2,995,770.0	0.0	1,512,777.7	
Interests	73,000	37,660				
Contingency	57,000					
Total expenditure	2,316,566	3,033,430				
<b>Aggregate outturn, as percentage of budget (PI-1)</b>						<b>130.9%</b>
<b>Composition (PI-2) variance</b>						<b>50.5%</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

Table A6.5: Expenditures by functions, FY 2017

Unit: thousand RMB

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public service expenditure	203,699	187,640	249,631.6	-61,991.6	61,991.6	24.83%
Defense Expenditure		500	0.0	500.0	500.0	
Public security expenditures	71,399	114,170	87,498.2	26,671.8	26,671.8	30.48%
Expenditures on education	609,788	576,220	747,289.6	-171,069.6	171,069.6	22.89%
Expenditures on science and technology	2,349	37,890	2,879.1	35,010.9	35,010.9	1216.03%
Cultural Sports and media expenditure	29,587	69,660	36,258.8	33,401.2	33,401.2	92.12%
Social security and employment expenditure	338,665	465,440	415,031.2	50,408.8	50,408.8	12.15%
Health and family planning expenditure	303,486	347,840	371,919.6	-24,079.6	24,079.6	6.47%
Energy saving and environmental protection expenditure	10,144	88,230	12,431.3	75,798.7	75,798.7	609.74%
Urban and rural community expenditure	226,672	277,350	277,783.9	-433.9	433.9	0.16%
Agricultural, forestry and water expenditure	394,165	541,970	483,045.5	58,924.5	58,924.5	12.20%
Transportation expenditure	42,212	162,940	51,730.0	111,210.0	111,210.0	214.98%
Expenditure for resources exploration information	5,135	12,990	6,292.3	6,697.7	6,697.7	106.44%
Business services and other expenditures	22,788	19,750	27,927.0	-8,177.0	8,177.0	29.28%
Financial expenditure	710	1,000	870.1	129.9	129.9	14.93%
Expenditure on land, ocean and meteorology	9,823	39,740	12,038.5	27,701.5	27,701.5	230.11%
Housing security expenditure	91,572	108,510	112,221.2	-3,711.2	3,711.2	3.31%
Expenditure on stockpiling grain	1,760	3,530	2,156.9	1,373.1	1,373.1	63.66%
Other general public budget expenditure	29,690	1,500	36,384.8	-34,884.8	34,884.8	95.88%
Urban and rural community affairs expenditure	90,300		110,661.8	-110,661.8	110,661.8	100.00%
Expenditure for resources exploration and power information			0.0	0.0	0.0	
Expenditure for principal on debt	23,000		28,186.3	-28186.3	28,186.3	100.00%
Other government fund expenditure	10	15,380	12.3	15,367.7	15,367.7	1254.007442
Allocated expenditure	2,506,955	3,072,250	3,072,250.0	0.0	886,391.8	
Interests	70,500	117,920				
Contingency	57,000					
Total expenditure	2,634,455	3,190,170				
<b>Aggregate outturn, as percentage of budget (PI-1)</b>						<b>121.1%</b>
<b>Composition (PI-2) variance</b>						<b>28.9%</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

Table A6.6: Expenditures by functions, FY 2018

Unit: thousand RMB						
Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public service expenditure	271,606	216,970	352,385.1	-135,415.1	135,415.1	38.43%
Defence Expenditure			0.0	0.0	0.0	
Public security expenditures	59,544	81,580	77,253.1	4,326.9	4,326.9	5.60%
Expenditures on education	577,056	599,270	748,680.5	-149,410.5	149,410.5	19.96%
Expenditures on science and technology	1,391	68,200	1,804.1	66,395.9	66,395.9	3680.30%
Cultural Sports and media expenditure	31,591	71,270	40,986.2	30,283.8	30,283.8	73.89%
Social security and employment expenditure	477,813	470,990	619,921.5	-148,931.5	148,931.5	24.02%
Health and family planning expenditure	329,127	367,380	427,014.5	-59,634.5	59,634.5	13.97%
Energy saving and environmental protection expenditure	26,339	105,540	34,173.0	71,367.0	71,367.0	208.84%
Urban and rural community expenditure	77,388	215,260	100,404.4	114,855.6	114,855.6	114.39%
Agricultural, forestry and water expenditure	319,076	580,640	413,974.1	166,665.9	166,665.9	40.26%
Transportation expenditure	53,505	157,280	69,417.6	87,862.4	87,862.4	126.57%
Urban and rural community affairs expenditure	43,950		57,021.3	-57021.3	57,021.3	100.00%
Expenditure for resources exploration information	10,814	15,270	14,030.1	1,239.9	1,239.9	8.84%
Business services and other expenditures	27,313	28,590	35,435.9	-6,845.9	6,845.9	19.32%
Financial expenditure	610	280	791.4	-511.4	511.4	64.62%
Expenditure on land, ocean and meteorology	29,371	40,070	38,105.8	1,964.2	1964.2	5.15%
Housing security expenditure	104,554	150,310	135,650.4	14,659.6	14659.6	10.81%
Expenditure on stockpiling grain		3,920	0.0	3,920.0	3920	
Other general public budget expenditure	12,040	1,500	15,620.9	-14,120.9	14120.9	90.40%
Other government fund expenditure		8,350	0.0	8,350.0	8,350.0	
Allocated expenditure	2,453,088	3,182,670	3,182,670.0	0.0	1,143,8	
interests	249,754	145,590				
Contingency	30,000					
Total expenditure	2,732,841	3,328,260				
<b>Aggregate outturn, as percentage of budget (PI-1)</b>						<b>121.8%</b>
<b>Composition (PI-2) variance</b>						<b>35.9%</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

Table A6.7: Revenues, FY 2016

Unit: thousand RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
VAT	45,000	65,670	25,617.7	40,052.3	40,052.3	156.3%
Business tax changed to VAT	3,500		1,992.5	-1992.5	1,992.5	100.0%
Business tax	76,000	43,450	43,265.5	184.5	184.5	0.4%
Corporate income tax	30,000	34,010	17,078.5	16,931.5	16,931.5	99.1%
Corporate income tax refund			0.0	0.0	0.0	
Individual income tax	11,300	10,800	6,432.9	4,367.1	4,367.1	67.9%
Resource tax	5,500	10,580	3,131.1	7,448.9	7,448.9	237.9%
City maintenance and construction tax	16,480	11,760	9,381.8	2,378.2	2,378.2	25.3%
Property tax	3,740	3,360	2,129.1	1,230.9	1,230.9	57.8%
Stamp duty	3,000	2,860	1,707.8	1,152.2	1,152.2	67.5%
Urban land use tax	3,600	4,180	2,049.4	2,130.6	2,130.6	104.0%
Land appreciation tax	11,000	12,820	6,262.1	6,557.9	6,557.9	104.7%
Vehicle and vessel tax	3,080	3,730	1,753.4	1,976.6	1,976.6	112.7%
Farmland conversion tax	22,000	15,610	12,524.2	3,085.8	3,085.8	24.6%
Deed tax	35,000	26,260	19,924.9	6,335.1	6,335.1	31.8%
Tobacco taxes			0.0	0.0	0.0	
Other tax revenue			0.0	0.0	0.0	
Social contributions						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
Grants						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units			0.0	0.0	0.0	
Other revenues						
Special Revenue	34,000	23,010	19,355.6	3,654.4	3,654.4	18.9%
Income from administrative fees	272,600	281,630	155,186.4	126,443.6	126,443.6	81.5%
Fines, penalties and forfeits	41,150	39,050	23,426.0	15,624.0	15,624.0	66.7%
Income from state capital operation	16,000		9,108.5	-9,108.5	9,108.5	100.0%
Income from paid use of state-owned resources (assets)	1,600	51,580	910.9	50,669.1	50,669.1	5562.8%
Other Revenue			0.0	0.0	0.0	
Government fund income	828,230	163,820	455,329	-291,509	291,509	64.0%
Total revenue	1,462,780	804,180	804,180	0	604,458.5	
<b>Overall variance against budget</b>						<b>55.0%</b>
<b>Composition variance against adjusted budget</b>						<b>75.2%</b>

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

Table A6.8: Revenues, FY 2017

Unit: thousand RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
VAT	36,380	110,490	17,500.0	92,990.0	92,990.0	531.4%
Business tax changed to VAT	77,820		37,434.1	-37434.1	37,434.1	100.0%
Corporate income tax	36,810	40,100	17,706.9	22,393.1	22,393.1	126.5%
Individual income tax	11,610	8,800	5,584.8	3,215.2	3,215.2	57.6%
Resource tax	11,160	10,470	5,368.3	5,101.7	5,101.7	95.0%
City maintenance and construction tax	13,070	17,670	6,287.1	11,382.9	11,382.9	181.1%
Property tax	3,720	32,230	1,789.4	30,440.6	30,440.6	1701.1%
Stamp duty	3,180	4,400	1,529.7	2,870.3	2,870.3	187.6%
Urban Land Use tax	4,550	5,120	2,188.7	2,931.3	2,931.3	133.9%
Land appreciation tax	14,250	24,710	6,854.7	17,855.3	17,855.3	260.5%
Vehicle and Vessel tax	4,150	4,590	1,996.3	2,593.7	2,593.7	129.9%
Farmland conversion tax	17,360	10,770	8,350.7	2,419.3	2,419.3	29.0%
Deed tax	29,190	23,750	14,041.4	9,708.6	9,708.6	69.1%
Tobacco taxes			0.0	0.0	0.0	
Other tax revenue	0		0.0	0	0.0	
Social contributions						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
Grants						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units			0.0	0.0	0.0	
Other revenues						
Special Revenue	23,290	24,770	11,203.3	13,566.7	13,566.7	121.1%
Income from administrative fees	281,630	62,390	135,473.6	-73,083.6	73,083.6	53.9%
Fines, penalties and forfeits	39,060	10,010	18,789.2	-8,779.2	8,779.2	46.7%
Income from state capital operation	0		0.0	0.0	0.0	
Income from paid use of state-owned resources (assets)	51,580	22,360	24,811.7	-2,451.7	2,451.7	9.9%
Other Revenue	0		0.0	0.0	0.0	
Government fund income	701,510	241,730	337,450.1	-95,720.1	95,720.1	28.4%
Total revenue	1,360,320	654,360	654,360	0	434,937	
<b>Overall variance against budget</b>						<b>48.1%</b>
<b>Composition variance against adjusted budget</b>						<b>66.5%</b>

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

Table A6.9: Revenues, FY 2018

Unit: thousand RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
VAT	89,730	148,590	58,340.9	90,249.1	90,249.1	154.7%
Business tax changed to VAT	32,090		20,864.4	-20864.4	20,864.4	100.0%
Corporate income tax	42,360	28,880	27,541.7	1,338.3	1,338.3	4.9%
Individual income tax	8,800	18,050	5,721.6	12,328.4	12,328.4	215.5%
Resource tax	10,300	20,250	6,696.9	13,553.1	13,553.1	202.4%
City maintenance and construction tax	18,020	19,320	11,716.3	7,603.7	7,603.7	64.9%
Property tax	32,720	8,630	21,274.0	-12,644.0	12,644.0	59.4%
Stamp duty	4,520	3,740	2,938.8	801.2	801.2	27.3%
Urban Land Use tax	4,520	5,490	2,938.8	2,551.2	2,551.2	86.8%
Land appreciation tax	25,730	29,000	16,729.2	12,270.8	12,270.8	73.3%
Vehicle and Vessel tax	4,700	5,410	3,055.9	2,354.1	2,354.1	77.0%
Farmland conversion tax	11,380	7,070	7,399.1	-329.1	329.1	4.4%
Deed tax	24,770	27,860	16,105.0	11,755.0	11,755.0	73.0%
Tobacco taxes			0.0	0.0	0.0	
Environmental protection tax		130	0.0	130.0	130.0	
Other tax revenue			0.0	0	0.0	
Social contributions						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
Grants						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units			0.0	0.0	0.0	
Other revenues						
Special Revenue	24,020	26,110	15,617.4	10,492.6	10,492.6	67.2%
Income from administrative fees	73,870	37,330	48,029.0	-10,699.0	10,699.0	22.3%
Fines, penalties and forfeits	10,610	19,080	6,898.4	12,181.6	12,181.6	176.6%
Income from state capital operation			0.0	0.0	0.0	
Income from paid use of state-owned resources (assets)	13,600	24,060	8,842.5	15217.5	15,217.5	172.1%
Other Revenue			0.0	0.0	0.0	
Government fund income	590,680	235,760	384,050.0	-148,290.0	148,290.0	38.6%
Total revenue	1,022,420	664,760	664,760	0	385,653	
<b>Overall variance against budget</b>						<b>65.0%</b>
<b>Composition variance against adjusted budget</b>						<b>58.0%</b>

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



## ANNEX 7: FISCAL RISKS OF MAIN PUBLIC CORPORATIONS

PCs can bring substantial fiscal risks to the county government. This PEFA assessment assesses the quality of fiscal risk monitoring associated with PCs under dimension PI-10.1. The assessment under PI-10.1 is anchored to the financial reports of the PCs, whether they are submitted to the government timely, are disclosed to the public, and whether they are audited. However, considering 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 risk for the county government.

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

Rucheng government confirmed that there was only one LGFV in operation at the time of assessment— Rucheng UDIC. All other previous LGFVs in Rucheng had either been shut down or been merged into Rucheng UDIC by 2018.

Table A7.1 provides key information on Rucheng UDIC and its subsidiaries. Rucheng UDIC is no longer allowed to borrow to finance public benefit projects. Its borrowings are reported to, and are closely monitored by, the Finance Bureau. Non-LGFVs are not required to report to the Finance Bureau about their borrowing.

**Table A7.1. Rucheng UDIC and its Subsidiaries**

Name of PC	Main activities	Shares owned by Rucheng Government	Assets (million RMB)	Stock of debt (million RMB)
Rucheng UDIC	Urban development and investment, land development and city infrastructure development	63.64%	7,397.20	1,924.50
<b>Subsidiaries of Rucheng UDIC</b>				
1. Kaiyuan Rucheng Investment co. LTD	Land Development and Urban Infrastructure Development	43.48%	1,567.10	975.62
2. Rucheng Agricultural Development co. LTD	Land development and Rural Infrastructure Construction	100%	589.30	139.49
<b>Total</b>			<b>9,553.60</b>	<b>3,039.61</b>

Data source: Rucheng 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 Rucheng UDIC exceeds 10 percent of BG's expenditure.	D
<b>6.2 Revenue outside financial reports</b>	Total gross revenues of the Rucheng 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 Rucheng UDIC amounted to RMB349.5 million in 2018, equivalent to 52.58 percent of the BG's total expenditures. Score D.

#### PI-6.2 Revenue outside financial reports

Total gross revenue of the Rucheng UDIC amounted to RMB683.9 million in 2018, equivalent to 20.55 percent of BG's total revenues. Score D.

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

	Gross amount	As % of Government Budget
<b>Revenues</b>	0.3495	52.58%
<b>Expenditures</b>	0.6839	20.55%

Source: Rucheng 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>	Rucheng UDIC implements projects according to the project plans issued by the Development and Reform Commission. The rules and procedures are prescribed in the County Government Decree. Rucheng UDIC strictly complies with these rules and procedures. The physical progress is monitored monthly and submitted to the DRC. 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.	B

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

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

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





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