



Hunan Finance  
Department



World Bank Group

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





Hunan Finance  
Department



World Bank Group

**Pingjiang 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 Pingjiang City for their cooperation, and the peer reviewers and PEFA Secretariat for their guidance. A substantial number of Pingjiang City officials participated in the assessment, readily providing most of the documentation used for the assessment, as well as their views and insights on the subjects covered.

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

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

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

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

**1 US\$ = RMB 7.0**

**Fiscal Year: January 1 – December 31**

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





**The People's Republic of China**  
**Hunan province – Pingjiang county**

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

Based on the 2020 Subnational PEFA methodology

Version of June 8, 2020

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

PEFA Secretariat  
July 3, 2020





# TABLE OF CONTENTS

<b>PREFACE .....</b>	<b>III</b>
<b>TABLE OF CONTENTS .....</b>	<b>VII</b>
<b>ABBREVIATIONS AND ACRONYMS .....</b>	<b>IX</b>
<b>EXECUTIVE SUMMARY .....</b>	<b>X</b>
<b>1 INTRODUCTION .....</b>	<b>1</b>
1.1 Rationale and purpose .....	1
1.2 Assessment management, oversight and quality assurance .....	1
1.3 Assessment methodology .....	2
<b>2 COUNTRY AND SNG BACKGROUND INFORMATION .....</b>	<b>5</b>
2.1. Economic situation .....	5
2.2 Fiscal and budgetary trends in Pingjiang .....	10
2.3 Legal and regulatory framework for PFM .....	13
2.4 Institutional arrangements for PFM .....	14
<b>3 ASSESSMENT OF PFM PERFORMANCE .....</b>	<b>19</b>
SNG PILLAR: Intergovernmental fiscal relations.....	19
PILLAR 1: Budget reliability .....	23
PILLAR 2: Transparency of public finances .....	28
PILLAR 3: Management of assets and liabilities .....	43
PILLAR 4: Policy-based fiscal strategy and budgeting .....	53
PILLAR 5: Predictability and control in budget execution .....	61
PILLAR 6: Accounting and Reporting .....	83
PILLAR 7: External Scrutiny and Audit .....	89

<b>4</b>	<b>CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS .....</b>	<b>95</b>
4.1	Integrated assessment across the PIs.....	95
4.2	Strengths and weaknesses of the PFM systems .....	98
4.3	Performance changes since a previous assessment .....	100
<b>5</b>	<b>GOVERNMENT PFM REFORMS .....</b>	<b>101</b>
5.4	Approach to PFM reforms.....	101
5.2	Recent and on-going reform actions .....	101
5.3	Institutional consideration .....	103
	<b>ANNEX 1: SUMMARY OF PERFORMANCE INDICATORS.....</b>	<b>104</b>
	<b>ANNEX 2: SUMMARY OF OBSERVATIONS ON THE INTERNAL CONTROL FRAMEWORK.....</b>	<b>112</b>
	<b>ANNEX 3: PUBLIC SECTOR AGENCIES COVERED BY THE ASSESSMENT .....</b>	<b>116</b>
	<b>ANNEX 4: EVIDENCE FOR SCORING OF THE INDICATORS .....</b>	<b>118</b>
	<b>ANNEX 5: LIST OF PERSONS INTERVIEWED.....</b>	<b>123</b>
	<b>ANNEX 6: CALCULATION OF BUDGET OUTTURNS FOR HLG-1, PI-1, PI-2 AND PI-3.....</b>	<b>125</b>
	<b>ANNEX 7: FISCAL RISKS OF MAIN PUBLIC CORPORATIONS .....</b>	<b>134</b>

## ABBREVIATIONS AND ACRONYMS

<b>AFS</b>	Annual Financial Statements
<b>BCG</b>	Budgetary Central Government
<b>CAFS</b>	China Academy of Fiscal Sciences (CAFS)
<b>CG</b>	Central Government
<b>CNAO</b>	China National Audit Office
<b>CPC</b>	Chinese Communist Party
<b>CPI</b>	Consumer Price Index
<b>DMS</b>	Debt Management Strategy
<b>DRC</b>	Development and Reform Commission
<b>EBU</b>	Extrabudgetary Unit
<b>FY</b>	Fiscal Year
<b>GAU</b>	Government Administrative Unit
<b>GDP</b>	Gross Domestic Product
<b>GFS</b>	Government Financial Statistics
<b>GFB</b>	Government Fund Budget
<b>GPB</b>	General Public Budget
<b>HLG</b>	Higher-Level Government
<b>HPFD</b>	Hunan Provincial Finance Department
<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>USD</b>	United States Dollar
<b>VAT</b>	Value Added Tax
<b>WB</b>	World Bank



# EXECUTIVE SUMMARY

The purpose of this PEFA assessment was to provide an objective analysis of the present performance of the public financial management (PFM) system in Pingjiang County, using the new 2020 Subnational PEFA Framework. The results of this assessment will inform the design of 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 Pingjiang County can be measured.

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

The field work for the assessment was undertaken from December 15 to 21, 2019 with a follow-up mission from January 14 to 17, 2020. The fiscal years (FYs) covered for indicators that require an assessment of a three-year period, are 2016 to 2018.

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

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

### *Fiscal discipline*

The budget fails to impose fiscal discipline in Pingjiang in some areas. The variation between outturn and budget estimates for both aggregate expenditure (PI-1.1) and expenditure composition (PI-2.1) is rated D, and there are significant budget adjustments for expenditure (PI-21.4, rated D) within the fiscal year. The uncertainty from HLG transfers (the indicator ‘Transfers from HLGs’ is rated D+) contributes significantly to the SNG’s poor estimation of its expenditure. In-year policy changes also make it challenging for the SNG to project its own-source revenue (PI-3, rated C). The fact that the SNG did not use any contingency reserve in the last three fiscal years (FYs) indicates that the SNG is not prudently managing its budget. The in-year resource

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

Effective control over expenditures by budgetary units helps to maintain fiscal discipline. All government operations are included in financial reports (PI-6, rated A). Payroll control is effectively supported with centralized payment arrangements and auto-reconciliation through an IT system (the first three dimensions of PI-23 rated A). Strong internal control of non-salary expenditure (PI-25, rated B) and an internal audit system (PI-26, rated B+) have ensured strict control over spending during budget execution.

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

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

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

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

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

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

The PFM systems of Pingjiang encourage the efficient use of resources for service delivery. To this end, the budgetary units in Pingjiang regularly publish performance targets (PI-8.1, C), conduct performance evaluation (PI-8.4, C) and report available resources (PI-8.3, A). However, low budget reliability and predictability of in-year resource allocation (PI-21, D) may adversely affect the capacity of service delivery units to make efficient use of resources.

Many required mechanisms are in place to reduce the possible leakage of funds, such as the asset management system (PI-12, B) and the internal control mechanisms for payroll (PI-23, C+) and non-salary expenditures (PI-25, B). As for the procurement management system, data are not available to evaluate procurement monitoring (PI-24.1, D\*) and procurement methods (PI-24.2, D\*), but there is reasonable information disclosure (PI-24.3, C)

and a sound complaint solving regime (PI-24.4, A).

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

The overall impact of PFM on the efficient use of resources for service delivery is not clear as performance achieved in service delivery is not published (PI-8.2, D).

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

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

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

PFM PERFORMANCE INDICATOR (PI)		SCORING METHOD	DIMENSION RATINGS				OVERALL RATING
			i	ii	iii	iv	
<b>SNG PILLAR: Intergovernmental fiscal relations</b>							
HLG-1	Transfers from an HLG	M2	D	D	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	B	D			<b>C</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 SNGs	M2					<b>NA</b>
PI-8	Performance information for service delivery	M2	C	D	A	C	<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	C	NA	B		<b>C+</b>
PI-11	Public investment management	M2	C	A	D	C	<b>C+</b>
PI-12	Public asset management	M2	B	C	A		<b>B</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	B	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	A	B	C	<b>C+</b>
<b>Pillar Five: Predictability and control in budget execution</b>							
PI-19	Revenue administration	M2					<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	A	A	C	<b>C+</b>
PI-24	Procurement management	M2	D*	D*	C	A	<b>C</b>
PI-25	Internal controls on non-salary expenditure	M2	A	D	B		<b>B</b>
PI-26	Internal audit	M1	A	B	A	A	<b>B+</b>
<b>Pillar Six: Accounting and reporting</b>							
PI-27	Financial data integrity	M2	B	NA	NA	A	<b>B+</b>
PI-28	In-year budget reports	M1	A	A	B		<b>B+</b>
PI-29	Annual financial reports	M1	C	A	D		<b>D+</b>
<b>Pillar Seven: External scrutiny and audit</b>							
PI-30	External audit	M1	D	B	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 also had a longstanding relationship with the World Bank in this area and is currently engaging with the World Bank to design and implement a Program-for-Results lending operation to support a reform program for the improvement of PFM in the Province.

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

3. The present PEFA assessment will provide an analysis of the performance of the PFM systems in Pingjiang 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, 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:	<p>iu Shangxi (President, CAFS of the MOF), Deng Weiping (Director, Foreign Economic Cooperation Division, HPFD), Su Zhili (Director, City and County PFM Supervision Division, HPFD) Lewis Hawke (Lead Public Sector Specialist, EEAG1, WB), Sanjay Vani (Lead Financial Management Specialist, EEAG1, WB), John Litwack (Lead Economist, EA1M2, WB), Christoph Ungerer (Senior Economist, EECM2, WB), IMF Representative, and PEFA Secretariat.</p> <p>Reviewers who provided comments: Liu Shangxi, Deng Weiping, Su Zhili, Lewis Hawke, Sanjay Vani, Christoph Ungerer, and Martin Bowen (PEFA Secretariat). Comments from Deng Weiping represent those of Hunan Provincial DOF and all 8 county governments.</p>
Date of final CN to PEFA Secretariat:	December 3, 2019
<b>PEFA assessment report</b>	
Date submitted for review:	<p>The first draft was submitted to the WB peer reviewers and PEFA Secretariat on March 23, 2020.</p> <p>The revised version incorporating comments from the peer reviewers of the WB and PEFA Secretariat was submitted to the Hunan provincial DOF and the Pingjiang County government for review on April 14, 2020.</p>
Reviewers and date they provided comments:	<p>Written comments were received from Lewis Hawke (EEAG1), Sanjay Vani (EEAG1), Christoph Ungerer (EECM2), and Martin Bowen (PEFA Secretariat) on March 30, 2020.</p> <p>Written comments were received from HPFD on May 6, 2020; from Pingjiang County government on May 7, 2020.</p>
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 Pingjiang County, more specifically its government administrative units (GAUs, 行政单位) and public service units (PSUs, 事业单位), including budget-funded

service delivery entities such as schools, hospitals, and agriculture service centers. Annex 3 provides a list of the specific public sector agencies covered. Generally, and therefore also in Pingjiang Country, there are no EBUs and no local governments below the county level. Social security fund is managed separately from the core budget system—general public budget and government fund budget, and thus is classified as extrabudgetary operation in this assessment. In addition, Pingjiang has 57 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 laws and regulations prohibit any SOE, including local government financing vehicles (LGFV), from financing on behalf of the government. LGFVs that have been undertaking quasi-fiscal operations are required to be transformed into commercial entities, operating according to market rules, producing goods and services at market prices and bearing risks on their own. The government does not have legislative obligation to bail out any SOE. Considering that they may present potential fiscal risk to the government, Annex 7 provides complementary information on the financial management performance of the LGFV in Pingjiang. At the time of assessment, there was one LGFV in Pingjiang that is still in the process of transformation to a commercial entity.

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

**Table 1.2: Timing of PEFA Assessment in Pingjiang County**

<b>In-country field work:</b>	December 15-21, 2019 and January 14-17, 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 agencies within the SNG, such as the Finance Bureau, the Development and Reform Commission (DRC), the Audit Office, and the Education Bureau; local institutions, such as the local People’s Congress or local SOEs; as well as institutions at the HLG level. A consolidated list of the data and evidence used for this assessment, including by indicator and dimension, can be found in Annex 4. The names of persons interviewed are listed in Annex 5.

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

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



## 2 COUNTRY AND SNG BACKGROUND INFORMATION

### 2.1 Economic situation

#### 2.1.1 China and Hunan Province

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

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

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

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

Data source: Hunan Department of Finance.

14. A strong PFM system is indispensable for driving the economic transformation in China and further developing it to a high-income country. China's fiscal system has successfully supported the economic growth and rebalancing in the last decade. It helped raise the tax share of GDP from 10 percent in 1994 to 19 percent in 2013 and contributed significantly to financing the infrastructure needed to accommodate urbanization

in the 1990s and 2000s. China also recognizes public finance as the foundation of national governance for addressing the development challenges going forward. “A good fiscal and taxation system is the institutional guarantee for optimizing resource allocation, maintaining market integration, promoting social equity and achieving long-term national stability” (The Reform Decision, 2013). The 2014 Budget Law 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 more detailed discussions about China’s PFM reform program.

### 2.1.2 Intergovernmental fiscal arrangements

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

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

#### ***Assignment of expenditure responsibility***

17. The clarification of the division of functions across levels of government is a crucial reform expected to ensure mandates of SNGs are clear and adequately funded. To delineate the functionalities and expenditure responsibilities between the CG and the SNGs, China now classifies government functions in three categories: (i) CG functions; (ii) SNG functions; and (iii) CG-SNG shared functions. The main principle is that the CG should directly provide public services that affect market integration and those with strong externalities, such as national defense. SNGs are assigned functions which benefit their respective jurisdictions, such as municipal transportation and rural roads. Responsibility for functions that have both national and localized benefits should be shared. This last group includes several key, high cost public services, including basic pensions, compulsory education and basic medical care. The delineation of functionalities is expected to be completed by 2020.

18. Building on the functional division between the CG and the SNGs, Hunan province has been formulating the functional division between province and sub-provincial governments accordingly. For the shared functionalities, while 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. Pingjiang, as a national poverty county, will take on only 20 percent financing share for most public services.

#### ***Tax revenue sharing***

19. Tax-sharing arrangements between the CG and SNGs are stable and are governed by State Council Decrees

No. 85, 1993 and No. 37, 2001. Taxes are collected by the National Tax Administration to the National Treasury Single Account (TSA) and disbursed to the provinces. Provinces then decide the tax-sharing arrangements between the provincial government and their city/county governments within their jurisdiction. SNGs in China generally do not have the authority to set tax rates. Since 2017, local governments have been granted the right to set rates for resources tax and environmental tax, however, within the parameters set by the CG. Table 2.3 lists the tax sharing arrangements between the CG, Hunan Provincial Government and the sub-provincial governments of Hunan Province.

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

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

Data source: Pingjiang Finance Bureau.

### ***Intergovernmental transfer***

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



### Subnational borrowing

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

#### 2.1.3 Main facts and economic indicators of Pingjiang

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

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

Pingjiang County	Detail
Tier of government	As a county, Pingjiang is subordinated to Yueyang, a prefecture-level city of Hunan Province. With regard to PFM, Pingjiang 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 Yueyang Prefecture, it is having direct fiscal relations with Hunan Province at the third tier of the fiscal system.
Population	996,000
Main characteristics	With per capita GDP at 4,113 USD, Pingjiang is one of the poorest counties in Hunan Province, having been lifted above the national poverty line only in 2019. About 55 percent of the population lives in rural areas, while urban-rural income disparity remains significant.
Economy	Main industries are tourism, food processing, electronics and construction materials. Agriculture, manufacturing and services accounted for 15, 42 and 43 percent of GDP, respectively, in 2018. Major economic challenges for the county include maintaining economic growth and narrowing disparity, in particular between rural and urban areas.
Services provided by the SNG	Pingjiang provides a wide range of public services to its citizens, including education, health care, infrastructure, transportation etc.

Data source: Pingjiang Statistics Bureau and Pingjiang Finance Bureau.

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

Economic indicators	2016	2017	2018
<b>GDP (billion RMB)</b>	23.9	26.8	28.7
<b>Share of sectors</b>			
Agriculture	19%	18%	15%
Industry	44%	42%	42%
Services	37%	40%	43%
<b>GDP per capita (RMB)</b>	24,327	27,205	28,791
<b>GDP growth rate</b>	8.5%	8.3%	8.7%
<b>Average disposable income of urban residents (RMB)</b>	20,148	21,898	23,602
<b>Average disposable income of rural residents (RMB)</b>	7,994	8,690	9,580

Data source: Pingjiang Statistics Bureau.

## 2.2 Fiscal and budgetary trends in Pingjiang

23. For FYs 2016 to 2018, the overall financial situation in Pingjiang County was sound and stable (see Table 2.6 and Table 2.7). Pingjiang relied heavily on transfers from HLGs. The total received transfers were stable, close to 18 percent of regional GDP. Tax revenues stood around two percent of GDP. Non-tax revenue inched down from 1.2 percent in 2016 to 0.8 percent in 2018 due to the implementation of a national policy to reduce administrative fees and charges. Thanks to the vibrant real estate market, the government's land sales revenues increased from 1.1 percent of GDP in 2016 to 7.7 percent in 2018. As a result, the combined overall balance of the general public budget (GPB) and the government fund budget (GFB) slightly declined from -0.8 to -1.1 percent of GDP from 2016 to 2018, despite a significant increase in the expenditures of both GPB and GFB.<sup>2</sup>

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

	Million RMB			As percentage of GDP		
	2016	2017	2018	2016	2017	2018
<b>Expenditure</b>	<b>5,274</b>	<b>6,305</b>	<b>7,142</b>	<b>22.1%</b>	<b>23.5%</b>	<b>24.9%</b>
<b>Revenue</b>	<b>760</b>	<b>732</b>	<b>826</b>	<b>3.2%</b>	<b>2.7%</b>	<b>2.9%</b>
Tax	468	504	596	2.0%	1.9%	2.1%
Non-tax	292	228	230	1.2%	0.9%	0.8%
<b>Transfer from HLGs</b>	<b>4,196</b>	<b>4,810</b>	<b>5,075</b>	<b>17.5%</b>	<b>18.0%</b>	<b>17.7%</b>
Tax rebate	102	116	116	0.4%	0.4%	0.4%
General transfer	2,449	2,695	3,284	10.2%	10.1%	11.5%
Special transfer	1,673	2,016	1,722	7.0%	7.5%	6.0%
(-) Transfer to HLGs	-28	-16	-48	-0.1%	-0.1%	-0.2%
<b>Overall balance</b>	<b>-318</b>	<b>-763</b>	<b>-1,241</b>	<b>-1.3%</b>	<b>-2.8%</b>	<b>-4.3%</b>
<b>Transfer from GFB and others</b>	<b>105</b>	<b>394</b>	<b>787</b>	<b>0.4%</b>	<b>1.5%</b>	<b>2.7%</b>
<b>Change in cash balance</b>	<b>6</b>	<b>(80)</b>	<b>8</b>	<b>0.0%</b>	<b>-0.3%</b>	<b>0.0%</b>
<b>Withdrawal from reserve</b>	<b>7</b>	<b>152</b>	<b>-161</b>	<b>0.0%</b>	<b>0.6%</b>	<b>-0.6%</b>
<b>Financing</b>	<b>201</b>	<b>298</b>	<b>607</b>	<b>0.8%</b>	<b>1.1%</b>	<b>2.1%</b>
Borrowing	1,811	541	1,121	7.6%	2.0%	3.9%
Debt amortization	-1,610	-243	-514	-6.7%	-0.9%	-1.8%

Data source: Pingjiang Finance Bureau.

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

Source of funding	Million RMB			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
<b>Expenditures</b>	<b>433</b>	<b>469</b>	<b>1775</b>	<b>1.8%</b>	<b>1.8%</b>	<b>6.2%</b>
ow. Urban and rural community services (land and infrastructure development)	342	312	1625	1.4%	1.2%	5.7%
Social security and jobs	29	39	35	0.1%	0.1%	0.1%

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

Source of funding	Million RMB			As Percentage of GDP		
	2016	2017	2018	2016	2017	2018
Interest	0	15	21	0.0%	0.1%	0.1%
<b>Revenues</b>	<b>444</b>	<b>658</b>	<b>2592</b>	<b>1.9%</b>	<b>2.5%</b>	<b>9.0%</b>
ow. Land sales revenues	268	344	2218	1.1%	1.3%	7.7%
<b>Net grants from HLGs</b>	<b>106</b>	<b>93</b>	<b>107</b>	<b>0.4%</b>	<b>0.3%</b>	<b>0.4%</b>
<b>Overall balance</b>	<b>117</b>	<b>282</b>	<b>925</b>	<b>0.5%</b>	<b>1.1%</b>	<b>3.2%</b>
<b>Withdrawal from reserves and other sources</b>	<b>97</b>	<b>124</b>	<b>126</b>	<b>0.4%</b>	<b>0.5%</b>	<b>0.4%</b>
<b>Transfer to GPB</b>	<b>105</b>	<b>302</b>	<b>720</b>	<b>0.4%</b>	<b>1.1%</b>	<b>2.5%</b>
<b>Financing</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Debt	499	142	0	2.1%	0.5%	0.0%
Debt amortization	499	142	0	2.1%	0.5%	0.0%
<b>Carry-over to next year</b>	<b>109</b>	<b>104</b>	<b>330</b>	<b>0.5%</b>	<b>0.4%</b>	<b>1.2%</b>

Data source: Pingjiang Finance Bureau.

24. The core public services are financed from GPB. The size of total expenditures of GPB increased from 22.1 percent in 2016 to 24.9 percent of GDP in 2018 (Table 2.6). The major functions, by rank, of their share in GPB are agriculture, education, subsidies to social security, health care, housing and transport. Of these, the expenditure on agriculture gained most, with its share in GPB non-interest expenditures increasing by six percentage points (Table 2.8). This reflected the government's effort to give a last push to lift all rural households out of poverty. The overall deficit of GPB expanded to 4.3 percent of GDP in 2018. It was financed from the transfer from the GFB surplus (2.5 percent of GDP) and through debt (2.1 percent of GDP).

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

Expenditures by function	2016	2017	2018	2016	2017	2018
<b>Total GPB Non-Interest Expenditures</b>	5,249	6,208	7,048	<b>Proportion</b>		
Agriculture, forestry and water conservation	1,025	1,208	1,803	19.5%	19.5%	25.6%
Education	949	1,141	1,155	18.1%	18.4%	16.4%
Social security and employment	859	1,129	1,143	16.4%	18.2%	16.2%
Health care and family planning	767	758	744	14.6%	12.2%	10.6%
General public service	419	467	531	8.0%	7.5%	7.5%
Housing	284	271	465	5.4%	4.4%	6.6%
Transportation	195	261	259	3.7%	4.2%	3.7%
Public security	218	245	213	4.2%	3.9%	3.0%
Land, ocean and meteorology	63	205	205	1.2%	3.3%	2.9%
Energy conservation and environmental protection	143	155	134	2.7%	2.5%	1.9%

Data source: Pingjiang Finance Bureau.

25. Pingjiang prepared the GPB expenditures by economic classification for the first time in 2018. As shown in Table 2.9, this revealed that the Pingjiang County Government spends most on subsidies, mainly to households

and social security funds, which accounted for 35 percent of total expenditure. The second largest spend component were capital expenditures, taking a 27 percent share. Goods and services took 18 percent. The spending on labor accounted for 19 percent. Of those, expenditures on GAUs amounted to only six percent of total GPB expenditures, equivalent to 1.4 percent of GDP.

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

Expenditures by economic classification	Million RMB	Share in total
<b>Total</b>	<b>7,142</b>	<b>100%</b>
<b>Labor</b>	<b>1,383</b>	<b>19%</b>
GAUs	413	6%
PSUs	971	14%
<b>Goods and services</b>	<b>1,276</b>	<b>18%</b>
GAUs	879	12%
PSUs	397	6%
<b>Interest</b>	<b>93</b>	<b>1%</b>
<b>Subsidies</b>	<b>2,471</b>	<b>35%</b>
Subsidies to firms	106	1%
Subsidies to households	1,068	15%
Subsidies to social security funds	1,010	14%
Subsidies to non-profit entities and others	288	4%
<b>Capital Expenditures</b>	<b>1,918</b>	<b>27%</b>
GAUs	1,785	25%
PSUs	119	2%
Capital subsidies to firms	14	0%

Data source: Pingjiang Finance Bureau.

26. Revenues from government funds were ringfenced for specified purposes according to the rules for each fund. Revenues from land sales dominated GFB revenues, accounting for 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, Pingjiang 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 GFB. The legacy off-budget debt had been entirely swapped with subnational bonds. By the end of 2018, Pingjiang's total debt amounted to 4.7 billion RMB, equivalent to 16.5 percent of GDP (see Table 2.10).

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

Subnational debt	Million RMB	% of GDP
<b>Debt outstanding</b>	<b>4,743</b>	<b>16.5%</b>
General obligation bonds	4,102	14.3%
Project bonds	641	2.2%

Data source: Pingjiang 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. A revised version of the Bylaw is still under review and expected to be finalized and approved in the near future. 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

### 2.1.1 Overall institutional arrangements for PFM

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

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

35. Chinese government operations are large and complex. There are more than 749000 budget units with 40.4 million public employees across China's five levels of administration. Over the course of ongoing market-oriented reforms, government agencies tend to limit themselves as administrators and regulators, and assign most public services delivery functions to PSUs, SOEs and the Pingjiang Urban Development Investment Corporation (Pingjiang UDIC hereinafter). The governments' budgets financially intertwined with these entities in a complicated way. The introduction of new service delivery modalities such as public-private partnerships (PPP) and outsourcing of public services further complicate government operations and finance.

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

37. The whole government operations are presented in four budgets, while only the GPB and the GFB present governmental activities. The GPB holds tax and non-tax (fee and charges) revenues and finances core government services. The GFB holds the revenues from the 30 plus government funds and each fund revenue is earmarked for specified expenditures. The land revenues dominate the GFB and are mainly used for land preparation and infrastructure investments. There is the state capital operating budget (SCOB) that holds the profits surrendered by SOEs. Its proceeds are used to invest in SOEs or other commercial activities. A proportion of the SCOB revenues gets transferred to the GPB, if being used to finance public services. The social security budget (SSB) holds the contributions of firms and individuals to social security funds and pays for entitled social security benefits to participants. The financing gap is filled by the transfer from the GPB. As of 2020, SSB will be reassigned to the Hunan provincial government. PFM performance of the SNG's budgetary units is hence assessed based on the GPB and GFB. SSB is assessed as an extra-budgetary unit.

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

39. SNGs can issue bonds subject to annual quotas. However, only provincial level governments are allowed to borrow in this manner both for themselves and on behalf of local (sub-provincial) governments. The following Golden Rule applies: such borrowing can only be used to finance capital expenditures. The Law also prohibits the CG from bailing out SNGs. Quotas for the nation-wide aggregate outstanding subnational debt and net debt financing require the approval of the NPC. Within these aggregate limits, the MOF sets a debt ceiling for each province and closely monitors compliance, while provinces set debt ceilings for local governments within the overall limit. To access the capital market, provinces must also follow regulations for information disclosure, obtain credit ratings and follow market rules.

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

41. In most SNGs, the institutional arrangement of the internal audit function in the public sector is carried out as part of the PFM or discipline inspection function. Pingjiang 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 Pingjiang County in terms of its spending units. The county is divided into 24 townships. As these townships do not have independent PFM systems, they are regarded as regional spending units in this assessment. In total, there are 1,048 budgetary units, including 140 GAUs, 24 townships and 884 PSUs. 84 of the 1,048 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 Pingjiang.



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

Budgetary units	Primary budgetary units	Secondary budgetary units	All budgetary units
<b>Subtotal</b>	<b>84</b>	<b>964</b>	<b>1,048</b>
GAUs	46	94	140
Townships	24	0	24
PSUs	14	870	884

Data source: Pingjiang Finance Bureau.

43. As shown in Table 2.12, there are 57 SOEs that are directly controlled by the Pingjiang 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 Pingjiang are supervised by the SOE Supervision Center under the Pingjiang county government. China laws and regulations require SOEs operate on commercial basis and the government provide no guarantee to any SOE. A number of SOEs that had carried 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 to commercial SOEs. At the time of this assessment, there was only one LGFV that is still in the process of transformation. Although they were no longer allowed to borrow on behalf of SNGs, they can present the government with 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 Pingjiang County**

Type	Number	Assets (million RMB)	Liabilities (million RMB)	Equity (million RMB)
Non-financial	56	33217	22467	10750
Financial	1	9346	8826	520
<b>TOTAL</b>	<b>57</b>	<b>42563</b>	<b>31293</b>	<b>11270</b>

Data source: Pingjiang Bureau of Finance.

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

- **The Finance Bureau of Liuyang.** 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.
  - Centralized Wage Payment Center: Supervises and processes wage and salary payments to all staff and employees on the county government’s payroll.
  - Payment Center: Supervises and processes non-salary payments.
  - Enterprises State Assets Management Division: Oversees SOE operations.
  - Administrative State Assets Management Division: Oversees assets of all GAUs.
  - Fiscal Performance Management Division: Oversees the performance evaluation of all budgetary units.
  - Government Procurement Supervision Office and Procurement Center: Administrates public procurements above the threshold.
- **The County Development and Reform Commission:** Prepares the development plan for the whole county and reviews and approves all government investment projects.
  - **The County Urban Development and Investment Management Center:** Pingjiang established the center in 2007. It is run by the UDIC, and it prepares annual investment plans, mobilizes financing and manages the implementation of major development and investment projects. It operates under the direct supervision of the government executive and files the annual investment plan with an itemized project list to the Standing Committee of the County People’s Congress for review.
  - **The County People’s Congress and its Standing Committee:** Review and approve of the county’s five-year social and economic development plan; the government’s budget, adjustment to the budget and the budget execution report; the government’s investment plan; and the audit report on the county government budget.
  - **The County Audit Office:** Carries out audits of county finance; develops proposals and recommendations on measures to be taken, such as measures for elimination and prevention of violations; and transfers cases for further inspection when severe violation or clues of criminality are identified. The head of the Audit Office is nominated by the government executive and approved by the County People’s Congress.
  - **The Mayor** is an elected official and chief executive of the county. The mayor is responsible, and takes full accountability, for budgeting and strategic planning of the county.



## 3 ASSESSMENT OF PFM PERFORMANCE



### SNG PILLAR: Intergovernmental fiscal relations

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

45. This indicator assesses the extent to which transfers to the SNG from an HLG are consistent with original approved budgets of the HLG and are provided according to agreed time frames. The indicator contains the four dimensions 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 HLG</b>	In all three years, the deviation of actual grants from the original budgeted grants was more than 116% of the original budget. The outturns for 2016, 2017 and 2018 are 225.8%, 199.9% and 361.4%, respectively.	D
<b>HLG-1.2: Earmarked grants outturn</b>	The composition variance of ear-marked grants was more than 15% for each of the three completed FYs. The variances in 2016, 2017 and 2018 were 82.6%, 60.1% and 101.1%, respectively.	D
<b>HLG-1.3: Timeliness of transfers from HLG</b>	A disbursement timetable is prescribed by law. Over 50% of actual transfers were on time in two of the last three completed FYs.	C
<b>HLG-1.4: Predictability of transfers</b>	The higher levels of government provide no documents with information on transfers for the current FY and the two following FYs, and there is no explanation for changes between the current and the previous year.	D

46. In China, transfers from HLG have 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, etc. As for special transfers, all of them must be used for the specified purposes.

47. To be consistent with international standards, this assessment will treat tax rebates and general transfers that can be freely allocated as non-earmarked transfers, and treat the remaining general transfers and 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

49. Table 3.2 indicates the outturn of HLG transfers in Pingjiang in comparison to the approved budget amounts of HLG transfers for the FYs 2016, 2017, and 2018 (see Annex 6 for more details). As the outturn was above 116 percent for each of the three years, the score is D.

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

Aggregate expenditure	2016	2017	2018
Approved budget (million RMB)	1,870.34	2,414.78	1,417.20
Outturn (million RMB)	4,223.22	4,826.40	5,122.30
Outturn as a percentage of budget	225.8%	199.9%	361.4%
Composition variance of earmarked grants	82.6%	60.1%	101.1%

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

### Dimension HLG-1.2: Earmarked grants outturn

50. The composition variances of the earmarked transfers in the last three completed FYs (2016, 2017 and 2018) were 82.6, 60.1, and 101.1 percent respectively. It was more than 15 percent for each of the three years. Hence, the score is D.

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

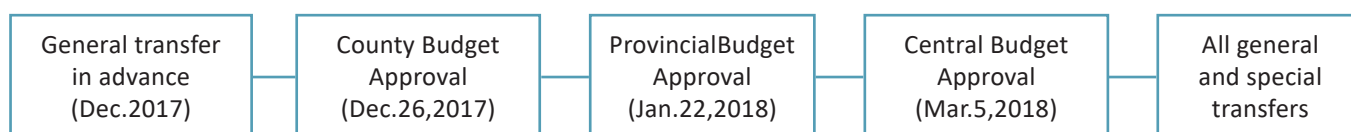
51. The schedule of transfers to SNGs is codified in the Budget Law. General transfers and earmarked transfers from the CG to the provinces shall be disbursed within 30 days and 90 days, respectively, upon the NPC's approval of the central budget. After receiving the central transfers, the provincial government shall 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 should be on time. Similarly, for earmarked transfers, the time range is 120 days after central budget approval. Meanwhile, the tax rebate is disbursed according to a specified formula after the end of the previous FY.

52. 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, Pingjiang uses an IT-based system to record the notifications received from the HLG. We use the ratio of the amount of on-time transfers as percentage of total transfer reported in the final budget execution report. Over 50 percent of actual transfers were on time in two of the last three years. The score for dimension HLG-1.3 therefore is C.

### Dimension HLG-1.4: Predictability of transfers

53. In Pingjiang, the county government has no predictability of transfers from the HLG. The HLG provides no information on transfers the county can expect to receive for the current FY or the two following FYs, and there is no explanation on changes between the current and the previous year. Prior to the beginning of the FY, the HLG will provide some indicative notification of part transfers prior to the approval of the HLG budget, and only these part transfers are included in the budget estimate. In most cases, these transfers are general transfers. Only after the approval of the HLG budget, will the county government receive the remaining transfers and adjust the budget in the middle of the FY. Score D.

Figure 3.1: 2018 HLG transfer disbursement process of Pingjiang



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

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

55. HLG-2 is a pilot indicator. The Pingjiang County government chose not to use this indicator in this assessment.



## PILLAR 1: Budget reliability

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

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

### PI-1. Aggregate expenditure outturn

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-1: Aggregate expenditure outturn (M1)</b>		<b>D</b>
<b>PI 1.1 Aggregate expenditure outturn</b>	Aggregate expenditure outturn deviated significantly from the budgeted amounts in the last three FYs, the outturn is 178.5%, 178.3% and 316.0% of the approved budget respectively.	D

59. 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 (million RMB)	2016	2017	2018
Approved budget	3,196	3,800	2,821
Outturn	5,707	6,774	8,916
Outturn as a percentage of budget	178.5%	178.3%	316.0%

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

60. The significant deviations in all three years was mainly caused by the unpredictability of HLG transfers. The transfer amounts in the budget estimate were less than 50 percent of the actual transfers. As Pingjiang County is highly dependent on HLG transfers, in 2018, the percentage of actual transfers against the actual budget was 70.01 percent. However, as the amount of earmarked transfers in the budget estimate for 2018 was zero, the deviation was extremely high, much higher than the deviations of 2016 and 2017. Score D.

## PI-2. Expenditure composition outturn

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-2. Expenditure composition outturn (M1)</b>		<b>D+</b>
<b>2.1 Expenditure composition outturn by function</b>	Variance in expenditure composition by functional classification was more than 15% for each of the last three years. The variances of three years are 51.6%, 45.8% and 49.5%, respectively.	D
<b>2.2 Expenditure composition outturn by economic type</b>	There was no economic classification for governmental funds in the last three completed years.	NA
<b>2.3 Expenditure from contingency reserves</b>	In the last three FYs, the budget for contingency reserves was arranged. Actual expenditure charged to a contingency vote was on average less than three percent of the original budget.	A

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

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

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

Variance	2016	2017	2018
Functional classification	51.6%	45.8%	49.5%

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

63. For expenditures from own sources, Pingjiang 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 a functional composition of transfers is not included in the budget estimation, which caused the high variation of expenditure composition outturn. As the variance was above 15 percent for each of the last three FYs, the score for this indicator dimension is D.

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

64. While the GPB contains functional and economic classifications, the GFB contained no economic classification in the last three years. 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 document for 2016, 2017, 2018.

### Dimension PI-2.3 Expenditure from contingency reserves

65. Every year for the last three FYs, there was a budget arrangement for contingency reserves. 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 document for 2016, 2017, 2018.

### PI-3. Revenue outturn

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

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

Indicators/ Dimensions	Assessment of performance	2019 Score
<b>PI-3. Revenue outturn (M2)</b>		<b>C</b>
<b>3.1 Aggregate revenue outturn</b>	In 2016, 2017 and 2018, the variances in aggregate revenue were 100.4%, 110.6% and 266.4% respectively. The actual revenues were between 94% and 112% of budgeted revenues in two of the last three years.	<b>B</b>
<b>3.2 Revenue composition outturn</b>	Composition variance in revenue collection in the last three years was 28.3%, 46.2% and 76.0% respectively, all more than 15%.	<b>D</b>

#### Dimension PI-3.1 Aggregate revenue outturn

68. 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 (million RMB)	2016	2017	2018
Approved budget	1,199	1,257	1,283
Outturn	1,204	1,390	3,418
<b>Variance (as a % of original budget)</b>	<b>100.4%</b>	<b>110.6%</b>	<b>266.4%</b>
<b>Composition Variance</b>	<b>28.3%</b>	<b>46.2%</b>	<b>76.0%</b>

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

69. Generally, the change between budgeted revenue and actual revenue was small. In 2016 and 2017, the variance of total revenue was 100.4 percent and 110.6 percent. In 2018, the variance was 266.4 percent. This variance was caused mainly by a change in governmental funds. In 2018, the amount of budgeted governmental funds was 488.7 million RMB, while the actual revenue was 2.59 billion RMB, thanks to sharply increased land sales revenues in 2018. As the revenue outturn was therefore between 94 and 112 percent for two of the last three FYs, the score for this indicator dimension is B.

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

70. In 2016 and 2017, the variance was 28.3 percent and 46.2 percent (see Table 3.7). In 2018, Hunan Province issued a new policy which allowed Pingjiang to sell transferrable land-use rights to developed regions—a means to mobilize resources to finance the poverty reduction program. This pushed up the land revenue of Pingjiang significantly and unpredictably. Because of this new land policy, the variance in 2018 amounted to 76.0 percent. Score D.



## PILLAR 2: Transparency of public finances

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

### PI-4. Budget classification

72. 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>	The budget documentation is nationally consistent. The GPB is based on functional and economic classifications, but the GFB is only based on functional classification.	<b>D</b>

#### Dimension PI-4.1: Budget classification

73. In 2007, the Chinese MOF updated the budget classification system based on function. This is to develop a more standardized and reasonable classification system and conform better with international practice and to be more suitable for China and its national conditions.

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

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

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

(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
Grants	Grants	Education	Education
Donation		Science and technology	
Interest on debt	Interest	Culture, sports and media	Recreation, culture, and religion
Debt amortization		Social security and employment	Social protection
Capital expenditure	Consumption of fixed capital	Social security fund expenditures	
Other capital expenditures		Health	Health
On-lending of Loans and equity investment		Environmental protection	Environmental protection
Other expenses	Other 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

76. 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 three additional elements.	C

### Dimension PI-5.1: Budget documentation

77. Annual budget documentation refers to the budget proposals for the next FY with supporting documents as submitted to the 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 three out of seven applicable additional elements. The missing elements include a complete presentation of macroeconomic assumptions, fiscal deficit forecast, financial assets, explanation of budget implications of new policies. Also, there is no documentation on the quantification of tax expenditures. Regarding the documentation on deficit financing and medium-term fiscal forecasts, this is not applicable for the 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 shall be balanced and deficit financing might be arranged only in the middle of the FY through budget adjustment proposal.
2 Previous year's budget outturn, presented in the same format as the budget proposal.	Y	Reports on the 2018 budget execution and the 2019 budget proposal.
3 Current FY's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Y	Enacted budget 2019.
4 Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Y	Enacted budget 2019.

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

## PI-6. SNG operations outside financial reports

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

79. The Pingjiang Government does not have any EBUs. There are two major types of government operations that are not covered in either the GPB or GFB: first, the expenditure of five major public hospitals that are financed from self-generated revenues; and secondly, the social security funds overseen by the Pingjiang Government. Management of the extrabudgetary expenditures and revenues of the budget units are assessed in dimension 6.1 and 6.2, and management of the social security funds is assessed in dimension 6.3. However, a number of LGFVs have been undertaking quasi-governmental activities. Although the government doesn't have legislative obligation to bail them out, they still present 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 five public hospitals in Pingjiang. Although they are budgetary units, part of their expenditures financed with self-revenues were not included in the GPB, but all 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 five public hospitals in Pingjiang. Although they are budgetary units, they have extrabudgetary activities. And all extrabudgetary revenue were recorded in the financial reports of the Health Bureau in the last three FYs.	A
<b>6.3 Financial reports of EBUs</b>	Financial reports of all extrabudgetary activities, containing full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and supported by a reconciled cash flow statement, are submitted to the SNG annually within one month of the end of the FYs.	A

### Dimension PI-6.1 Expenditure outside financial reports

80. In Pingjiang, 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 in Pingjiang. But there are some extrabudgetary activities in some budgetary units like hospitals. The revenue of the public hospitals in Pingjiang has three sources, the GPB, social security funds and 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.

81. There are five public hospitals with extrabudgetary activities in Pingjiang, but 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 five public hospitals with extrabudgetary activities in Pingjiang, but 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. The Pingjiang Government presented the financial report of social security funds to the County People's Congress for approval every assessed year. The Bureau of Human Resources and Social Security submitted the financial report of social security fund for FY 2018 to the County Finance Bureau on January 30, 2019. The coverage of the report is comprehensive, covering revenues, expenditures, financial and tangible assets, liabilities, guarantees, and long-term obligations, and 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 Pingjiang 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>		<b>NA</b>
<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. Within Pingjiang County, there are no lower-tier SNGs. The townships do not have full ownership of their assets and their budget is covered by the county's budget. Hence, they are treated as deconcentrated budgetary units of the county. The indicator is not applicable.

## 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 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 Pingjiang. Services managed and financed by other tiers of government were included if the SNG significantly finances and implements such services through reimbursements or earmarked grants or uses other tiers of government as implementing agents. Under dimension PI-8.1, PIs are assessed for planned outputs and outcomes for the next FY (2019), and under dimension PI-8.1, 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) were examined.

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

89. To assess dimension 8.1, assessors collected PIs for all the service delivery programs of the departments, to check whether policy or program objectives, planned outputs, outcomes or activities 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, 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 Health Bureau for Public Health, and the Transportation Bureau for Road Building and Maintenance. For dimension 8.4, all resources received by service delivery units were considered, including budget resources, own source revenues (i.e., fees and charges collected directly by the service delivery units, whether these are transferred to the Treasury or retained), and funds received from external resources (e.g., international organizations and other donors).

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-8. Performance information for service delivery (M2)</b>		<b>C+</b>
<b>8.1. Performance plans for service delivery</b>	Information on the activities to be performed under the policies or programs for all service delivery units is published annually. 53.39% of service delivery units have a framework of PIs relating to the outputs or outcomes. That is the majority.	C
<b>8.2. Performance achieved for service delivery</b>	The performance achieved is not published.	D
<b>8.3. Resources received by service delivery units</b>	Information on resources received by frontline service delivery units is collected and recorded for the selected service delivery units, disaggregated by source of funds. A report compiling the information is prepared at least annually.	A
<b>8.4. Performance evaluation for service delivery</b>	Independent evaluations of the efficiency or effectiveness of service delivery were carried out for 78.07% of the service delivery units in 2017. But no evaluation report was published.	C

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

90. Some departments have specified highly detailed and quantified PIs as a part of budget documentation. For example, the Natural Resources Department has specified quantitative PIS, such as size of the reclamation area, acre yield or vegetation coverage. In some instances, however, outcomes and outputs are described vaguely and interchangeably, and PIs are often not sufficiently specified to facilitate capturing information on whether planned outputs (e.g., number of students enrolled) and outcomes (e.g., rate of attendance, national minimum education standards) have actually been achieved. Nonetheless, all PIs are annually published on the official website of the Pingjiang Government.<sup>1</sup>

**Table 3.10: Performance information for the largest service delivery agencies (2018)**

	Name of service delivery department	Total budget expenditure (thousand)	Budget expenditure with performance plans (thousand)	Program objectives specified (Y/N)	Key PIs (Y/N)	PI-8.1 Planned performance	
						Planned outputs (Y/N)	Planned outcomes (Y/N)
1	Education	618,640.0	203,601.0	Y	Y	Y	Y
2	Civil Affairs	215,650.0	160,595.2	Y	Y	Y	Y
3	Housing	284,300.0	281,073.5	Y	Y	Y	Y
4	Science and Information Technology	9,120.0	8,373.0	Y	Y	Y	Y
5	Human Resources and Social Security	24,010.0	8,075.6	Y	Y	Y	Y
6	Transportation	133,080.0	53,212.1	Y	Y	Y	Y

<sup>1</sup> [http://www.Pingjiang.gov.cn/35048/35075/35081/36291/content\\_1535882.html](http://www.Pingjiang.gov.cn/35048/35075/35081/36291/content_1535882.html), [http://www.Pingjiang.gov.cn/35048/35075/35081/36291/content\\_1639959.html](http://www.Pingjiang.gov.cn/35048/35075/35081/36291/content_1639959.html).

	Name of service delivery department	Total budget expenditure (thousand)	Budget expenditure with performance plans (thousand)	Program objectives specified (Y/N)	Key PIs (Y/N)	PI-8.1 Planned performance	
						Planned outputs (Y/N)	Planned outcomes (Y/N)
7	Water Resources	75,420.0	20,566.3	Y	Y	Y	Y
8	Agriculture and Rural Affairs	73,490.0	32,871.4	Y	Y	Y	Y
9	Forestry	84,600.0	110,092.1	Y	Y	Y	Y
10	Commerce	10,220.0	8,671.4	Y	Y	Y	Y
11	Culture and Tourism	55,190.0	46,856.8	Y	Y	Y	Y
12	Health	323,470.0	66,721.8	Y	Y	Y	Y
13	Natural Resources	72,140.0	56,091.2	Y	Y	Y	Y
<b>Total</b>		<b>1,979,330.0(a)</b>	<b>1,056,801.4(b)</b>				
<b>Percentage</b>			<b>53.39%(b/a)</b>				

Data source: Pingjiang Finance Bureau.

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

91. Pingjiang Government has not published the quantity of actual output and outcomes achieved for the last completed FY 2018, so the score for this dimension is D.

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

92. This dimension measures the extent to which a department can monitor whether the service delivery units receive the funds allocated to the sector/services as planned. The Pingjiang Finance Bureau regularly collects and records information on resources received by frontline service delivery units. All resources received by service delivery units are recorded in the service delivery units' budget execution report, except for hospitals. Hospitals only report the appropriation from the government in the budget execution report, while their other revenues, mainly from medical charges, are recorded in their financial report. The monthly financial reports are submitted to the Pingjiang Health Bureau.

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

94. The score for this dimension is A.

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

95. Performance evaluations on efficiency and effectiveness of service delivery are carried out for several key service delivery units. Independent evaluation is required for the performance evaluation. But there is no requirement on publicization. So far, there is no direct link between the performance results and the

performance objectives stated in annual budget documents. If there are deviations between the two, no explanation is provided for the deviation.

96. Independent evaluations of the efficiency or effectiveness of service delivery have been carried out for 78.07 percent of the service delivery units in 2017. But no evaluation report was publicized. Thus, the score is C.

**Table 3.11: Information on program evaluation**

Ministry	Program or service evaluated	Expenditure with performance evaluation (thousand)	Type of evaluation (independent Y/N)	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)
Civil Affairs	2017 Urban and Rural Minimum Living Security Fund	94,743.5	Y	Y	Y
	2017 Security Fund for Disabled Persons, Pingjiang County Disabled Persons' Federation	6,400.0	Y	Y	Y
Education				N	N
Housing and Urban-Rural Development	Urban affordable housing projects	174,927.5	Y	Y	Y
Science and Information Technology	Funds for transformation of scientific and technological achievements, improvement of innovation capability and experimental areas (2017)	1,250.0	Y	Y	Y
	2017 Industrial Development Fund	175,268.0	Y	Y	Y
Human Resources	2017 Employment and entrepreneurship vocational training fees, social insurance subsidies, and public welfare job subsidies	22,761.1	Y	Y	Y
Transport	Funds for the maintenance of county roads and roads damaged by floods, road construction and maintenance center	2,300.0	Y	Y	Y
	Rural roads maintenance and widening of narrow roads	41,064.0	Y	Y	Y
Water Resources			Y	Y	Y
Agriculture	Poverty alleviation loan projects for towns and villages (funds are mainly used for rural infrastructure and public service construction)	666,536.0	Y	Y	Y
	2015-2016 High-standard farmland construction	209,023.4	Y	Y	Y
	2017 Incentive funds for grain-producing counties	48,031.7	Y	Y	Y
	2017 Incentive funds for oil-producing counties	36,693.9	Y	Y	Y

Ministry	Program or service evaluated	Expenditure with performance evaluation (thousand)	Type of evaluation (independent Y/N)	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)
Forestry				N	N
Commerce				N	N
Culture and Tourism	2017 funds for the free access of the Pingjiang Uprising Memorial Museum	7,470.0	Y	Y	Y
	Funds for the free access of the Pingjiang Broadcasting Bureau	1,660.0	Y	Y	Y
Health				N	N
Natural Resources	2017 Land Resources, Geological and Mineral Resources Utilization and Protection Fund	18,702.0	Y	Y	Y
<b>Total</b>		<b>1,506,830.0</b>			

Data source: Pingjiang Finance Bureau.

## PI-9. Public access to fiscal information

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

98. In Pingjiang, the transparency of public finances is undermined by the fact that many relevant documents are not made publicly available, only three basic elements and one additional element 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 Pingjiang Government made available to the public three basic elements within the specified time frame.	D

**Table 3.12: Public access to fiscal information of FY 2018**

Item	Criteria met (Y/N)	Explanation	Source of evidence
<b>Basic elements</b>			
1	N	The budget document for 2018 was submitted on 26 Dec. 2017, as mentioned in PI-17.3. It was available to the public on 05 Jan. 2018, more than one week later.	<a href="http://www.Pingjiang.gov.cn/35048/35075/35081/36291/content_1343987.html">http://www.Pingjiang.gov.cn/35048/35075/35081/36291/content_1343987.html</a>
2	Y	The 2018 budget law was approved by the People's Congress on 26 Dec. 2017. It was publicized on 05 Jan. 2018.	<a href="http://www.Pingjiang.gov.cn/35048/35075/35081/36291/content_1343987.html">http://www.Pingjiang.gov.cn/35048/35075/35081/36291/content_1343987.html</a>
3	N	There were quarterly and monthly reports, but none of them were made available to the public.	
4	Y	The budget execution report for 2017 was publicized on 05 Jan. 2018.	<a href="http://www.Pingjiang.gov.cn/35048/35075/35081/36291/content_1343987.html">http://www.Pingjiang.gov.cn/35048/35075/35081/36291/content_1343987.html</a>
5	Y	The summarized report for 2017 prepared by the Audit Office and discussed in the hearing chaired by the Standing Committee was posted on the county government website on 6 Dec. 2018.	<a href="http://www.Pingjiang.gov.cn/35048/35069/content_1640002.html">http://www.Pingjiang.gov.cn/35048/35069/content_1640002.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		
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. Pingjiang 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 Pingjiang, 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 entity, operating in compliance with market rules and bearing risk on their own. Nevertheless, LGFVs may still present significant fiscal risks to the government as they have been undertaking quasi-governmental operations. By 2018, there was only one LGFV left, the Pingjiang Urban Development and Investment Corporation, that is still in the process of transformation. 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>	All of the ten largest PCs in Pingjiang submitted financial reports to the controlling entities within three months after the FY. The financial reports were not published. There is no consolidated report for all PCs.	C
<b>10.2. Monitoring of SNGs</b>	There are no SNGs within Pingjiang.	NA
<b>10.3. Contingent liabilities and other fiscal risks</b>	There are no state insurance schemes or PPP projects in Pingjiang. The guarantees and other contingent liabilities are recorded in the government debt management system. The data were updated and consolidated monthly but not published.	B

### Dimension PI-10.1. Monitoring of PCs

104. There are 57 PCs in Pingjiang which are administered directly by the Pingjiang County Government (reporting to the Finance Bureau), or by PSUs or GAUs other than the Finance Bureau. Though there is a SOE Supervision Center under the Finance Bureau, to the day of assessment, it hasn't gained the authority of overseeing the operation of all these PCs. Due to the decentralized administration of PCs, data about the monitoring information 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 3.13).

105. Pingjiang UDIC is the largest PC in Pingjiang. It is a 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 Pingjiang. Pingjiang UDIC also serves as the Urban Development Investment Management Center, which is a GAU type budgetary unit under the Administration Office of Pingjiang Government, but all borrowing operations are conducted in the name of UDIC.

106. For 2018, all of the largest PCs in Pingjiang submitted the financial reports to the government within three months of the end of the year. However, none of the submitted financial reports were published, and only one financial report was audited within eight months of the FY. There is no consolidated report for all PCs.

107. The score is C.

**Table 3.13: Financial reports of PCs**

Ten largest PCs	Held or administered by	Total assets, 10k RMB (Government share)	Percentage of ten largest PCs	Date of audit of the financial report	Date of submitting financial report to govt.
1. Pingjiang Pingjiang UDIC	Pingjiang Finance Bureau	1,169,572 (100%)	41.2	2019.7.9	2019.3.1
2. Pingjiang Affordable Housing Investment Co., Ltd.	Pingjiang Finance Bureau	480,765.52 (100%)	16.9	N	2019.3.1
3. Pingjiang Water Conservancy Construction Investment Co. Ltd.	Pingjiang UDIC	167,932.99 (60.98%)	9.7	N	2019.1.30
4. Pingjiang Urban and Rural Poverty Alleviation Development Co. Ltd.	Pingjiang Finance Bureau	151,161.82 (100%)	5.3	N	2019.3.1
5. Pingjiang Fukang Agricultural Development Co. Ltd.	Pingjiang UDIC	145,606.18 (100%)	5.1	N	2019.1.30
6. Pingjiang Water Supply Hub Construction and Development Co. Ltd.	Pingjiang UDIC	144,727.87 (100%)	5.1	N	2019.3.1
7. Kaiyuan Development (Pingjiang) Investment Co., Ltd	Pingjiang UDIC	132,797.56 (75.96%)	6.2	N	2019.1.30
8. Pingjiang Tianyue Water Service Co. Ltd.	Pingjiang UDIC	104,996.99 (100%)	3.7	N	2019.1.30
9. Pingjiang Tianyue Industrial Zone Construction and Development Investment Co. Ltd.	Hunan Tianyue Investment Co. LTD	99,692.97 (100%)	3.5	N	2019.1.30
10. Pingjiang Likang Construction Investment Co. Ltd.	Pingjiang UDIC	94,880.48 (100%)	3.3	N	2019.1.30

Data source: Pingjiang Bureau of Finance.

## Dimension PI-10.2. Monitoring of SNGs

108. Within Pingjiang County, there are 24 townships. The township governments are treated as deconcentrated budgetary units in Pingjiang, so there are no SNGs. This dimension is not applicable.

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

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

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

111. There are no state insurance schemes (such as deposit insurance, private pension fund insurance, and crop insurance) operated at county level in China, and at the time of assessment, there were no signed PPP contracts in Pingjiang.

112. When the Budget Law was revised in 2014, Pingjiang has established a government debt management system and has continued to upgrade the function of this system. At the time of assessment, the Pingjiang FB maintained good records of both the government direct debt and contingent liabilities through this system and updates the information monthly. But information on contingent liabilities is not published.

113. The score is B.

**Table 3.14: 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>	Y	NA	NA	Y	Dec. 31, 2018	Y
<b>EBUs</b>	NA	NA	NA			

Data source: Pingjiang Finance Bureau.

## PI-11. Public investment management

114. 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 Pingjiang Government participates in the selection process and is in charge of their implementation. The time period assessed is the last completed FY 2018.

115. For the purpose of this indicator, “major investment projects” are defined as projects which are among the largest 10 projects (by total investment cost) of Pingjiang government.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-11 Public investment management (M2)</b>		<b>C+</b>
<b>11.1 Economic analysis of investment proposals</b>	Economic analyses are conducted according to national guidelines to assess all major investment projects, and are reviewed by a third party (DRC); but they are not published.	C
<b>11.2 Investment project selection</b>	The major Investment Project Office directly under the mayor is responsible for selecting the projects and making proposals to the County Committee. The published <i>Government Investment Project Management Methods</i> stipulates the criteria for prioritizing investment projects. The rules are adhered to in practice.	A
<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 cost and physical progress of major investment projects are monitored monthly throughout project duration by the implementing SNG unit. Information on implementation of major investment projects is prepared annually but not published. Standard procedures and rules governing project implementation are available.	C

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

116. Pingjiang County published the Pingjiang Government Investment Project Management Methods<sup>2</sup> in 2015 which provide detailed 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 according to the national guidelines (Outline of Contents for Preparation of Feasibility Study Report (2012 National Development and Reform Commission (NDRC) Standard Edition)) and reviewed by the Development and Reform Bureau. Economic analyses are included in the feasibility study reports, but the reports are not published (Table 3.15). Therefore, the economic analysis of investment proposals in Pingjiang meets the criteria for a C score.

### Dimension PI-11.2. Investment project selection

The Pingjiang Government Investment Project Management Methods stipulate that, in selecting investment projects, priority shall be given to key projects, carry-over projects, projects of high social benefits, projects co-

<sup>2</sup> [http://www.Pingjiang.gov.cn/35048/35064/54416/content\\_1422232.html](http://www.Pingjiang.gov.cn/35048/35064/54416/content_1422232.html).

financed with HLG funds, etc. The Methods are published on the website of the County Government. In practice, the selection of investment projects is conducted by the Pingjiang Government Investment Project Management Leading Group, led by the county mayor. Prior to the decision-making by the Leading Group, the Major Project Office directly under the mayor is responsible for selecting the projects and making proposals. Therefore, all major investment projects are prioritized by a central entity on the basis of published standard criteria for project selection, which meets the criteria for an A score.

### Dimension PI-11.3. Investment project costing

117. In Pingjiang, information about the capital costs of investment projects is included in an investment plan submitted to the Pingjiang People's Congress, but not included in the budget documents. Therefore, the investment project costing in Pingjiang receives a D score.

118. However, in the documents submitted to the Pingjiang Bureau of Finance for approval, information on life-cycle capital costs are included, though not recurrent costs, and they are not broken down by year.

**Table 3.15: 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)
Green Food Industrial Park	N	-	-	Y	Y	Y	Y	N
Mufu Mountain Tourist Center	N	-	-	Y	Y	Y	Y	N
Qingchong water plant	N	-	-	Y	Y	Y	Y	N
IT system construction for big data center	N	-	-	Y	Y	Y	Y	N
Shantytown reconstruction	N	-	-					N
High standard farmland construction	N	-	-	Y	Y	Y	Y	N
Smart tourism project of Mufu Mountain International Resort	N	-	-	Y	Y	Y	Y	N
Reinforcement project of Huangjindong reservoir	N	-	-	Y	Y	Y	Y	N
Pingjiang sewage treatment plant upgrading	N	-	-	Y	Y	Y	Y	N
Miluo river treatment in Sanshi Town	N	-	-	Y	Y	Y	Y	N
<b>Total/Coverage</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>92.4%</b>	<b>92.4%</b>	<b>92.4%</b>	<b>92.4%</b>	<b>0</b>

Data source: Major Investment Project Office, Pingjiang County.

## Dimension PI-11.4. Investment project monitoring

119. In *the Government Investment Project Management Methods*, detailed rules are provided on implementation of the investment projects. The Major Project Office is responsible for the project monitoring, and weekly reports on cost and physical progress are submitted by each construction control unit to the Office. Information on implementation of major investment projects is prepared annually but not published. Therefore, the investment project monitoring in Pingjiang obtains a C score.

## PI-12. Public asset management

120. 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>B</b>
<b>12.1. Financial asset monitoring</b>	The Pingjiang Government maintains records for its holdings in major categories of financial assets (including cash, term deposits, account receivables, leases, equity). The information for aggregated value of the financial assets is submitted to the People's Congress and published.	B
<b>12.2. Non-financial asset monitoring</b>	The Pingjiang Government maintains records for its holdings of fixed assets and collects partial information on their usage and age. The information on non-financial assets is mostly not available to the public.	C
<b>12.3. Transparency of asset disposal</b>	Procedures and rules for the transfer or disposal of financial and non-financial assets are established. Information on asset disposal is included in the state-owned assets management report submitted to the People's Congress.	A

## Dimension PI-12.1. Financial asset monitoring

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

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

123. The aggregate value of the financial assets in 2018 is reported to the Pingjiang People's Congress and published. But the financial assets are recognized at book value. The financial asset monitoring in Pingjiang receives a B score.



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

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

Data source: Summary table of state-owned assets of GAUs and PSUs in 2018; Statistics of basic information of SOEs, Pingjiang County.

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

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

125. The summary table of state-owned assets of GAUs and PSUs of 2018 compiled by the Pingjiang Bureau of Finance has covered intangible assets, land, and fixed assets (such as office buildings, economic affordable houses, roads and bridges, urban facilities, vehicles, and other machinery and equipment), where detailed records including usage and age are kept. The information on aggregated book value is submitted to the Pingjiang People's Congress and disclosed to the public.

126. The Pingjiang Bureau of Finance has not kept the information on natural resources other than land, but relevant records are maintained in other departments. The records on water resources are kept by the Pingjiang Water Conservancy Bureau and Hydrology Bureau. The records on reserves of mineral resources are kept by the Natural Resource Department at provincial level, while the Pingjiang Natural Resource Bureau keeps the information on the exploitation rights and mining capacity of local mining enterprises. The records on forest resources are also kept by departments at provincial level. The information for the abovementioned natural resources is not disclosed to the public.

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

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

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

Data source: Asset Registers.

### Dimension PI-12.3. Transparency of asset disposal

128. Pingjiang County published the Management Method for Disposal of State-owned Assets in 2018, which covers non-financial assets (including fixed assets, intangible assets, land-use rights, etc.) and financial assets (e.g. equity in SOEs). According to the Method, the disposal of State-owned Assets includes selling, transferring, leasing, mortgaging, lending, scrapping, reporting loss, etc.

129. The Pingjiang Government also reported to the county's People's Congress on the asset disposal in 2018 in a special report on the management of state-owned assets held by the GAUs and PSUs. Some of the asset disposal information is also released to the public.

130. Therefore, the transparency of asset disposal in Pingjiang meet the criteria for an A score.

**Table 3.18. Transparency of asset disposal**

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

Data source: Pingjiang Bureau of Finance.

## PI-13. Debt management

131. 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 explicit debt service, stock, and operations are produced annually.	C
<b>13.2. Approval of debt and guarantees</b>	The Pingjiang Bureau of Finance is the responsible debt management entity. It is authorized to borrow on behalf of the county government and monitor the financing transactions according to the debt management rules. Annual borrowing is approved by the Pingjiang People's Congress.	A
<b>13.3. Debt management strategy</b>	There is no mid-term DMS indicating the risk indicators such as interest rates, exchange rates and refinancing alternatives.	D

Data source: Pingjiang Finance Bureau.

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

132. 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).

133. In Pingjiang, 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 of debt is the on-lending of the subnational bonds issued by the Hunan province. Hunan DOF reconciled the records with the Pingjiang FB annually. Comprehensive management and statistical reports covering debt service, stock, and transactions are produced annually.

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

**Table 3.19: Recording and reporting of debt and guarantees**

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

Data source: Pingjiang Bureau of Finance.

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

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

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

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

**Table 3.20: Approval of debt and guarantees**

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 ( <i>Detailed Rules for the Implementation of Government Debt Management of Pingjiang County</i> )		N	Y (Debt Division of Finance Bureau)	Y (July 31,2018)

Data source: Pingjiang Bureau of Finance.

### Dimension PI-13.3. Debt management strategy

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



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

139. 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

140. This indicator measures the ability of a SNG 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.

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>	The budget preparation was based on information of transfers, revenue and expenditure, and some key demographic and macroeconomic indicators, but the referred data were not submitted to the legislature. There was no evidence that the government's fiscal strategy or sectoral strategies were considered and that estimates of revenue and expenditure for the two following FYs were prepared.	B
<b>14.2. Fiscal impact of policy proposals</b>	No estimates about the fiscal impacts of policy changes have been conducted. The list of policy changes were not provided to the assessors.	D
<b>14.3. Medium-term expenditure and revenue estimates</b>	No Medium-term expenditure and revenue estimates conducted.	D
<b>14.4. Consistency of budget with previous year estimates</b>	No medium-term expenditure and revenue estimates conducted.	NA

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

141. According to a number of reference documents for budget preparation, the budget for FY 2019 in Pingjiang was prepared on basis of the following information:

- GPB revenue including HLG transfers (1994-2018).
- GPB expenditure (2010-2018).
- GFB revenue and expenditure (2010-2018).
- The debt stock (2018).
- The debt repayment plan (2018-2022).
- The number of personnel supported by budget funds (2012-2018).
- Population and area of the county and subordinate townships (2018).
- Major macroeconomic indicators including GDP growth, value-added and profits of the manufacturing sector, fixed assets investment, real estate development investment, sale of commercial housing, electricity consumption, total retail sales of consumer goods, imports & exports, etc. (2012-2019).

142. The demographic data were prepared by Pingjiang Bureau of Statistics and the macroeconomic data were

prepared by the Pingjiang Bureau of Development and Reform and the Pingjiang Bureau of Statistics.

143. The budget preparation also referred to the 13th Five-Year Plan formulated by the Pingjiang Bureau of Development and Reform, which set the rough overall targets for fiscal revenue, expenditure and other indicators for FY 2016 to 2020.

144. However, the budget preparation didn't consider some of the key macroeconomic indicators such as the Consumer Price Index (CPI) and interest rates, or refer to fiscal and sectoral strategies. Moreover, estimates of revenue and expenditure for the two following FYs were not prepared.

145. The preparation of the budget in Pingjiang meets the criteria for a B score.

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

146. According to the Guidance for SNG PEFA Assessments, policy proposals include revenue policy proposals, such as changes in the 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 capital investment projects, assignment of new policies, and changes in the rate or coverage of subsidies.

147. During the budget preparation process, Pingjiang did not provide estimates for the fiscal impacts of policy changes in 2019. The list of policy changes were not provided to the assessors. Thus, the score is D.

**Table 3.21: Fiscal impact of policy proposals**

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

Data source: Interview, Pingjiang Bureau of Finance.

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

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

**Table 3.22: Medium-term expenditure estimates**

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

Data source: Interview, Pingjiang Bureau of Finance.

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

149. No medium-term expenditure and revenue estimates were prepared, so this dimension is not applicable.

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

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

## PI-17. Budget preparation process

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

Indicators/ Dimensions	Assessment of performance	2019 Score
<b>PI-17. Budget preparation process (M2)</b>		<b>B</b>
<b>17.1 Budget calendar</b>	Date of issuance of the 2019 budget circular was September, 12 2018. The deadline for submission of estimates was November 26, 2018. Eight weeks are provided to allow budgetary units to meaningfully complete their detailed estimates on time.	A
<b>17.2 Guidance on budget preparation</b>	The expenditure ceiling is provided on 19 Nov. 2018, after the circular's distribution to budgetary units, but before budgetary units have completed their submission on 26 Nov. 2018.	B
<b>17.3 Budget submission to the legislature</b>	Only in one of the last three years, the executive has submitted the annual budget proposal to the legislature at least one month before the start of the FY.	D

### Dimension PI-17.1. Budget calendar

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

153. The annual budget calendar is generally adhered to. The date of the 2019 first budget circular was on September 12, 2018. The deadline for the first submission of budget estimates was set for November 26, 2018. This means that budgetary were given more than eight weeks from receipt of the budget circular to submission of the estimates to meaningfully complete their detailed estimates on time.

**Table 3.23: Budget calendar and guidance on budget preparation**

Budget calendar exists (Y/N)	Date of budget circular	Deadline for submission of estimates	Coverage	% of ministries complying with deadline	Date Cabinet approved ceilings	Budget estimates are reviewed and approved by Cabinet after completion (if ceilings not issued) (Y/N)
Y	2018.09.12	2018.11.26	Covering total expenditure for the full FY	100%	2018.11.19	NA

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



## Dimension PI-17.2. Guidance on budget preparation

154. 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, which are approved by the Pingjiang Government. For the FY 2019, the expenditure ceilings were provided on November 19, 2018, after the circular had been distributed to the budgetary units, but before budgetary units completed their submission on November 26, 2018. The score is B.

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

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

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

**Table 3.24: Budget submission to legislature**

Budget of FY	Date of submission of budget proposal
2017	November 23, 2016
2018	December 05, 2017
2019	December 24, 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

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-18. Legislative scrutiny of budgets (M1)</b>		<b>C+</b>
<b>18.1. Scope of budget scrutiny</b>	Budget scrutiny by the People's Congress covers details of expenditure and revenue, and fiscal policies, but not medium-term fiscal forecasts and medium-term priorities.	B
<b>18.2. Legislative procedures for budget scrutiny</b>	The Budget Law and the Supervision Law of the Standing Committee of the People's Congress at Various Levels stipulate the legislative procedures for budget scrutiny. The procedures include arrangements for public consultation, as well as internal organizational arrangements, such as the roles of standing committees and budget committees in the county People's Congress. The procedures were adhered to in Pingjiang.	A
<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, and 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 which were not always adhered to.	C

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

158. The legislature in Pingjiang 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 shall first be 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 for the coming FY, and fiscal policies, while not including medium-term fiscal forecasts or medium-term priorities. The assessors collected evidence about the scrutiny procedures, like the agenda, minutes, resolutions of the plenary meeting of the County People's Congress, and the budget documents presented on the Plenary including a report on the scrutiny.

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

**Table 3.25: Scope of budget scrutiny**

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

Data source: Pingjiang Bureau of Finance.

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

160. The budget review procedure of the legislature was stipulated in the 2014 Budget Law and the Supervision Law of the Standing Committee of the People's Congress at Various Levels. In accordance with the provisions of these Laws, prior to the meeting of the County People's Congress to scrutinize the budget proposal, the Standing Committee of the County People's Congress shall conduct a preliminary scrutiny, and the representatives to the People's Congress shall be organized in various forms to hear the views of voters and all sectors of the 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 laws also stipulate in detail the contents of the Standing Committee's scrutiny of the budget proposal and the key points that the People's Congress shall pay attention to in budget scrutiny. Evidence shows that these legal provisions have been strictly complied with in Pingjiang. In particular, with respect to the public consultation arrangements required by a score of A, the Financial Committee of the Pingjiang People's Congress organized a meeting to solicit suggestions on budget scrutiny from some representatives to the People's Congress and from people from various sectors.

**Table 3.26: Legislative procedures for budget scrutiny**

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

Data source: Pingjiang Bureau of Finance.

## Dimension PI-18.3. Timing of budget approval

161. In 2016, 2017, and 2018, the annual budget proposals were approved by Pingjiang People's Congress on January 7, 2016, November 30, 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 FYs, and the delay in the third year did not exceed one month. The timing of budget approval in Pingjiang meets the criteria for a B score.

**Table 3.27: Timing of budget approval**

Budget for FY	Date of budget approval
2016	January 7, 2016
2017	November 30, 2016
2018	December 28, 2017

Data source: Pingjiang Bureau of Finance.

## 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 upon approval of the People's Congress at the corresponding level. However, these stipulations were not strictly adhered to at the subnational level.

163. In 2018, the Pingjiang People's Congress officially approved the budget adjustment only once, on July 31, which covered the bonds on-lent by the Hunan Province, and part of the earmarked transfers. However, 45.7 percent of the budget adjustments, accounting for 27.6 percent of the actually executed expenditure, did not go through the approval procedures at the legislature.

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

Item		GPB (D)	GFB (E)	Total ( D + E )	
Budget adjustments	<b>In accordance with rules</b>	Earmarked transfers	1,722,430.0	108,270.0	1,830,700.0
		Bonds, on-lending	634,000.0		634,000.0
		Subtotal (A)	2,356,430.0	108,270.0	2,464,700.0
	<b>Not in accordance with rules</b>	Tax rebate	115,650.0		115,650.0
		General transfer	1,519,850.0		1,519,850.0
		Carry-over from last year	128,320.0	104,340.0	232,660.0
		Transferred-in from other budgets	786,990.0	21,170.0	808,160.0
		Other		-720,910.0	720,910.0
	Expenditure in adjusted budget		7,262,100.0	2,104,940.0	9,367,040.0
	Expenditure in originally approved budget		2,354,860.0	2,592,070.0	4,946,930.0
Total budget adjustment (B)		4,907,240.0	-487,130.0	5,394,370.0	
Actually executed expenditure (C)		7,141,520.0	1,774,840.0	8,916,360.0	
<b>Actual amount of reallocations in accordance with rules (% of BCG budget) (A/C)</b>		27.6			
<b>Extent of adherence to rules (A/B)</b>		45.7			

Data source: Pingjiang Bureau of Finance.

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

**Table 3.29: Rules for budget adjustments**

Clear rules exist (Y/N)	Rule include strict limits (extent and value)	Actual amount of reallocations in accordance with rules (% of BCG budget)	Extent of adherence to rules (All, most, some)
Y	Y	27.6	some

Data source: Pingjiang Bureau of Finance.



## 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 the following 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 a HLG or agency that account for 75 percent or more of the total tax revenues of the SNG. Inclusion of many small revenue-generating taxes would overly complicate the assessment process.

168. In China, the tax-sharing-system (TSS) reform in 1993 was implemented (partly) to change/adjust the fiscal relationship between CG and SNGs. After this reform, the 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 the merger of the local and state tax bureaus, 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 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 example, in Pingjiang's case, in FY 2018, the tax sharing percentage for the county level government was 37.5 percent of VAT revenue, 37.5 percent of business tax 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, this indicator PI-19 is not applicable to China's local governments.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-19. Revenue administration (M2)</b>		NA
<b>19.1. Rights and obligations for revenue measures</b>	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.	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 the following 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.

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 unified income completion statement every month. The report details the monthly completion and cumulative completion of various types of revenue.	A
<b>20.2. Transfer of revenue collections</b>	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.	A
<b>20.3. Revenue accounts reconciliation</b>	Governments at county level are not authorized to administrate and collect taxes. The duty of tax revenue reconciliation is not applicable to Pingjiang County.	NA

### Dimension PI-20.1 Information on revenue collections

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

173. The Treasury Office under the Pingjiang Finance Bureau obtains revenue data from the Pingjiang Tax Bureau and the Non-Tax Revenue Office under the Pingjiang 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 the revenue of every type. The dimension score should be A.

### Dimension PI-20.2 Transfer of revenue collections

174. Pingjiang set up the TSA system in 2006, which is composed of the Pingjiang County Treasury and four special accounts (i.e. two non-tax accounts, one food risk fund account and one compulsory education account)<sup>3</sup>.

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

<sup>3</sup> There are also 4 social security fund special accounts, but these accounts are not covered by this dimension.

**Dimension PI-20.3 Tax accounts reconciliation**

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



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

177. This indicator assesses the extent to which the Finance Department 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 Pingjiang Finance Bureau obtains a daily balance report from the Treasury, and the balances of special accounts are consolidated monthly. The balance of the Treasury accounts for less than 30% of all the bank balances.	C
<b>21.2. Cash forecasting and monitoring</b>	No evidence shows that the Pingjiang Finance Bureau has conducted cashflow forecasting and monitoring.	D
<b>21.3. Information on commitment ceilings</b>	Payment can be made within the approved budget. But originally approved budget expenditure accounts for less than one third of the actually executed expenditure. The expenditure ceilings for the budgetary units are largely unpredictable.	D
<b>21.4. Significance of in-year budget adjustments</b>	Significant budget adjustments happened more than twice, but information on the process for each budget adjustment is not available.	C

### Dimension PI-21.1 Consolidation of cash balances

178. The TSA system, being set up in Pingjiang in 2006, covers all accounts of the budgetary units, but it involves a number of bank accounts. The Treasury account is opened at Pingjiang branch of the People's Bank of China (PBOC); the non-tax account is at the Hunan Pingjiang Rural Commercial Bank and the China Post Savings Bank; the compulsory education account and the food risk fund account are at the Agricultural Bank of China and the Agricultural Development Bank of China respectively. While the PBOC is China's central bank, all the other banks are commercial banks.

179. The Pingjiang Treasury, managed by the Pingjiang Branch of the PBOC, provides a daily balance report to the Treasury Office of the Pingjiang Finance Bureau. The balances of special accounts in all commercial banks are consolidated monthly. As the balance of the Treasury that is consolidated daily accounts for less than 30 percent of all the bank balances, the score is C.

**Table 3.30: Consolidation of bank and cash balances in Pingjiang (summary)**

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

Data source: Pingjiang Bureau of Finance.

**Table 3.31: Consolidation of bank and cash balances in Pingjiang (by accounts)**

Account	Frequency of consolidation	Time	Amount (million RMB)
Treasury	Daily (A)	2019 average	220.97
Special accounts	Monthly (,B)	2019 average	522.80
Percentage of daily consolidated bank balance(A/A+B)			29.7%

### Dimension PI-21.2 Cash forecasting and monitoring

180. In Pingjiang, most of the GPB expenditures are financed by the upper-level transfers (the percentage is 80 percent, 77 percent and 72 percent for 2016, 2017 and 2018, respectively), and most of the transfers are not predictable (referring to HLG-1.4). Thus, Pingjiang has not conducted regular cashflow forecasting and monitoring. The score for cash forecasting and monitoring is D.

### Dimension PI-21.3 Information on commitment ceilings

181. The budgetary units can in most time make payments within the approved budget, and there are no restrictions like commitment ceilings. Though monthly payment plans should be submitted and approved in advance, the actual expenditures frequently differ from the planned expenditures (according to the payment records provided by the Payment Center under the Finance Bureau).

182. However, in Pingjiang, the originally approved budget expenditure typically accounts for a relatively small share of the actually executed expenditure (the percentage is 52 percent, 36 percent and 33 percent in 2016, 2017 and 2018 respectively for the GPB). The expenditure ceiling for the budgetary units are still unpredictable. Therefore, the score is D.

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

183. Significant budget adjustments happened more than twice in 2018 (referring to PI-18.4). However, information on the process for each budget adjustment is not available. 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 21.3, 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 Pingjiang County has not set up a monitoring system of expenditure arrears, data on stock of arrears is not available.	D*
<b>22.2. Expenditure arrears monitoring</b>	There is no monitoring system for expenditure arrears in Pingjiang County.	D

### Dimension PI-22.1 Stock of expenditure arrears

185. Since there is no expenditure arrear monitoring system in Pingjiang (referring to the following PI-22.2), data on stock of arrears is not available, which leads to a D\* score for this dimension.

### Dimension PI-22.2 Expenditure arrears monitoring

186. The Payment Center under the Pingjiang Finance Bureau takes the duty of making payments on behalf of all the budgetary units upon their requests. Although the budget units can only apply for payment within the approved budget, as there is no effective expenditure commitment control (referring to PI-25.2), expenditure commitments may occur before approval of the budget, and if not settled timely, leading 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 can happen, but are not identified and monitored in Pingjiang County. 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 the following four dimensions (see the table below) 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 Pingjiang 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 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.	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 center. Retroactive adjustment is rare.	A
<b>23.3. Internal control of payroll</b>	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.	A
<b>23.4. Payroll audit</b>	There is a strong payroll system, which can reveal control deficiencies and identify 'ghost' employees. But the external auditors do not conduct special payroll audits, only partial payroll audits are conducted by internal auditors together with the economic responsibility audit.	C

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

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

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

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

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

**Table 3.32: Payroll controls**

Function	Y/N	By whom	Frequency (if applicable)
Hiring and Promotion checked against approved staff list	Y	Superior department in charge and the Human Resource and Social Security Bureau	Once hiring and promotion take place.
Reconciliation of payroll and personnel database	Y	The payroll is automatically generated and updated according to the personnel database at the Human Resource and Social Security Bureau.	No need for manual reconciliation.
Documentation maintained for payroll changes	Y	The budgetary unit, the superior department in charge and the Human Resource and Social Security Bureau	Permanent maintenance.
Payroll checked and reviewed for variances from last payroll	Y	Superior department in charge and the Human Resource and Social Security Bureau	Once payroll variance occurs.
Updates to personnel records and payroll.	Y	Superior department in charge and the Human Resource and Social Security Bureau	Once personnel records and payroll updates take place.
Updates includes validation with approved staff list.	Y	Superior department in charge and the Human Resource and Social Security Bureau	Once personnel records and payroll updates take place.
Audit trail of internal controls	Y	Information centre under the Finance Bureau	Once required or if there is illegal intrusion.
Payroll audits in last three years.	Y	Internal auditors and the office in charge of checking ghost employees	the conducted internal auditors together with the economic responsibility audit covered less than 60% of total GPB and GFB expenditures.

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

### Dimension PI-23.2 Management of payroll changes

192. Upon completion of necessary approval procedures, changes to the personnel record are manually entered into the personnel information management system together with the supporting documents, and a new payroll will be generated automatically.

193. Retroactive adjustments are rare and take place only when the promotion of a staff member was not accurately captured, that is, if the approval procedures were not completed within the current month and payment of the increased wage is therefore postponed. In 2018, the amount of retroactively adjusted wage payments accounted for 1.8 percent of total wage expenditure, which is less than three percent. The score thus is A.

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

194. The change of personnel records (including salary adjustment) in the personnel information management system needs to be approved by the budgetary unit, its superior department and the Human Resources and Social Security Bureau. The payroll is then automatically generated. 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 under the Finance Bureau handles the wage payments through a wage payment system according to the payroll determined by the Human Resources and Social Security Bureau. It implements post separation with regard to the review of payrolls, the approval of payment and the execution of payment. Also, each post is assigned a separate U-shield and a separate password in the payment system.

196. The Information Center under the Finance Bureau can audit and trace all IT systems and identify illegal intrusion by hacking or a virus. So far, there has not been any hacking incident.

197. Therefore, the authority to change personnel records and payrolls is limited. An audit trail is available. In sum, there is effective internal control to ensure data consistency. The score is A.

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

198. In Pingjiang, the payroll audit mainly targets 'ghost' employees. Since 2006, an office for the cleaning-up of ghost employees has intermittently inspected each budgetary unit at least once a year. For any budgetary unit identified to have ghost employees, the budget expenditure for the next year will be cut accordingly.

199. Possibly because of the strong payroll control system, including the measures taken to identify ghost employees, Pingjiang Audit Office does not conduct general payroll audits. Payroll audits are conducted only to a certain extent by the internal auditors together with the economic responsibility audits (some economic responsibility audits for former leaders mentioned findings on payroll issues). In this sense, only partial payroll audits have been undertaken between 2016-2018 in Pingjiang. 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 (2016-2018), 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>C</b>
<b>24.1. Procurement monitoring</b>	The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.	D*
<b>24.2. Procurement methods</b>	Since the contract data for small contracts are not available, it is not feasible to calculate the total value of contracts awarded through competitive methods.	D*
<b>24.3. Public access to procurement information</b>	Three out of six criteria are met.	C
<b>24.4. Procurement complaints management</b>	All six criteria are met.	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 Pingjiang, depending on the nature of procurement and the contract value to be procured, procurement is required by the law and regulations to be conducted in different venues, either by the procuring entity itself or by the Yueyang Public Resources Transaction Center (Table 3.33).

**Table 3.33: Responsible agencies for procurement**

Agency	Yueyang Public Resources Transaction Center	By the procuring entity itself
Procurement following the Tendering and Bidding Law	Works: >=4 million Goods: >=2 million Services: >=1 million	Nil
Procurement following the Government Procurement Law	Works: >=0.4 million Goods: >=0.2 million Services: >=0.2 million	Works: <0.4 million Goods: <0.2 million Services: <0.2 million

203. The responsible agencies for contract data recording and maintenance and consequently for the relevant records are presented in Table 3.34.

**Table 3.34: Responsible agencies for procurement contract data recording and maintenance**

Agency	Yueyang Public Resources Transaction Center	By the procuring entity itself
Procurement following the Tendering and Bidding Law	Complete record is maintained by the Pingjiang Tendering and Bidding Office under the Pingjiang Development and Reform Bureau.	N/A
Procurement following the Government Procurement Law	Complete record is maintained by the Pingjiang Government Procurement Supervision and Administration Office under the Pingjiang 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 Table 3.34, for contracts with a value less than 0.4 million for works, 0.2 million for goods, and 0.2 million for services, the contract data is 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 Hunan Provincial Tendering and Bidding Supervision (<http://www.bidding.hunan.gov.cn>, with a new website effective from December 9, 2019 <http://218.76.24.90/flow>); the website of Yueyang Tendering and Bidding (<http://yueyang.okcis.cn/>); and the website of Yueyang Public Resources Transaction (<http://ggzy.yueyang.gov.cn/>).

206. For contracts procured following the Government Procurement Law, contract data including data on what has been procured, value of procurement and who has been awarded contracts, is published on the website of Hunan Provincial Government Procurement (<http://www.ccgp-hunan.gov.cn/>) and the website of Yueyang Public Resources Transaction (<http://ggzy.yueyang.gov.cn/>).

207. Since the contract data for small contracts (with contract value less than 0.4 million for works, 0.2 million for goods, and 0.2 million for services) are not available, and there is no sound document to support the percentage of the aggregate value of these small contracts against the total contract value procured, score D is assigned to this dimension.

## Dimension PI-24.2 Procurement methods

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 0.4 million for works, 0.2 million for goods, and 0.2 million for services are available. For those, the following tables present the contract value procured in FY 2018 and the percentage of competitive methods applied by value.



**Table 3.35: Procurement methods and corresponding value**

Procurement method	Total value of procurement (RMB)	Total value of contracts procured through non-competitive method (RMB)
Procurement following the Tendering and Bidding Law	1,318,741,340	Nil
Procurement following the Government Procurement Law	1,253,420,222	34,086,454

**Table 3.36: Procurement methods and corresponding value**

Total value of procurement (RMB)	Total value of contracts procured through non-competitive method (RMB)	Total value of contracts procured through competitive method (RMB)	Percentage of competitive method by value
(1)	(2)	(3)	(3)/(1)x100%
2,572,161,562	34,086,454	2,538,075,108	98.7

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

212. However, since the contract data for small contracts (with contract value less than 0.4 million for works, 0.2 million for goods, and 0.2 million for services) are not available, it is not feasible to calculate the total value of contracts awarded through competitive methods. Thus, score D\* is assigned to this dimension.

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

213. This dimension looks at the extent to which the public has access to procurement information. In Pingjiang, procurement information comprises the following:

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

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

**Table 3.37: Public access to procurement information**

Type of procurement information	Findings	Public access
Legal and regulatory framework for procurement	Both the Tendering and Bidding Law and the Government Procurement Law as well as relevant implementation regulations issued by the government at central, provincial and prefectural levels are publicly available on various websites of the governments.	Yes
Government procurement plans	Government procurement plans are not disclosed publicly.	No
Bidding opportunities	<p>For procurement following the Tendering and Bidding Law, the bidding opportunities are published on the website of Hunan Provincial Tendering and Bidding Supervision (<a href="http://www.bidding.hunan.gov.cn">http://www.bidding.hunan.gov.cn</a>, with new website <a href="http://218.76.24.90/flow">http://218.76.24.90/flow</a> effective from Dec. 9, 2019), the website of Yueyang Tendering and Bidding (<a href="http://yueyang.okcis.cn/">http://yueyang.okcis.cn/</a>), and the website of Yueyang Public Resources Transaction (<a href="http://ggzy.yueyang.gov.cn/">http://ggzy.yueyang.gov.cn/</a>).</p> <p>For procurement following the Government Procurement Law, the bidding opportunities 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>) and the website of Yueyang Public Resources Transaction (<a href="http://ggzy.yueyang.gov.cn/">http://ggzy.yueyang.gov.cn/</a>).</p>	Yes
Contract award (purpose, contractor, value)	<p>For procurement following the Tendering and Bidding Law, contract award information is published on the website of Hunan Provincial Tendering and Bidding Supervision (<a href="http://www.bidding.hunan.gov.cn">http://www.bidding.hunan.gov.cn</a>, with new website <a href="http://218.76.24.90/flow">http://218.76.24.90/flow</a> effective from Dec. 9, 2019), the website of Yueyang Tendering and Bidding (<a href="http://yueyang.okcis.cn/">http://yueyang.okcis.cn/</a>), and the website of Yueyang Public Resources Transaction (<a href="http://ggzy.yueyang.gov.cn/">http://ggzy.yueyang.gov.cn/</a>).</p> <p>For procurement following the Government Procurement Law, contract award information 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>) and the website of Yueyang Public Resources Transaction (<a href="http://ggzy.yueyang.gov.cn/">http://ggzy.yueyang.gov.cn/</a>).</p> <p>For small value contracts, the end-users are permitted to carry out procurement and invite the bids outside the centralized public resources transaction center. There are no consolidated centralized official record or file as referred to in 24.1 and 24.2. However, each end-user does publish contract information to public through its own media.</p>	Yes
Data on resolution of procurement complaints	<p>For procurement following the Tendering and Bidding Law, information on the resolution of procurement complaints is only issued to the client and the bidder. The information is not disclosed to the public. Even if resolution of complaints results in any sanction or debarment against a bidder, such sanction or debarment is not disclosed to the public either.</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.</p>	No (only for procurement following the Government Procurement Law)
Annual procurement statistics	<p>For procurement following the Tendering and Bidding Law, the Pingjiang Tendering and Bidding Office under the Pingjiang Development and Reform Bureau keeps complete data but the data are not publicly disclosed.</p> <p>For procurement following the Government Procurement Law, the Pingjiang Government Procurement Supervision and Administration Office under the Pingjiang Finance Bureau maintains complete data in a system called Local Government Procurement Information Statistics Management System. The system is replaced by a new system called Financial Integration Information System of Hunan which came into operation on November 1, 2019. However, the data are only accessible to the Hunan Provincial Department of Finance, the Yueyang Prefectural Finance Bureau and the Pingjiang Finance Bureau. They are not disclosed to the public.</p>	No

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

## Dimension PI-24.4 Procurement complaints management

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

**Table 3.38: 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 mechanism for procurement following the Tendering and Bidding Law</b></p> <p>There are two tiers of complaint mechanisms. 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 shall be submitted within this standstill period. The client is required to respond to the complaint within three calendar days.</p> <p>Under the second layer, the bidder can lodge any complaint to the Tendering and Bidding Office under the Pingjiang Development and Reform Bureau within ten calendar days from his awareness of the issue.</p> <p><b>Complaint mechanism for procurement following the Government Procurement Law</b></p> <p>There are also two tiers of complaint mechanism. Under the first tier, the bidder can lodge any complaint to the client within seven working days from his awareness of the issue. The client is required to respond to the complaint within seven working days according to Government Procurement Law.</p> <p>Under the second tier, if the bidder is not satisfied with the response from the client or if the client does not respond within the required time, the bidder can lodge any complaint to the Government Procurement Supervision Office under the Pingjiang Finance Bureau within 15 working days after receiving the response from the client or after the expiry of the required responding time.</p> <p>The criterion for the reviewing body not to be involved in any capacity in procurement transactions or in the process leading to contract award decisions is not met by the first tier complaint mechanisms as the entity for complaint handling is the client itself. However, it is met by the two second tier complaint 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>	Yes
Does not charge fees that prohibit access by concerned parties	No fee is charged to the complainant, neither for procurement following the Tendering and Bidding Law nor for procurement following the Government Procurement Law.	Yes

Criteria for the reviewing body	Findings	Met/ Not met
Follows processes for submission and resolution of complaints that are clearly defined and publicly available	<p>For procurement following the Tendering and Bidding Law, the <i>Hunan Provincial Complaint Handling Procedure and Guidance for Procurement Following 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 Government Procurement Law</i> issued by the MOF on December 26, 2017 and effective as of March 1, 2018 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 Tendering and Bidding Office under the Pingjiang Development and Reform Bureau exercises the authority to suspend the procurement process.</p> <p>For procurement following the Government Procurement Law, the Government Procurement Supervision Office under the Pingjiang Finance Bureau exercises the authority to suspend the procurement process.</p>	Yes
Issues decisions within the timeframe specified in the rules/regulations	<p>For procurement following the Tendering and Bidding Law, the Tendering and Bidding Office under the Pingjiang Development and Reform Bureau is required to determine whether a complaint is valid within three working days. If the complaint is determined valid, within 30 working days, the Tendering and Bidding Office under Pingjiang Development and Reform Bureau must issue determination of the procurement process.</p> <p>For procurement following the Government Procurement Law, the Government Procurement Supervision Office under the Pingjiang 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)	<p>The decisions made by the Tendering and Bidding Office under the Pingjiang Development and Reform Bureau or by the Government Procurement Supervision Office under the Pingjiang Finance Bureau are binding for both parties. If the complainant is not satisfied with the resolution, the complainant is entitled to request an administrative review by an HLG office or administrative litigation according to the laws and regulations.</p>	Yes

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

217. 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 the following three dimensions and uses the M2 (AV) method for aggregating dimension scores. The time period covered by the assessment is 'at time of assessment' (2019), and the coverage includes budgetary units and EBUs of the SNG.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<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>	Most (more than 75% but less than 90%) of the payments are in line with regular payment procedures, and all exceptions are authorized in advance.	B

### Dimension PI-25.1 Segregation of duties

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

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

- (a) Enter the issued budget payment quota (Treasury Office / Sectoral Officer at the Finance Bureau).
- (b) Check the budget payment quota (Treasury Office at the Finance Bureau).
- (c) Enable the budget payment quota (Treasury Office at the Finance Bureau).
- (d) Enter the payment schedule (Budgetary entities).
- (e) Check the payment schedule (Sectoral Office at the Finance Bureau).
- (f) Check the payment schedule (Treasury Office at the Finance Bureau).
- (g) Second-check the payment schedule (Treasury Office at the Finance Bureau).
- (h) Issue the approved payment schedule (Treasury Office in the Finance Bureau).
- (i) Record the approved payment schedule (Budgetary units).
- (j) Enter the direct payment application (Budgetary units).
- (k) Check the direct payment application (Budgetary units).
- (l) Submit the direct payment application (Budgetary units).
- (m) Check the direct payment application (Payment Center at the Finance Bureau).
- (n) Recheck the direct payment application (for payment over 20 thousand, Payment Center at the Finance Bureau).

- (o) Generate the direct payment order (Payment Center at the Finance Bureau).
- (p) Check the direct payment order (Payment Center at the Finance Bureau).
- (q) Recheck the direct payment order (Payment Center at the Finance Bureau).
- (r) Final check the direct payment order (Payment Center at the Finance Bureau).
- (s) Send the direct payment order to the bank (Payment Center at the Finance Bureau).

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

221. In the above-mentioned procedures, incompatible jobs (such as expenditure application and internal review, payment approval and payment request, operating and accounting) are separated from each other, and all the responsibilities are clearly defined in the flow chart. The Information Office at the Finance Bureau keeps a list of authorized persons at all stages of the payment process, and the well-designed IT system ensures that nobody can override authorized responsibilities.

222. 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.

223. The score is A.

**Table 3.39: Segregation of duties and commitment controls**

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

Data source: The handbook on payment process by the centralized payment centre, the written description on the segregation of duties provided by the information centre and the internal control department.

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

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

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

225. All payments in Pingjiang 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 11.61

percent of total expenditures. However, they were all approved by the county mayor.

226. Therefore, most of the payments are in line with regular payment procedures, and all the exceptions are authorized in advance. The score is B.

## PI-26. Internal audit

227. This indicator assesses the standards and procedures applied in internal audits. 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). The budgetary units of the SNG are covered.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-26. Internal audit (M1)</b>		<b>B+</b>
<b>26.1. Coverage of internal audit</b>	Internal audit is applied to the budgetary units that implement almost all of the budget expenditures and collect all of the budget revenues.	A
<b>26.2. Nature of audits and standards applied</b>	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 in Pingjiang County.	B
<b>26.3. Implementation of internal audits and reporting</b>	Each department with an internal audit unit prepares an annual audit work plan and a summary report for its annual audit work, which shows the completion rate of the planned internal audit tasks. Five sampled budgetary units have fully completed their annual audit plans.	A
<b>26.4. Response to internal audits</b>	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.	A

### Dimension PI-26.1 Coverage of internal audit

228. Expenditures of the budgetary units, which established an internal audit function in their unit, accounted for 96.2 percent of total budget expenditures in FY 2018. The revenues collected by Pingjiang Finance Bureau covered 100 percent of total budget revenues (excluding tax revenue, referring to PI 20.3) and Pingjiang Finance Bureau is subject to internal audit.

229. Therefore, internal audit in Pingjiang County covered all budget expenditures and budget revenues. The score is A.

**Table 3.40: Calculation of the internal audit coverage in terms of expenditures**

No.	Service Delivery Department	Budget expenditure (thousand)	With internal audit office (Y/N)	Expenditure covered by internal audit (thousand)
1	Education	618,640.0	Y	618,640.0
2	Civil affairs	215,650.0	Y	215,650.0
3	Housing	284,300.0	Y	284,300.0
4	Science and information technology	9,120.0	N	0.0
5	Human resources and social security	24,010.0	Y	24,010.0



No.	Service Delivery Department	Budget expenditure (thousand)	With internal audit office (Y/N)	Expenditure covered by internal audit (thousand)
6	Transportation	133,080.0	Y	133,080.0
7	Water resources	75,420.0	Y	75,420.0
8	Agriculture and rural affairs	73,490.0	Y	73,490.0
9	Forestry	84,600.0	Y	84,600.0
10	Commerce	10,220.0	N	0.0
11	Culture and tourism	55,190.0	N	0.0
12	Health	323,470.0	Y	323,470.0
13	Natural resources	72,140.0	Y	72,140.0
<b>Total</b>		<b>1,979,330.0(A)</b>		<b>1,904,800.0(B)</b>
<b>Percentage</b>				<b>96.2% (=B/A*100%)</b>

Data sources: Pingjiang Finance Bureau, Pingjiang Audit Office.

**Table 3.41: Calculation of the internal audit coverage in terms of revenues**

Departments responsible for revenue collection with an internal audit office	Amount(billion)	Formula
GPB non-tax revenue	0.23	A
GFB revenue (all are non-tax)	2.59	B
Subtotal	<b>2.82</b>	C=A+B
Finance Bureau (collecting all non-tax revenue)	<b>2.82</b>	D
Internal audit coverage ratio	100%	E=C/D x 100%

Data sources: Pingjiang Finance Bureau, Pingjiang Audit Office.

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

230. By interviewing internal auditors and checking the sampled audit files, it was noted that each year the internal audit units provide training to the auditors. The internal auditors are required to follow professional standards issued by the China Institute for Internal Audit. Every year detailed guidance is provided to internal auditors on the risk areas that need to be paid special attention to in the annual audit. The internal audit units have a three-level quality review system similar to that of an accounting firm. In addition, the persons responsible for drafting, reviewing and signing off the audit report are segregated. The audit process can be traced by supporting documents, for example, the internal audit work plan of the Pingjiang Health and Family Planning Bureau for FY 2018 states clearly the annual audit objectives, audit guidance, audit basis, audit focus, key points during audit, audit methods and audit scope.

231. All required audit evidences are maintained in the audit files. The audit reports reveal the weak areas that exist in the internal control system of the audited units and identify high-risk areas (for example, illegal payment). The internal audit units also prepare a summarized report for their annual audit work every year.

232. Based on the aforementioned facts and observations, the internal audit function focuses on evaluating the adequacy and effectiveness of internal control of the budgetary units. The internal audit tasks are

conducted in line with professional standards, including taking a risk-based approach. However, internal audit quality assurance is not established in Pingjiang County. Therefore, the score is B.

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

233. The five largest bureaus (by expenditures in FY 2018) were selected to assess the implementation of internal audits and reporting. The result is shown in Table 3.42 below.

234. Comparing the completed audit tasks with the annual audit work plan of the five selected bureaus, the completion rate of annual audits is 100 percent or above. The Education Bureau conducted three additional accountability audits, thus achieving a higher completion rate. The score is A.

**Table 3.42: 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%)
Housing and construction	1	1	100%
Education	7	10	143%
Civil affairs	7	7	100%
Forestry	4	4	100%
Health	7	7	100%
<b>Total</b>	<b>26</b>	<b>29</b>	<b>112%</b>

### Dimension PI-26.4 Response to internal audits

235. After receiving the audit reports, management staff of the audited units require that the entities with issues be disclosed by the internal auditors so remedial action can be taken. In FY 2018, the management of the Transportation Bureau, the Public Security Bureau, the Housing and Construction Bureau, and the Health Bureau paid more attention to the audit findings, took necessary actions and submitted the rectification reports to internal auditors within two or three months. The Environmental Protection Bureau's response was delayed but also within 12 months. The score is A.



## PILLAR 6: Accounting and Reporting

236. 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

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-27. Financial data integrity (M2)</b>		<b>B+</b>
<b>27.1. Bank account reconciliation</b>	Reconciliation of all bank accounts is completed within 15 days after the end of each month.	B
<b>27.2. Suspense accounts</b>	There is no suspense account.	NA
<b>27.3. Advance accounts</b>	There is no advance account.	NA
<b>27.4. Financial data integrity processes</b>	All financial data are recorded in a computerized system which is managed by the Information Center housed in the Pingjiang FB and meets a high information security standard. Access and change to financial data are strictly restricted and recorded, and result in an audit trail.	A

#### Dimension PI-27.1 Bank account reconciliation

238. In addition to the TSA, there are four other types of special bank accounts in Pingjiang County, which are (i) the social security account, (ii) the non-tax account, (iii) the grain risk fund account, and (iv) the compulsory education account. Except for the TSA, which is opened at the Pingjiang branch of the PBOC, the other accounts are opened at different commercial banks and policy banks. These accounts are reconciled once a month within 15 days (within 4 days for the TSA) after the end of each month. Thus, the score is B.

#### Dimension PI-27.2 Suspense accounts

239. There is no suspense account in Pingjiang County.

#### Dimension PI-27.3 Advance accounts

240. There is no advance account in Pingjiang County.

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

241. The financial data in Pingjiang is recorded through a computerized information system, named Golden

Finance Project Network system, which is composed of such sub-systems as the Budget Management System, the Treasury Centralized Payment system, the Financial Management System, etc. The Information Centre housed inside the Pingjiang Finance Bureau is in charge of information security including the financial data integrity. This system's management reached high standard in terms of information security, being granted with the Grade III Information Security Certificate as of 2018. This confirms that the financial integrity in Pingjiang is guaranteed with appropriate infrastructure (data storage and backup), regulations and processes, well-trained professionals and management protocols, including restricted data access and modification to authorized users and an audit trail.

242. The score is A.

## 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 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 quarterly analyses on budget execution. All revenues and expenditures including de-concentrated units within the SNG are included in the in-year budget reports. The coverage and classification of data are comparable to the original budget.	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 on a quarterly basis and covers the information of the expenditure stage, but the report is not audited.	B

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

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

**Table 3.43: In-year budget reports**

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

Data source: Pingjiang Finance Bureau.

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

245. In FY 2018, the Pingjiang Finance Bureau prepared the budget execution report once a month, and

prepared the budget execution analysis report every quarter. The tables and reports were released within ten days of the end of the month or quarter and were provided for internal government use. The assessors collected these tables and reports with exact issue dates. This meets the criteria for an A score.

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

246. The in-year budget execution reports for FY 2018 were unaudited. However, referring to dimension 27.4, the report data are largely consistent and useful for the analysis of budget execution, which, in FY 2018, was prepared quarterly. 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 the following 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 was prepared and is comparable with the approved budget. The report included information on revenues, expenditures, and liabilities, but not on financial assets or tangible assets.	C
<b>29.2. Submission of reports for external audit</b>	Budget execution reports were submitted to the County Audit Office within three months after the end of the FY.	A
<b>29.3. Accounting standards</b>	The budget execution reports were prepared in line with the national standards stipulated by MOF. However, the accounting standards adopted were not disclosed in notes or other parts of the financial reports.	D

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

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

250. The budget execution report, which is comparable with the approved budget, was prepared annually by the Finance Bureau. The report contains information on revenue, expenditure, liabilities, but without any information about financial and tangible assets. Based on the supporting evidence, the score for this dimension is C.

**Table 3.44: Annual financial reports**

Prepared annually (Y/N)	Comparable with approved budget (Y/N)	Completeness			Date of submission for external audit	
		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	5 March 2018 (for FY 2017 audit)	3 months
					6 March 2019 (for FY 2018 audit)	

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

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

251. The Finance Bureau did not record the date of submission of the financial report to the Audit Office but the financial report is usually submitted to the Audit Office in February or March every year. The officials from the Audit Office also confirmed that the Audit Bureau usually required the audited unit to provide its financial statements by the first day the auditors start the field work.

252. In FY 2018, the audit of financial reports started on March 6, 2019, so it could be assumed that the financial report was submitted to the Audit Office no later than March 6, 2019.

253. The financial reports of Pingjiang County can thus be assumed to have been submitted to the County Audit Office within three months after the end of the FY. The score is A.

### Dimension PI-29.3 Accounting standards

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





## PILLAR 7: External Scrutiny and Audit

255. 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

256. 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 the following four dimensions (see the table below) and uses the M1 (ML) method for aggregating dimension scores. The assessment covers the Pingjiang 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 not being audited by external auditors accounted for more than 60% of total expenditures.	D
<b>30.2. Submission of the audit reports to the subnational elected legislature</b>	During the past three FYs, the Audit Office submitted the audit reports to the legislature within six months after receiving the financial reports.	B
<b>30.3. External audit follow-up</b>	The rectification reports show that in the last three FYs, required follow-up actions were taken by the related entities effectively and timely to respond to the issues disclosed by the auditors.	A
<b>30.4. Independence of the public audit institution in charge of SNGs</b>	The Audit Law and related regulations provide concrete basis to secure the independence of the SAI. Although the Audit Office is one of the line bureaus under the leadership of the County Government and uses of executive procedure for budget request submission and execution, the executives do not interfere in the budget approved by the People's Congress for the SAI.	B

### Dimension PI-30.1 Audit coverage

257. The Pingjiang Audit Bureau adopts an approach called '1+N' when carrying out its audit. That means, besides conducting the annual budget execution audit, it also audits a certain number of budgetary units and investment projects.

258. The audits that were conducted by the Pingjiang Audit Office during the FYs 2016-2018 are shown in Table 3.46.

**Table 3.45: Audit coverage**

FY	No. of Audited departments	Audited expenditure programs	Audited budget execution report at county level (Y/N)
2016	2	Subsidies for vocational schools	Y
2017	2	The transport improvement program The environmental improvement program	Y
2018	3	The major public health program The poverty alleviation program The retreating from pig farms in no-breeding zones program	Y

Data source: Pingjiang Audit Office.

259. For the sampled 13 service delivery departments (in terms of budget expenditure, see PI-8.1), the expenditures not being covered by external auditors in the past three years accounted for more than 60 percent of total expenditures (see Table 3.46). Therefore, the score for this dimension is D.

**Table 3.46: Audit coverage**

No.	Service Delivery Department	2018 Budget expenditure (million)	Audit of financial report (Y/N)			Expenditure not covered by external audit in 3 years (million)
			2016	2017	2018	
1	Education	618.64	N	N	N	618.64
2	Civil affairs	215.65	N	N	N	215.65
3	Housing	284.30	N	N	N	284.30
4	Science and information technology	9.12	-	-	-	
5	Human resources and social security	24.01	-	-	-	
6	Transportation	133.08	-	-	-	
7	Water resources	75.42	-	-	-	
8	Agriculture and rural affairs	73.49	-	-	-	
9	Forestry	84.60	N	N	N	84.60
10	Commerce	10.22	-	-	-	
11	Culture and tourism	55.19	-	-	-	
12	Health	323.47	N	N	Y	
13	Natural resources	72.14	-	-	-	
<b>Total</b>		<b>1,979.33(A)</b>	-	-	-	<b>1,203.19(B)</b>
<b>Percentage</b>						<b>60.8% (=B/A*100%)</b>

Data source: Pingjiang Audit Office.

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

260. In the assessed time period, the Audit Office did not record the date of submission of the audit reports to the legislature. However, the audit reports must have been submitted before the meeting of the County People's Congress, therefore, the assessment team assumed the first day of the Congress meeting as submission date. As this means, the Audit Office submitted the audit reports to the legislature no later than six months upon receipt of the financial reports for all three of the assessed FYs (see Table 3.47), the score for this dimension is B.

**Table 3.47: Submission of audit reports to legislature**

FY	Receipt of financial reports	Submission of the audit reports	Days of preparing the audit reports
2016	February 23, 2016	August 7, 2016	166 days
2017	February 14, 2017	July 28, 2017	164 days
2018	March 5, 2018	July 16, 2018	133 days

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

261. In FY 2016, the follow-up reports were submitted to the Audit Office on October 18, 2016. 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 90 percent.

262. In FY 2017, the rectification report was scrutinized on November 30, 2017, the report stated 16 issues had been entirely rectified, nine were partially rectified and one was not rectified. All audit recommendations were accepted. The follow-up ratio was around percent.

263. Similarly, in FY 2018, remedial actions were taken by the related entities involved to address the issues disclosed in the audit report, and all recommendations were accepted by the auditees. The completed follow-up ratio was above 90 percent.

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

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

265. 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 says higher level audit entities should be consulted on the appointment and removal of the chief or deputy leaders of the auditing organizations of the local governments at all levels (see Table 3.49). Article 15 of the Audit Law, states that auditing entities are to independently exercise their power of audit supervision in accordance with the Audit Law and be free from interference of any administrative, and social organization or individual.

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

**Table 3.48: 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	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. The Audit Office is one of the line bureaus under the leadership of the County Government and uses of executive procedure for budget request submission and execution, but the executives do not interfere in the budget approved by the People’s Congress for the SAI.
Execution of budget	The independence of budget execution of the Audit Bureau is secured by the Audit Law.
Legal basis for independence	Both the constitution and the Audit Law provide a concrete basis 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: Pingjiang 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 the following 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>	The County Audit Office submitted the audit report to the Standing Committee of the County People's Congress for review on the first day of the Congress meeting, where it was presented and then discussed by the Committee. It took no more than one month in all three FYs for the Committee to approve the report.	A
<b>31.2. Hearings on audit findings</b>	An in-depth hearing was held on the main findings of the audit report once every year. The majority of audited entities with issues disclosed in the audit report participated in the hearing.	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. Then, an official meeting was organized to hear the remedial actions being taken.	A
<b>31.4. Transparency of legislative scrutiny of audit reports</b>	Hearings on the audit reports were not open to the public. The follow-up report for FY 2018 was not published on the government's website.	D

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

268. The annual audit report was usually submitted to the Standing Committee of the County People's Congress rather than the People's Congress plenary for scrutiny on the first day of the Standing Committee meeting, which was held either in July or August. 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 would approve those 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 3.49). Therefore, the score is A.

**Table 3.49: Timing of legislative scrutiny of audit reports**

Audited AFS for FY	Date of submission of audited financial reports	Date of finalization of legislative scrutiny
2015	August 7, 2016	August 9, 2016
2016	July 28, 2017	August 8, 2017
2017	July 16, 2018	July 31, 2018
2018	July 22, 2019	July 31, 2019

Data source: Pingjiang Audit Office.

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

269. The 2016 audit report hearing was held on August 9, 2016. Only six of the eleven budgetary units concerned attended the hearing, i.e., the local Tax Bureau, the Agriculture Bureau, the Finance Bureau, the Air Defense Office, the Public Security Bureau and the Education Bureau. The participation rate was 55 percent.

270. Only seven units participated in the hearing in 2017, including the Transport Bureau, the local Tax Bureau, the Public Security Bureau, the Finance Bureau, the Water Affairs Bureau, the Environmental Protection Bureau, and Changshou township. The attendance rate was 58 percent.

271. Although the audit report for 2018 disclosed a number of problems, only ten of the mentioned units attended the hearing, i.e., the Agriculture Bureau, the Health and Family Planning Bureau, the Animal Husbandry and Aquatic Products Bureau, the Human Resources and Social Security Bureau, the local Tax Bureau, the Environmental Protection Bureau, the Urban Construction and Investment Bureau, the Poverty Alleviation Office and Mei Xian township. The attendance rate was 59 percent.

272. In sum, in-depth hearings on audit findings were held annually. Representatives of the majority of the entities with issues disclosed in the audit report participated in the hearing. Therefore, the score is C.

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

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

274. In November or December, 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 the past three FYs, the Standing Committee held hearings with the concerned units to follow up on the findings of the audit reports, the hearings were not open to the public. The follow-up report for FY 2018 was not published on the government's website. The assigned score is D.

## 4 CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS

### 4.1 Integrated assessment across the PIs

#### 4.1.1 Budget reliability

276. Pingjiang 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 Pingjiang PFM systems failed to produce a credible budget, as the variance in both aggregated and composite expenditure outturns was significantly high (both PI-1 and PI-2 scored D+). The actual expenditure, as a percentage of budget allocation ranged from 187 to 284 percent, and composite variances in expenditures by administrative classification were between 35 and 51 percent.

277. However, the context Pingjiang sets its budget in is important. The weak budget reliability in Pingjiang 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 of the budget, Pingjiang could meet the challenge of producing accurate total revenue projections in business-as-usual years 2016 and 2017, but was not able to prepare for unpredictable changes introduced by the HLGs during FY 2018. The aggregate revenue was 100 and 110.1 percent of revenue outturn in 2016 and 2017, but leaped to 266.5 percent in 2018 due to a change in land policy, announced by the CG during the year. The composition variance of revenue was also high, 27.8, 40.1 and 75.6 percent in 2016, 2017 and 2018 respectively (Score D).

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

281. The majority of service delivery units within Pingjiang County prepare performance plans and their performance is evaluated by a third party. However, evaluation reports on the performance achieved for service

delivery are generally not available, and there are significant deficiencies in the evaluation methodology—it is highly fragmented, lacks focus on outputs and outcomes, falls short in the use of measurable indicators, and establishes no clear link between inputs and performance. PI-8 is hence rated C+.

#### 4.1.3 Management of assets and liabilities

282. The de jure system for asset and liability management is good. Public assets, including their use and age, are well recorded, and so are asset disposals – for which clear procedures are in place (PI-12 scored B). In 2018, all of the ten largest PCs in Pingjiang submitted their financial reports to the government within three months of the end of the FY. The Pingjiang Finance Bureau has a computerized system to track and update information on explicit debt and explicit contingent liabilities (PI-10 and PI-13 both scored C+).

283. With regard to the major public investment projects, the county has formulated a number of management methods to comprehensively guide their application, approval, prioritization and implementation. Economic analyses are conducted of all major public investment projects and are reviewed by the Pingjiang Development and Reform Bureau. Their total cost and physical progress are closely monitored by a centralized government agent throughout the project cycle. (PI-11 scored C+)

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

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

285. Although the government prepares five-year development plans and other strategies, the budget was at the time of review framed in a purely annual perspective. The budget preparation is informed by projections of key macroeconomic and demographic indicators, and the development strategies. But there is no clear linkage of the budget with the development strategy, or explanation about the fiscal implications of policy change (PI-14 is rated D+).

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

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

288. There are significant budget adjustments by the executive during the year (PI-21.4 is rated D). This is inevitable and required by the Budget Law, as a fraction of grants and the debt quota from the HLGs are allocated to local government after the beginning of the FY. Moreover, only part of the budget adjustment is reflected in the mid-year budget adjustment proposal that is submitted to the Standing Committee of Congress for approval.



#### 4.1.5 Predictability and control in budget execution

289. All taxes are administered and collected by the State Administration of Taxation and transferred to the SNGs according to tax-sharing arrangements. PI-19 is therefore not applicable. Tax revenues owed to Pingjiang are directly transferred to the TSA on the day they are received. Non-tax revenues collected by Pingjiang County are paid directly to the bank 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). Despite the good functioning of the TSA, significant amounts of cash, accounting for more than 70 percent of the government cash balance, were kept in the designated bank accounts administered by the budgetary units. The cash balances of these accounts were consolidated only monthly. The Finance Bureau does not monitor or forecast cash flows. Moreover, in-year budget adjustment is frequent and not well regulated. As a result, budgetary units could not properly administer commitments. The incurred expenditure arrears were not monitored, and data on the stock of expenditure arrears was not made available to the Finance Bureau (PI-22 scored D).

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

292. All procurements of works, goods and services above a certain threshold are processed via the Yueyang Public Resource 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 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).

293. An internal control system for non-salary expenditure is in place. Segregation of duties is prescribed throughout the whole budget execution process with clearly defined responsibilities for each stage. The control over expenditure commitments is effective, though covering only part of the expenditures. Most payments were processed in line with established payment procedures. All payments for expenditures with no budget authorization received advance authorization by the Government executives.

294. The internal audit function is well developed (PI-26 scored A). 96.2 percent of budget expenditures and 86.8 percent of budgetary revenues were audited in FY 2018. Internal audit activities are guided by a quality assurance process and meet professional standards, including adopting a risk-based approach. Each department with an internal audit unit prepares an annual internal audit work plan and a summary report of its annual internal audit work. All five sampled budgetary units fully completed their annual audit plans. The management of five sampled audited departments proactively responded to the auditors' suggestions disclosed in the internal audit report within 12 months after the audit report was issued.

#### 4.1.6 Accounting and reporting

295. Overall financial data integrity is high (PI-27 rated B+). All accounts are regularly reconciled, within 15 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 the system operations is in place.

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

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

#### 4.1.7 External scrutiny and audit

298. The external audit system is weak. In the three assessed FYs, the Audit Office submitted the audit reports to the legislature within six months after receiving the financial reports. The County Audit Office could independently carry out its audit and had access to the necessary data without restriction. Many material issues along with systemic and control risks were detected and disclosed in the audit reports, and remedial action was taken by the audited units both effectively and timely. Its budget for conducting audit is secured by the Law, but still contingent on the appropriation of the Finance Bureau. The head of the Audit Office, being a government unit, still reports to the Mayor, though there are well prescribed statutory procedures for appointing or dismissing the head of the Audit Office, subject to the review of an upper-level audit agency and approval of the County People's Congress. However, less than 40 percent of total expenditures were covered by external audit in FYs 2016-2018. PI-30 scored D+.

299. The Audit Office submitted its audit reports to the legislature within six months after receiving the financial reports. The Standing Committee of the County People's Congress provided timely approval (no longer than one month) of the audit reports and called for an in-depth hearing on the main findings of the audit reports once a year. The majority of the audited entities with issues disclosed in the audit reports participated in the hearing. The Standing Committee followed up and conducted hearings on the rectification taken by the auditees. Hearings on audit reports were not available to the public, and the follow-up report for FY 2018 was not published on the government's website. PI-31 scored B.

## 4.2 Strengths and weaknesses of the PFM systems

300. The main strengths of PFM in Pingjiang County are related to the budget reporting, controls, accounting and auditing. Main weaknesses are related to the medium-term budget strategy, transparency, fiscal risk

control and the functioning of the legislature.

#### 4.2.1 Fiscal discipline

301. The budget fails to impose much fiscal discipline in Pingjiang. The variation between outturn and budget estimates for both aggregate expenditure (PI-1.1) and expenditure composition (PI-2.1) are D-rated, and there are significant budget adjustments for expenditures (PI-21.4 is rated D). The lack of predicatability in HLG transfers (HLG-1 is rated D+) contributes significantly 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 C). The in-year resource allocation is frequent and unpredictable (PI-21, rated D), and modern cash management and monitoring for expenditure arrears are missing (PI-22.2 is rated D).

302. Effective control over expenditures by budgetary units helps to maintain fiscal discipline. All government operations are included in the financial reports (PI-6, rated A). Payroll control is effectively supported by centralized payment arrangements and auto-reconciliation through an IT system. (the first three dimensions of PI-23 are rated A). The strong internal control of non-salary expenditures (PI-25, rated B) and the internal audit system (PI-26, rated B+) have ensured strict control over spending during budget execution.

303. Major threats to fiscal discipline in Pingjiang are posed where critical control and monitoring functions lay outside the PFM system. System weaknesses allowing for such threats include the entanglement of government units and the LGFV; the fact that investment financing is delinked from the government budget; that large procurements and contracts are supervised by the Bureau of Development and Reform, not by the Finance Bureau; that expenditure arrears and small procurements are not monitored; that there is no effective supervision of PCs; and that, while the Finance Bureau monitors financing by the LGFV, there is no fiscal risk assessment or monitoring of the operations of other PCs. In combination, this suggests a lack of institutional mechanism for ensuring hard budget constraints. Consequently, off-budget borrowing may arise.

304. Another threat to fiscal discipline is seen in the lack of public scrutiny of financial assets, liabilities, PCs and investment projects.

#### 4.2.2 Strategic allocation of resources

305. The main PEFA indicator concerned with medium-term budget strategy, PI-14, was rated D. Though some macroeconomic indicators have been considered for budget preparation, there is no medium-term budget strategy and the fiscal impact of policy changes is not estimated. In addition, costing information of major investment projects is not included in the budget documents (PI-11.3, rated D).

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

307. Other indicators that relate to the strategic allocation of resources were rated as satisfactory. Clear rules for the prioritization of major investment projects are in place (PI-11.2, rated A). Budget documentation was considered to meet most basic requirements (PI-5, rated C), though the economic classification is not fully adopted in the budget accounting (PI-4, D).

### 4.2.3 Efficient use of resources for service delivery

308. Pingjiang's PFM system encourages the efficient use of resources for service delivery. The budgetary units in Pingjiang regularly publish performance targets (PI-8.1, C), conduct performance evaluations (PI-8.4, C) and 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 use of resources.

309. Required mechanisms are in place to reduce possible leakage of funds, such as the asset management system (PI-12, B) and the internal controls over payroll (PI-23, B+) 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\*).

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

311. The extent to which Pingjiang's current PFM systems enable the efficient use of resources for service delivery is not clear as performance achieved for service delivery is not published (PI-8.2, 'D').

312. In summary, the Pingjiang 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 the Annex 7 shows, LGFVs carried out sizeable quasi-governmental activities while operating outside of the PFM system (Annex PI-6, D). The Pingjiang Government has basic monitoring obligations over the investment project that LGFVs implement (Annex PI-11.4, C) and their liabilities (Annex PI-13.1, B). A comprehensive assessment for LGFVs is warranted to reveal the impact of LGFVs on the PFM performance of the Pingjiang County.

## 4.3 Performance changes since a previous assessment

314. This is the first assessment of Pingjiang County.

## 5 GOVERNMENT PFM REFORMS

### 5.4 Approach to PFM reforms

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

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

### 5.2 Recent and on-going reform actions

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

#### Division of expenditure responsibility

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

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

## Inter-governmental transfer

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

## Taxation

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

## Budget management

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

## Subnational debt management

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

## Regulatory framework on PPPs

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

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

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

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

### Medium-term fiscal perspective

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

### Legislature budget scrutiny

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

## 5.3 Institutional consideration

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



## ANNEX 1: SUMMARY OF PERFORMANCE INDICATORS

Indicator/dimension	Score	Description of requirements met
<b>SNG pillar: Intergovernmental fiscal relations</b>		
<b>HLG-1. Transfers from an HLG</b>	<b>D</b>	<b>Scoring Method M2</b>
HLG-1.1 Outturn of transfers from higher-levels of government	<b>D</b>	In all three years, the deviation of actual grants from the original budgeted grants was more than 116% of the original budget. The outturns for 2016, 2017 and 2018 are 225.8%, 199.9% and 361.4%, respectively.
HLG-1.2 Earmarked grants outturn	<b>D</b>	The composition variance of ear-marked grants was more than 15% for each of the three completed FYs. The variances in 2016, 2017 and 2018 were 82.6%, 60.1% and 101.1%, respectively.
HLG-1.3 Timeliness of transfers from higher-levels of government	<b>C</b>	A disbursement timetable is prescribed by law. Over 50% of actual transfers were on time in two of the last three completed FYs.
HLG-1.4 Predictability of transfers and new expenditure assignments	<b>D</b>	The higher levels of government provide no documents with information on transfers for the current FY and the two following FYs, 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. Pingjiang 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	<b>D</b>	Aggregate expenditure outturn deviated significantly from the budgeted amounts in the last three FYs, the outturn is 178.5%, 178.3% and 316.0% of the approved budget respectively.
<b>PI-2. Expenditure composition outturn</b>	<b>D+</b>	<b>Scoring Method M1</b>
PI- 2.1 Expenditure composition outturn by function	<b>D</b>	Variance in expenditure composition by functional classification was more than 15% for each of the last three years. The variances of three years are 51.6%, 45.8% and 49.5%, respectively.
PI- 2.2 Expenditure composition outturn by economic type	<b>NA</b>	There was no economic classification for governmental funds in the last three completed years.
PI- 2.3 Expenditure from contingency reserves	<b>A</b>	In the last three FYs, the budget for contingency reserves was arranged Actual expenditure charged to a contingency vote was on average less than three percent of the original budget.
<b>PI-3. Revenue outturn</b>	<b>C</b>	<b>Scoring Method M2</b>
PI- 3.1 Aggregate revenue outturn	<b>B</b>	In 2016, 2017 and 2018, the variances in aggregate revenue were 100.4%, 110.6% and 266.4% respectively. The actual revenues were between 94% and 112% of budgeted revenues in two of the last three years.
PI- 3.2 Revenue composition outturn	<b>D</b>	Composition variance in revenue collection in the last three years was 28.3%, 46.2% and 76.0% 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>
PI- 4.1 Budget classification	<b>D</b>	The budget documentation is nationally consistent. The GPB is based on functional and economic classifications, but the GFB is only based on functional classification.



Indicator/dimension	Score	Description of requirements met
<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 five public hospitals in Pingjiang. Although they are budgetary units, they have extrabudgetary activities. And all extrabudgetary expenditure were recorded in the financial reports of the Health Bureau in the last three FYs.
PI- 6.2 Revenue outside financial reports	A	There are five public hospitals in Pingjiang. Although they are budgetary units, they have extrabudgetary activities. And all extrabudgetary revenue were recorded in the financial reports of the Health Bureau in the last three FYs.
PI- 6.3 Financial reports of extrabudgetary units	A	Financial reports of all extrabudgetary activities, containing full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and supported by a reconciled cash flow statement, are submitted to the SNG annually within one month of the end of the FYs.
<b>PI-7. Transfers to subnational governments</b>	<b>NA</b>	<b>Scoring Method M2</b>
PI- 7.1 System for allocating transfers	NA	There are no separate lower-level SNGs, rather deconcentrated units of the county government.
PI- 7.2 Timeliness of information on transfers	NA	There are no separate lower-level SNGs, rather deconcentrated units of the county government.
<b>PI-8. Performance information for service delivery</b>	<b>C+</b>	<b>Scoring Method M2</b>
PI- 8.1 Performance plans for service delivery	C	Information on the activities to be performed under the policies or programs for all service delivery units is published annually. 53.39% of service delivery units have a framework of PIs relating to the outputs or outcomes. That is the majority.
PI- 8.2 Performance achieved for service delivery	D	The performance achieved is not published.
PI- 8.3 Resources received by service delivery units	A	Information on resources received by frontline service delivery units is collected and recorded for the selected service delivery units, disaggregated by source of funds. A report compiling the information is prepared at least annually.
PI- 8.4 Performance evaluation for service delivery	C	Independent evaluations of the efficiency or effectiveness of service delivery were carried out for 78.07% of the service delivery units in 2017. But no evaluation report was published.
<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 Pingjiang Government made available to the public three 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>

Indicator/dimension	Score	Description of requirements met
<b>Pillar III. Management of assets and liabilities</b>		
<b>PI-10. Fiscal risk reporting</b>	<b>C+</b>	<b>Scoring Method M2</b>
PI- 10.1 Monitoring of public corporations	C	All of the ten largest PCs in Pingjiang 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 Pingjiang.
PI- 10.3 Contingent liabilities and other fiscal risks	B	There are no state insurance schemes or PPP projects in Pingjiang. The guarantees and other contingent liabilities are recorded in the government debt management system. The data were updated and consolidated monthly, but they are not published.
<b>PI-11. Public investment management</b>	<b>C+</b>	<b>Scoring Method M2</b>
PI- 11.1 Economic analysis of investment proposals	C	Economic analyses are conducted according to national guidelines to assess all major investment projects and are reviewed by a third party (DRC); but they are not published.
PI- 11.2 Investment project selection	A	The major Investment Project Office directly under the mayor is responsible for selecting the projects and making proposals to the County Committee. The published Government Investment Project Management Methods stipulates the criteria for prioritizing investment projects. The rules are adhered to in practice.
PI- 11.3 Investment project costing	D	Investment project costing information is not included in the budget documents.
PI- 11.4 Investment project monitoring	C	The total cost and physical progress of major investment projects are monitored monthly throughout project duration by the implementing SNG unit. Information on implementation of major investment projects is prepared annually but not published. Standard procedures and rules governing project implementation are available.
<b>PI-12. Public asset management</b>	<b>B</b>	<b>Scoring Method M2</b>
PI- 12.1 Financial asset monitoring	B	The Pingjiang Government maintains records for its holdings in major categories of financial assets (including cash, term deposits, account receivables, leases, equity). The information for aggregated value of the financial assets is submitted to the People's Congress and published.
PI- 12.2 Nonfinancial asset monitoring	C	The Pingjiang Government maintains records for its holdings of fixed assets and collects partial information on their usage and age. The information on non-financial assets is mostly not available to the public.
PI- 12.3 Transparency of asset disposal	A	Procedures and rules for the transfer or disposal of financial and non-financial assets are established. Information on asset disposal is included in the state-owned assets management report submitted to the People's Congress.
<b>PI-13. Debt management</b>	<b>C+</b>	<b>Scoring Method M2</b>
PI- 13.1 Recording and reporting of debt and guarantees	C	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 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.

Indicator/dimension	Score	Description of requirements met
PI- 13.3 Debt management strategy	D	There is no mid-term DMS indicating the risk indicators such as interest rates and refinancing, and foreign currency risks.
<b>Pillar IV. Policy-based fiscal strategy and budgeting</b>		
<b>PI-14. Medium-term budget strategy</b>	<b>D+</b>	<b>Scoring Method M2</b>
PI- 14.1 Preparation of the budget	B	The budget was prepared based on information of transfers, revenue and expenditure, and some key demographic and macroeconomic indicators, but the referred data were not submitted to the legislature. There was no evidence that the government's fiscal strategy or sectoral strategies were considered and that estimates of revenue and expenditure for the two following FYs were prepared.
PI- 14.2 Fiscal impact of policy proposals	D	No estimates about the fiscal impacts of policy changes have been conducted. The list of policy changes was not provided to the assessors.
PI- 14.3 Medium-term expenditure and revenue estimates	D	No Medium-term expenditure and revenue estimates was conducted.
PI- 14.4 Consistency of budget with previous year estimates	NA	No medium-term expenditure and revenue estimates was conducted.
<b>PI-15. Fiscal strategy</b>	<b>NU</b>	<b>According to the 2020 Subnational PEFA Framework, the original PI-15 and PI-16 are not used in the Subnational PEFA Assessment. They have been converted to the current PI-14.</b>
<b>PI-16. Medium term perspective in expenditure budgeting</b>	<b>NU</b>	<b>ibid</b>
<b>PI-17. Budget preparation process</b>	<b>B</b>	<b>Scoring Method M2</b>
PI- 17.1 Budget calendar	A	Date of issuance of the 2019 budget circular was September 12, 2018. The deadline for submission of estimates was November 26, 2018. Eight weeks are provided to allow budgetary units to meaningfully complete their detailed estimates on time.
PI- 17.2 Guidance on budget preparation	B	This expenditure ceiling is provided on November, 19. 2018, after the circular's distribution to budgetary units, but before budgetary units have completed their submission on November 26, 2018.
PI- 17.3 Budget submission to the legislature	D	Only in one of the last three years, the executive has submitted the annual budget proposal to the legislature at least one month before the start of the FY.
<b>PI-18. Legislative scrutiny of budgets</b>	<b>C+</b>	<b>Scoring Method M1</b>
PI- 18.1 Scope of budget scrutiny	B	Budget scrutiny by the People's Congress covers details of expenditure and revenue,, and fiscal policies, but not medium-term fiscal forecasts and medium-term priorities.
PI- 18.2 Legislative procedures for budget scrutiny	A	According to the 2014 Budget Law, procedures for reviewing budget proposals were approved by the People's Congress in advance of budget hearings and were adhered to. The procedures included arrangements for public consultation, as well as internal organizational arrangements, such as the roles of standing committees and budget committees in the Congress.
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, and 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 which were adhered to in some instances.

Indicator/dimension	Score	Description of requirements met
<b>Pillar V. Predictability and control in budget execution</b>		
<b>PI-19. Revenue administration</b>	<b>NA</b>	<b>The collection of core taxes, the major direct (corporate income tax and individual income tax) taxes and major indirect tax (VAT) have been administrated and collected by the State Tax Administration and its subordinate entities at provincial and county level government. Governments at county level are not authorized to administrate and collect these core taxes. This indicator is not applicable.</b>
<b>PI-20. Accounting for revenue</b>	<b>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 unified income completion statement every month. The report details the monthly completion and cumulative completion of various types of revenue.
PI- 20.2 Transfer of revenue collections	A	All tax revenues are transferred to the Treasury on a daily basis, while non-tax revenues are paid directly to the special accounts under the TSA system.
PI- 20.3 Revenue accounts reconciliation	NA	Governments at county level are not authorized to administrate and collect taxes. The duty of tax revenue reconciliation is not applicable to Pingjiang 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 Pingjiang Finance Bureau obtains a daily balance report from the Treasury, and the balances of special accounts are consolidated monthly. The balance of the Treasury accounts for less than 30% of all the bank balances.
PI- 21.2 Cash forecasting and monitoring	D	No evidence shows that the Pingjiang Finance Bureau has conducted cashflow forecasting and monitoring.
PI- 21.3 Information on commitment ceilings	D	Payment can be made within the approved budget. But originally approved budget expenditure accounts for less than one third of the actually executed expenditure. The expenditure ceilings for the budgetary units are largely unpredictable.
PI- 21.4 Significance of in-year budget adjustments	D	Significant budget adjustments happened more than twice, but information on the process for each budget adjustment is not available.
<b>PI-22. Expenditure arrears</b>	<b>D</b>	<b>Scoring Method M1</b>
PI- 22.1 Stock of expenditure arrears	D*	Since Pingjiang County has not set up a monitoring system of expenditure arrears, data on stock of arrears is not available.
PI- 22.2 Expenditure arrears monitoring	D	There is no monitoring system for expenditure arrears in Pingjiang 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 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.
PI- 23.2 Management of payroll changes	A	Necessary changes to personnel records and payrolls are updated in real time. There is no delay in making payroll payments by the centralized payment center. Retroactive adjustment is rare.

Indicator/dimension	Score	Description of requirements met
PI- 23.3 Internal control of payroll	A	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.
PI- 23.4 Payroll audit	C	There is a strong payroll system, which can reveal control deficiencies and identify 'ghost' employees. But the external auditors do not conduct special payroll audits, only partial payroll audits are conducted by internal auditors together with the economic responsibility audit.
<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 the contract data for small contracts are not available, it is not feasible to calculate the total value of contracts awarded through competitive methods.
PI- 24.3 Public access to procurement information	C	Three out of six criteria are met.
PI- 24.4 Procurement complaints management	A	All six criteria are met.
<b>PI-25. Internal controls on nonsalary expenditure</b>	<b>B</b>	<b>Scoring Method M2</b>
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	B	Most (more than 75% but less than 90%) of the payments are in line with regular payment procedures, and all exceptions are authorized in advance.
<b>PI-26. Internal audit</b>	<b>B+</b>	<b>Scoring Method M1</b>
PI- 26.1 Coverage of internal audit	A	Internal audit is applied to the budgetary units that implement almost all of the budget expenditures and collects all of the budget revenues.
PI- 26.2 Nature of audits and standards applied	B	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 in Pingjiang County.
PI- 26.3 Implementation of internal audits and reporting	A	Each department with an internal audit unit prepares an annual audit work plan and a summary report for its annual audit work, which shows the completion rate of the planned internal audit tasks. Five sampled budgetary units have fully completed their annual audit plans.
PI- 26.4 Response to internal audits	A	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.
<b>Pillar VI. Accounting, Recording and Reporting</b>		
<b>PI-27. Financial data integrity</b>	<b>B+</b>	<b>Scoring Method M2</b>
PI- 27.1 Bank account reconciliation	B	Reconciliation of all bank accounts is completed within 15 days after the end of each month.

Indicator/dimension	Score	Description of requirements met
PI- 27.2 Suspense accounts	NU	There is no suspense account.
PI- 27.3 Advance accounts	NU	There is no advance account.
PI- 27.4 Financial data integrity processes	A	All financial data are recorded in a computerized system which is managed by the Information Center housed in the Pingjiang FB and meets a high information security standard. Access and change to financial data are strictly restricted and recorded, and result in an audit trail.
<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 quarterly analyses on budget execution. All revenues and expenditures including de-concentrated units within the SNG are included in the in-year budget reports. The coverage and classification of data are comparable to the original budget.
PI- 28.2 Timing of in-year budget reports	A	There are monthly reports on budget execution released within ten days of the end of the reported period.
PI- 28.3 Accuracy of in-year budget reports	B	The in-year budget report data are largely consistent and useful for the analysis of budget execution. An analysis report is prepared on a quarterly basis and covers the information of the expenditure stage, but the report is not audited.
<b>PI-29. Annual financial reports</b>	<b>D+</b>	<b>Scoring Method M1</b>
PI- 29.1 Completeness of annual financial reports	C	An annual budget execution report was prepared and is comparable with the approved budget. The report included information on revenues, expenditures, and liabilities, but not on financial assets or tangible assets.
PI- 29.2 Submission of reports for external audit	A	Budget execution reports were submitted to the County Audit Office within three months after the end of the FY.
PI- 29.3 Accounting standards	D	The budget execution reports were prepared in line with the national standards stipulated by MOF. However, the accounting standards adopted were not disclosed in notes or other parts of the financial reports.
<b>Pillar VII. External Scrutiny and Audit</b>		
<b>PI-30. External audit</b>	<b>D+</b>	<b>Scoring Method M1</b>
PI- 30.1 Audit coverage and standards	D	In the past three FYs, the expenditures not being audited by external auditors accounted for more than 60% of total expenditures.
PI- 30.2 Submission of audit reports to the legislature	B	During the past three FYs, the Audit Office submitted the audit reports to the legislature within six months after receiving the financial reports.
PI- 30.3 External audit follow-up	A	The rectification reports show that in the last three FYs, required follow-up actions were taken by the related entities effectively and timely to respond to the issues disclosed by the auditors.
PI- 30.4 Supreme Audit Institution independence	B	The Audit Law and related regulations provide concrete basis to secure the independence of the SAI. However, the institutional structure in China has set up the SAI within a government system which may dilute independence of the SAI to some extent.

Indicator/dimension	Score	Description of requirements met
<b>PI-31. Legislative scrutiny of audit reports</b>	<b>B</b>	<b>Scoring Method M2</b>
PI- 31.1 Timing of audit report scrutiny	A	The County Audit Office submitted the audit report to the Standing Committee of the County People's Congress for review on the first day of the Congress meeting, where it was presented and then discussed by the Committee. It took no more than one month in all three FYs for the Committee to approve the report.
PI- 31.2 Hearings on audit findings	C	An in-depth hearing was held on the main findings of the audit report once every year. The majority of audited entities with issues disclosed in the audit report participated in the hearing.
PI- 31.3 Recommendations on audit by the legislature	A	For three consecutive years, once receiving the follow-up reports from auditees, a summarized report was prepared by the Audit Office and submitted to the Standing Committee. Then, an official meeting was organized to hear the remedial actions being taken.
PI- 31.4 Transparency of legislative scrutiny of audit reports	C	Hearings on the audit reports were not open to the public. The audit reports for FY 2016, 2017 and 2018 were published on the government's website. However, the audit report for FY 2016 was missing on the same official 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: <b>Economic Analysis of Investment Proposals is rated C in 11.1</b> – Economic analyses are conducted according to national guidelines to assess all major investment projects, and are reviewed by a third party (DRC); but they are not published. <b>Debt Management Strategy is rated 'D' in 13.3</b> – There is no mid-term DMS indicating the risk indicators such as interest rates and refinancing, and foreign currency risks. <b>Macro-fiscal sensitivity analysis is rated 'D' in 14.3</b> – No Medium-term expenditure and revenue estimates conducted. <b>Cash Flow Forecasting and Monitoring is rated 'D' in 21.2</b> - No evidence shows that the Pingjiang Finance Bureau has conducted cashflow forecasting and monitoring.
2.2 Risk assessment (significance and likelihood)	<b>See risk identification (2.1 above)</b>



Internal Control Components and Elements	Summary of Observations
2.3 Risk evaluation	Each department with an internal audit unit prepares an annual audit work plan and a summary report for its annual audit work, which shows the completion rate of the planned internal audit tasks. Five sampled budgetary units have fully completed their annual audit plans ( <b>Implementation of internal audits and reporting – 26.3 rated ‘A’</b> ). 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. ( <b>Nature of internal audits and standards applied – 26.2 rated ‘B’</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><b>Financial data integrity processes are rated ‘A’ in 27.4.</b> The Golden Finance Project network system is managed by the Financial Information Center at the Finance Bureau. Access and change to financial data are strictly restricted and recorded and result in audit trails. Specific positions have been set up within financial bureau responsible for verifying the integrity of financial data.</p> <p><b>Recording and reporting of debt and guarantees are rated ‘A’ in 13.1.</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.</p> <p><b>Approval of debt and guarantees are rated ‘A’ in 13.2.</b> 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><b>Effectiveness of expenditure commitment controls is rated ‘D’ in 25.2.</b> No effective expenditure commitment control system has been established.</p> <p><b>Integration of payroll and personal records is rated ‘A’ in 23.1.</b> The approved employee list, personnel database and payroll are 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><b>Management of payroll changes is rated ‘A’ in 23.2.</b> Necessary changes to personnel records and payrolls are updated in real time. There is no delay in making payroll payments by the centralized payment center. Retroactive adjustment is rare.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p><b>Compliance with payroll payment rules and procedures is rated ‘A’ in 23.3.</b> 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><b>Segregation of duties is rated ‘A’ in 25.1.</b> Segregation of duties is prescribed throughout the whole budget execution process with responsibilities clearly defined for each stage.</p>

Internal Control Components and Elements	Summary of Observations
3.3 Controls over the access to resources and records	<p><b>Compliance with payment rules and procedures is rated 'B' in 25.3.</b> Most (more than 75% but less than 90%) of the payments are in line with regular payment procedures, and all exceptions are authorized in advance.</p> <p><b>Financial data integrity processes are rated 'A' in 27.4.</b> All financial data are recorded in a computerized system which is managed by the Information Center housed in the Pingjiang FB and meets a high information security standard. Access and change to financial data are strictly restricted and recorded, and result in an audit trail.</p>
3.4 Verifications	<p><b>Accuracy of in-year budget reports is rated 'B' in 28.3.</b> The in-year budget report data are largely consistent and useful for the analysis of budget execution. An analysis report is prepared on a quarterly basis and covers the information of the expenditure stage, but the report is not audited.</p>
3.5 Reconciliations	<p><b>Banks account reconciliations is rated 'B' in 27.1.</b> Reconciliation of all bank accounts is completed within 15 days after the end of each month.</p> <p><b>Suspense account reconciliations is rated 'NA' in 27.2.</b> There are no suspense accounts.</p>
3.6 Reviews of operating performance	<p><b>Revenue audit and investigations are rated 'NA' in 19.3</b> PI-19 is not applicable to China's local governments.</p>
3.7 Reviews of operations, processes and activities	<p><b>Procurement monitoring is rated 'D*' in 24.1.</b> The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.</p>
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	<p>The supervision complies the decree issued by MOF which is quite convergent with COSO internal control framework. Personnel development through mentoring and training is in place.</p>
<b>4. Information and Communication</b>	
<b>5. Monitoring</b>	
5.1 Ongoing monitoring	<p>The Assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p><b>Resources received by service delivery units is rated 'A' in 8.3.</b> Information on resources received by frontline service delivery units is collected and recorded for the selected service delivery units, disaggregated by source of funds. A report compiling the information is prepared at least annually.</p> <p><b>Monitoring of public corporations is rated 'C' in 10.1.</b> All of the ten largest PCs in Pingjiang submitted financial reports to the controlling entities within three months after the FY.</p> <p><b>Contingent liabilities and other fiscal risks is rated 'A' in 10.3.</b> There are no state insurance schemes or PPP projects in Pingjiang. The guarantees and other contingent liabilities are recorded in the government debt management system. The data were updated and consolidated monthly.</p> <p><b>Investment project monitoring is rated 'C' in 11.4.</b> The total cost and physical progress of major investment projects are monitored monthly throughout project duration by the implementing SNG unit. Information on implementation of major investment projects is prepared annually but not published. Standard procedures and rules governing project implementation are available.</p> <p><b>Procurement monitoring is rated 'D*' in 24.1.</b> The contract data for small contracts are not available, and there is no sound document to facilitate the assessment of this dimension.</p>

Internal Control Components and Elements	Summary of Observations
5.1 Ongoing monitoring	<p><b>Implementation of internal audits and reporting is rated 'A' in 26.3.</b> Each department with an internal audit unit prepares an annual audit work plan and a summary report for its annual audit work, which shows the completion rate of the planned internal audit tasks. Five sampled budgetary units have fully completed their annual audit plans.</p>
5.2 Evaluations	<p><b>Performance evaluation for service delivery is rated 'C' in 8.4.</b> Independent evaluations of the efficiency or effectiveness of service delivery were carried out for 78.07% of the service delivery units in 2017. But no evaluation report was published</p> <p><b>Investment project selection is rated 'A' in 11.2.</b> The major Investment Project Office directly under the mayor is responsible for selecting the projects and making proposals to the County Committee. The published <i>Government Investment Project Management Methods</i> stipulates the criteria for prioritizing investment projects.</p>
5.3 Management responses	<p><b>Response to internal audits is rated 'A' in 26.4.</b> 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><b>External audit follow-up is rated 'A' in 30.3.</b> The rectification reports show that in the last three FYs, required follow-up actions were taken by the related entities effectively and timely to respond to the issues disclosed by the auditors.</p>

## ANNEX 3: PUBLIC SECTOR AGENCIES COVERED BY THE ASSESSMENT

Type		Units
Bud- getary units	GAUs	40 major GAUs (1) Education Bureau; (2) Health Bureau; (3) Civil Affairs Bureau; (4) Human Resources and Social Security Bureau; (5) Natural Resources Bureau; (6) Housing and Urban-Rural Development Bureau; (7) Transportation Bureau; (8) Agricultural and Rural Affairs Bureau; (9) Commerce and Grain Bureau; (10) Bureau of Culture, Tourism, Radio, Television and Sports; (11) Medical Insurance Management Bureau; (12) Water Conservation Bureau; (13) Forestry Bureau; (14) Science, Technology and Industrial Information Bureau; (15) Development and Reform Commission; (16) Finance Bureau; (17) Audit Office; (18) Bureau of Statistics; (19) Market Supervision and Administration Bureau; (20) Public Security Bureau; (21) Judicial Bureau; (22) Emergency Management Bureau; (23) Bureau of Urban Management and Comprehensive Law Enforcement; (24) Bureau of Complaints Management; (25) Administrative Approval Service Bureau; (26) Office Affairs Service Center for Administrative Units; (27) Poverty Alleviation and Development Office; (28) Government Administration Office; (29) Bureau of Veterans Affairs; (30) Pingjiang Industrial Park Administration; (31) Uprising Memorial Administration; (32) Pingjiang Archives; (33) Administration of Fushou Mountain - Miluo River National Scenic Zone; (34) Radio and Television Station; (35) Urban Development Investment Service Center; (36) Land and Housing Acquisition Management Office; (37) Commodity Inspection and Testing Center; (38) Agricultural Technology Comprehensive Service Center; (39) Horticultural Demonstration Center; (40) Office of the Pingjiang People's Congress Standing Committee.
		117 others
	Townships (24)	(1) Sanyang, (2) Mujin, (3) Banjiang, (4) Dazhou, (5) Sandun, (6) Chengguan, (7) An'ding, (8) Sanshi, (9) Fushushan, (10) Jiayi, (11) Changshou, (12) Longmen, (13) Shiniuzhai; (14) Hongqiao; (15) Nanjiang; (16) Shangta; (17) Meixian; (18) Tongshi; (19) Cenchuan, (20) Yuping, (21) Wengjiang, (22) Wukou, (23) Wushi, (24) Xiangjia.
	PSUs	Five largest in education sector Pingjiang No. 1 Middle School Pingjiang No. 2 Middle School Pingjiang Vocational and Technical School Pingjiang No. 7 Middle School Pingjiang No. 4 Middle School Five largest in health sector No. 1 People's Hospital Pingjiang Psychiatric Hospital Pingjiang Maternal and Child Health Care Service Center Pingjiang No. 2 People's Hospital Central Hospital of Nanjiang Town 863 others

Type		Units
EBUs		None <sup>1</sup>
PCs	Five largest PCs	Pingjiang UDIC
		Affordable Housing Investment Co., Ltd
		Water Conservancy Construction Investment Co. Ltd
		Urban and Rural Poverty Alleviation Development Co. LTD
		Fukang Agricultural Development Co. LTD
	52 others	
Social Security Funds		Basic old-age insurance fund for government employees
		Basic old-age insurance fund for enterprise employees
		Social old-age insurance fund for urban and rural residents
		Basic medical insurance fund for urban and rural residents
		Basic medical insurance fund for urban employees

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

## ANNEX 4: EVIDENCE FOR SCORING OF THE INDICATORS

Indicators (PEFA 2016 framework)	Evidence
HLG-1. Transfers from an HLG	<ul style="list-style-type: none"> <li>▪ Pingjiang 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>▪ Pingjiang budget documentation and financial reports for FYs 2016,2017,2018</li> </ul>
4. Budget classification	<ul style="list-style-type: none"> <li>▪ Pingjiang budget documentation for FY 2018</li> </ul>
5. Budget documentation	<ul style="list-style-type: none"> <li>▪ Pingjiang budget documentation for FY 2019</li> </ul>
6. SNG operations outside financial reports	<ul style="list-style-type: none"> <li>▪ Pingjiang financial reports for FY 2018</li> <li>▪ Financial reports of Pingjiang Health Bureau for FY 2018</li> <li>▪ Financial Report of Pingjiang 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>▪ Pingjiang annual budget documentation</li> <li>▪ Financial reports of service delivery units for FYs 2016, 2017, 2018 collected from the Finance Bureau of Pingjiang</li> </ul>
9. Public access to fiscal information	<ul style="list-style-type: none"> <li>▪ <a href="http://www.pingjiang.gov.cn/35048/35075/35081/36291/content_1343987.html">http://www.pingjiang.gov.cn/35048/35075/35081/36291/content_1343987.html</a></li> <li>▪ <a href="http://www.pingjiang.gov.cn/35048/35075/35081/36291/content_1343987.html">http://www.pingjiang.gov.cn/35048/35075/35081/36291/content_1343987.html</a></li> <li>▪ <a href="http://www.pingjiang.gov.cn/35048/35075/35081/36291/content_1400136.html">http://www.pingjiang.gov.cn/35048/35075/35081/36291/content_1400136.html</a></li> <li>▪ <a href="http://www.pingjiang.gov.cn/35048/35069/content_1640005.html">http://www.pingjiang.gov.cn/35048/35069/content_1640005.html</a></li> <li>▪ <a href="http://www.yueyang.gov.cn/pjx/35048/35055/35059/content_1258621.html">http://www.yueyang.gov.cn/pjx/35048/35055/35059/content_1258621.html</a></li> <li>▪ <a href="http://www.pjxxww.com/Info.aspx?ModelId=1&amp;Id=45002">http://www.pjxxww.com/Info.aspx?ModelId=1&amp;Id=45002</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 Pingjiang Finance Bureau..</li> <li>▪ Data on contingent liabilities from the Bureau of Finance, Pingjiang County.</li> <li>▪ Interview with the director of the PPP Center, Pingjiang Bureau of Finance.</li> </ul>
11. Public investment management	<ul style="list-style-type: none"> <li>▪ <i>Government Investment Project Management Methods</i> of Pingjiang County.</li> <li>▪ Motions and Minutes of the executive meeting of the 17th People's Government of Pingjiang County and attached tables and documents</li> <li>▪ List of investment projects approved in FY 2018 with information on total investment cost collected from Pingjiang DRC</li> <li>▪ Feasibility study reports including economic analysis of the ten largest investment projects collected from Pingjiang Major Investment Project Office</li> <li>▪ Investment plan submitted to Pingjiang People's Congress including information about the capital costs of investment collected from Pingjiang Major Investment Project Office</li> </ul>
12. Public asset management	<ul style="list-style-type: none"> <li>▪ <i>Summary Table of State-Owned Assets of GAUs and PSUs</i> of 2018.</li> <li>▪ Statistics on basic information (including holding equity、 acquisition cost、 fair value、 profit、 total liabilities, etc.) of SOEs, Pingjiang County.</li> <li>▪ Asset Register System of Pingjiang County.</li> <li>▪ <i>The Management Method for Disposal of State-Owned Assets</i> of Pingjiang County.</li> </ul>

Indicators (PEFA 2016 framework)	Evidence
13. Debt management	<ul style="list-style-type: none"> <li>▪ 2014 Budget Law of the PRC.</li> <li>▪ <i>Detailed Rules for the Implementation of Government Debt Management in Pingjiang.</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>▪ 14.1: Reference material for the Pingjiang County Budget; the Five-year plan.</li> <li>▪ 14.2: Report on VAT reform of Pingjiang County (2016); on general expenditure reduction of Pingjiang County (2017); on fiscal subprograms to resolve debt risks of Pingjiang County (2018); assessment of the implementation of Western development policy in Pingjiang County (2018).</li> <li>▪ 14.3: The FY 2018 budget proposal of Pingjiang County; the Pingjiang County Financial Revenue and Expenditure Plan for FY 2018; Pingjiang County departmental budget proposals for FY 2018.</li> </ul>
15. Fiscal strategy	<ul style="list-style-type: none"> <li>▪ NU.</li> </ul>
16. Medium term perspective in expenditure budgeting	<ul style="list-style-type: none"> <li>▪ NU.</li> </ul>
17. Budget preparation process	<ul style="list-style-type: none"> <li>▪ The budget calendar for FY 2019 issued by the Pingjiang Finance Bureau</li> <li>▪ Guidance on budget preparation for FY 2019 issued by the Pingjiang Finance Bureau.</li> </ul>
18. Legislative scrutiny of budgets	<ul style="list-style-type: none"> <li>▪ 18.1: The annual budget proposal for FY 2018; the Pingjiang County Financial Revenue and Expenditure Plan for FY 2018; Pingjiang County departmental budget proposals for FY 2018 from the Pingjiang Bureau of Finance; Budget disclosure statement of FY 2018; agenda, minutes and resolutions of the plenary meeting of the County People's Congress, and copy of the budget documents presented on the meeting including a report on the budget scrutiny.</li> <li>▪ 18.2: The 2014 Budget Law of the PRC; the Supervision Law of the Standing Committee of the People's Congress at all levels of the PRC promulgated in 2006; the minutes of the budget review meetings held by the County People's Congress for FY 2018; screenshot of the news on Pingjiang County People's Congress website about Public Consultation Symposium for 2018 budget proposal.</li> <li>▪ 18.3: The submission and approval document issued by the County People's Congress of the annual budgets FY 2016, 2017, 2018.</li> <li>▪ 18.4: The 2018 financial statement and report of Pingjiang County; regulations of the Budget Law on budget adjustment; the budget execution report of the first half of 2018.</li> </ul>
19. Revenue administration	<ul style="list-style-type: none"> <li>▪ Records of interviewing the assistant of the chief of Pingjiang Finance Bureau.</li> </ul>
20. Accounting for revenue	<ul style="list-style-type: none"> <li>▪ 20.1: Monthly financial revenue completion table of Pingjiang County of FY 2019; Treasury account monthly reconciliation statement for January and December in 2018 and 2019; Treasury account daily statements of revenue for December 24th and 25th in 2019; transference statement of special accounts for March and April in 2019; tax payment certificate on December 13, 2019.</li> <li>▪ 20.2: Treasury account daily statements of revenue for December 24th and 25th in 2019; 4 non-tax revenue payment certificates on Oct. 8 and Oct.9 in 2019; tax payment certificate on December 13, 2019 ;</li> </ul>
21. Predictability of in-year resource allocation	<ul style="list-style-type: none"> <li>▪ 21.1: Treasury account daily balance statement on December 16, 2019; Treasury and special accounts monthly balance statements for FY 2019; treasury account monthly reconciliation records for FY 2019.</li> </ul>
22. Expenditure arrears	<ul style="list-style-type: none"> <li>▪ 21.2: The FY 2018 final statement on GPB expenditures.</li> </ul>



Indicators (PEFA 2016 framework)	Evidence
23. Payroll controls	<ul style="list-style-type: none"> <li>▪ 21.3: Payment Center System screenshot; 2006 Expenditure Plan Management Notice from the Pingjiang Bureau of Finance; the FY 2018 final statement on GPB expenditures.</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 Tendering and Bidding Office under the Pingjiang Development and Reform Bureau.</li> <li>▪ The government procurement information statistics maintained by the Government Procurement Supervision Office under the Pingjiang Finance Bureau.</li> <li>▪ The local government procurement information statistics management system maintained by the Pingjiang 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 Tendering and Bidding Office under the Pingjiang Development and Reform Bureau.</li> <li>▪ The government procurement information statistics maintained by the Government Procurement Supervision Office under the Pingjiang 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 Yueyang Tendering and Bidding (<a href="http://yueyang.okcis.cn/">http://yueyang.okcis.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>▪ Website of Yueyang Public Resources Transaction (<a href="http://ggzy.yueyang.gov.cn/">http://ggzy.yueyang.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 Pingjiang 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>▪ The general complaint record maintained by the Tendering and Bidding Office under the Pingjiang Development and Reform Bureau.</li> <li>▪ The general complaint record maintained by the Government Procurement Supervision Office under the Pingjiang Finance Bureau.</li> <li>▪ A sample review of complaint resolution dated July 5, 2018 of a complaint regarding procurement of rehabilitation and renovation works for Liuju Li former residence in Pingjiang County.</li> </ul>
25. Internal controls on non-salary expenditure	<ul style="list-style-type: none"> <li>▪ 25.1: Job responsibilities description and requirements of Treasury Division under Pingjiang Finance Bureau.</li> <li>▪ 25.2: Interview records with the centralized payment center.</li> <li>▪ 25.3: Payment manual for centralized payment on July 10, 2018; internal control report (provided by the accounting management unit); internal audit report of five major budget units; annual audit reports of FYs 2016, 2017 and 2018.</li> </ul>



Indicators (PEFA 2016 framework)	Evidence
26. Internal audit	<ul style="list-style-type: none"> <li>▪ List of Internal audit institutions and personnel of Pingjiang County (2019).</li> <li>▪ Control of revenue and expenditure business of administrative institutions (Internal training material, July 10, 2018).</li> <li>▪ Catalogue of internal audit files.</li> <li>▪ Summary of the work of the Pingjiang County Internal Audit Association for FY 2018.</li> <li>▪ The list of clean government risks and prevention and control measures of the Pingjiang County Audit Office.</li> <li>▪ Copies of some audit manuscripts of the internal audit work of the sampled bureaus.</li> <li>▪ The internal audit work plan of the internal audit units under the sampled bureaus.</li> <li>▪ The internal audit reports of all the internal units under the sampled bureaus.</li> <li>▪ The Internal audit summary of Pingjiang Institute of Internal Audit.</li> <li>▪ Reports on the rectification of issues identified in the audit reports.</li> <li>▪ The certificate of service of audit documents (as the proof of service of audit report to the auditee).</li> <li>▪ Written meeting minutes of the sampled bureaus summarizing their annual audit work.</li> </ul>
27. Financial data integrity	<ul style="list-style-type: none"> <li>▪ 27.1: Bank monthly reconciliation records.</li> <li>▪ 27.4: Document about the Pingjiang County Finance Bureau Golden Finance Project Network Security and Information Management System issued in 2018; Screenshot of audit trial on audit system of the Financial Bureau of Pingjiang County; List of system permission settings; Information Center Security Responsibility Letter; information system security level certification</li> </ul>
28. In-year budget reports	<ul style="list-style-type: none"> <li>▪ 28.1: The FY 2018 annual budget document; The FY 2018 in-year analysis reports and statements of budget execution.</li> <li>▪ 28.2: The monthly statements and quarterly analysis reports of budget execution for FY2018.</li> <li>▪ 28.3: FY 2018 in-year analysis reports and statements of budget execution.</li> </ul>
29. Annual financial reports	<ul style="list-style-type: none"> <li>▪ 29.1: The budget implementation statement and report of Pingjiang County for FY 2018.</li> <li>▪ 29.2: The annual audit report of FY 2018.</li> <li>▪ 29.3: The budget implementation reports and statements of Pingjiang County for FY 2016-2018; annual audit reports on budget implementation for FY 2016, 2017 and 2018; government comprehensive financial reports for FY 2016 and 2018</li> </ul>
30. External audit	<ul style="list-style-type: none"> <li>▪ The annual audit reports of FYs 2016, 2017 and 2018.</li> <li>▪ The final accounts for FYs 2016, 2017 and 2018.</li> <li>▪ The reports on annual budget implementation and other financial revenue and expenditure audit reports of FY 2016, 2017 and 2018.</li> <li>▪ Interview records with Pingjiang Audit Office.</li> <li>▪ Audit Law of the People's Republic of China 2006 .</li> </ul>
31. Legislative scrutiny of audit reports	<ul style="list-style-type: none"> <li>▪ The annual audit reports of FYs 2016, 2017 and 2018.</li> <li>▪ Bulletins of the Standing Committee of the People's Congress of Pingjiang County.</li> <li>▪ The reports on budget implementation, and other financial revenue and expenditure audit reports for FYs 2016, 2017 and 2018.</li> <li>▪ The lists of participants of the meetings of the Standing Committee of the County People's Congress (25th meeting of the 16th Congress, 4th and 11th meetings of the 17th Congress).</li> <li>▪ The audit reports published on the official website of the Standing Committee of the County People's Congress, as follows: <ul style="list-style-type: none"> <li>▪ <a href="http://www.pingjiang.gov.cn/36771/36936/content_1591670.html">http://www.pingjiang.gov.cn/36771/36936/content_1591670.html</a></li> <li>▪ <a href="http://www.pingjiang.gov.cn/36771/36936/content_1591670.html">http://www.pingjiang.gov.cn/36771/36936/content_1591670.html</a></li> <li>▪ <a href="http://www.pingjiang.gov.cn/36771/36936/content_1458754.html">http://www.pingjiang.gov.cn/36771/36936/content_1458754.html</a></li> </ul> </li> </ul>

Indicators (PEFA 2016 framework)	Evidence
31. Legislative scrutiny of audit reports	<ul style="list-style-type: none"> <li>▪ <a href="http://www.pingjiang.gov.cn/36771/36936/content_1458754.html">http://www.pingjiang.gov.cn/36771/36936/content_1458754.html</a></li> <li>▪ <a href="http://www.pingjiang.gov.cn/36771/36936/content_1312382.html">http://www.pingjiang.gov.cn/36771/36936/content_1312382.html</a></li> <li>▪ <a href="http://www.pingjiang.gov.cn/35048/35049/34997/35801/41295/content_1221719.html">http://www.pingjiang.gov.cn/35048/35049/34997/35801/41295/content_1221719.html</a></li> <li>▪ <a href="http://www.pingjiang.gov.cn/35048/35049/34997/35801/41295/content_1231521.html">http://www.pingjiang.gov.cn/35048/35049/34997/35801/41295/content_1231521.html</a></li> </ul>
Annex 5: Fiscal risks of main PCs	<ul style="list-style-type: none"> <li>▪ Interview with staff of Pingjiang UDIC.</li> <li>▪ The FY 2018 annual audit report of Pingjiang UDIC.</li> <li>▪ The audit reports for FYs 2016,2017 and 2018.</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
Qiu Zhijun	Clerk	Pingjiang People's Congress, Budget Committee
Li Laiming	Deputy Director	Pingjiang Audit Office
He Xinyu	Director	Internal Audit Office under Pingjiang Audit Office
Chen Qiang	Assistant of Director	Pingjiang DRC
Huang Ye	Director	Pingjiang DRC
Zhu Shiping	Director	Tendering and Bidding Office under Pingjiang DRC
Xiong Dan	Director	Pingjiang Major Investment Project Management Office
Huang Yingjun	Deputy Director	Pingjiang Major Investment Project Management Office
Ouyang Huayu	Accountant	Pingjiang UDIC
Wu Lijun	Deputy Manager	Pingjiang UDIC
Fang Songlin	Director	Finance Office of Pingjiang UDIC
Zeng Shang	Director	Pingjiang Tianyue Investment Co. Ltd., Industrial Development Department
Song Yue	Deputy Director	Pingjiang Yueping Company Administration Office
Luo Xianping	Director	Pingjiang Tax Bureau Collection Division
Li Kankan	Commissioner responsible for the collection of land transfer fees	Pingjiang Natural Resources Bureau
Chen Wei	Director	Pingjiang Natural Resources Bureau, Mineral Resources Management Office
Qiu Jicheng	Director	Pingjiang Education Bureau
Liao Lei	Deputy Director	Finance Office of Pingjiang Health Bureau
Zhang Ling	Commissioner in charge of personnel and payroll	Pingjiang Human Resources and Social Security Bureau
Luo Yonghuan	Deputy Director	Finance Office of Pingjiang Transportation Bureau
Zhu Yuebin	Engineer	Pingjiang Water Conservation Bureau, Design Institute
Tong Shibao	Director	Pingjiang Forestry Bureau, Foreign Investment Office
Ling Hao	Assistant to Chief	Pingjiang Finance Bureau
Peng Qizhi	Director	Foreign Economic Affairs Division Under Pingjiang Finance Bureau
Li Fang	Deputy Director	Budget Division under Pingjiang Finance Bureau
Chen Ying	Director for Ear-Marked Funds Management	Budget Division under Pingjiang Finance Bureau
Tang Zhen	Deputy Director	Treasury Division under Pingjiang Finance Bureau
Chen Aijun	Director	Treasury Division under Pingjiang Finance Bureau
Xu Dongping	Deputy Director	Finance and Debt Division under Pingjiang Finance Bureau

Name	Position	Institution
Rao Lizhi	Deputy Director	Administrative State Assets Management Division under Pingjiang Finance Bureau
Qiu Yanghong	Deputy Director	Fiscal Performance Management Division under Pingjiang Finance Bureau
Tong Mingliang	Deputy Director	Centralized Wage Payment Center under Pingjiang Finance Bureau
Zhan Qinghui	Director	Payment Center under Pingjiang Finance Bureau
Li Xun	Director	Non-Tax Revenue Administration Bureau under Pingjiang Finance Bureau
Tong Huihuang	Accountant	Non-Tax Revenue Administration Bureau under Pingjiang Finance Bureau
Qiu Qingsong	Director	Information Center under Pingjiang Finance Bureau
Ling Qiong	Deputy Director	Government Procurement Supervision Office under Pingjiang Finance Bureau
Xu Bengen	Director	Government Procurement Supervision Office under Pingjiang Finance Bureau
Huang Jin	Deputy Director	Social Security Division under Pingjiang Finance Bureau
Dai Lvjiang	Deputy Director	SOE Supervision Center under Pingjiang Finance Bureau
Dong Li	Director	PPP Center under Pingjiang 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	3,098	3,100				
Income tax rebate income	1,334	1,334				
Other tax rebate income	1,569	3,761				
Institutional adjustment subsidies	208	208				
Equalization transfer payment income	46,535	57,927				
Transfers for old revolutionary base areas, ethnic areas, border areas and poor areas	4,607	12,140				
Awarding transfer under basic financial support mechanism for counties	20,964	21,364				
Settlement subsidies	3,401	7,481				
Subsidies for budget-level adjustment of enterprises and institutions	235	235				
Fixed amount subsidies	20,491	22,227				
Other general transfers	391	1,982				
<b>Total non-earmarked grants</b>	<b>102,833</b>	<b>131,759</b>	<b>232,196.5</b>	<b>-100,437</b>	<b>100,437</b>	<b>43%</b>
<b>Earmarked grants</b>						
Tax rebate for fuel tax reform	944	2,023	2,131.5	-109	109	5%
Transfers for public security, prosecution and legal department	1296	1,951	2,926.4	-975	975	33%
Transfers for compulsory education	16627	18,949	37,543.7	-18,595	18,595	50%
Transfers for basic old-age insurance and minimum living allowance	28493	43,686	64,337.1	-20,651	20,651	32%
Transfers for new cooperative rural medical system	32766	43,151	73,985.5	-30,834	30,834	42%
Transfers for rural comprehensive reform	3595	5,196	8,117.5	-2,921	2,921	36%
Transfers for key ecological functional areas	480	5,683	1,083.8	4,599	4,599	424%
Rewarding fund for large grain (oil) producing counties		2,672	0.0	2,672	2,672	
Special transfers		167,252	0.0	167,252	167,252	
<b>Total Grants</b>	<b>187,034</b>	<b>422,322</b>	<b>422,322</b>	<b>0</b>	<b>349,046</b>	
<b>Overall variance</b>						<b>226%</b>
<b>Composition variance</b>						<b>83%</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: million RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Non-earmarked grants</b>						
Income from VAT and excise tax rebate	3,081	3,100				
Income tax rebate income	1,334	1,334				
Income from VAT 50: 50 sharing rebate		3,558				
Other tax rebate income	3,780	1,550				
Institutional adjustment subsidies	208	208				
Equalization transfer payment income	52,814	65,765				
Transfers for old revolutionary base areas, ethnic areas, border areas	1,503	1,696				
Awarding transfer under basic financial support mechanism for counties	21,364	23,685				
Settlement subsidies	3,420	4,794				
Subsidies for budget-level adjustment of enterprises and institutions	1,909	235				
Fixed amount subsidies	20,455	19,134				
Transfers for poor areas	5,428	15,548				
Other general transfers	4,027	9,608				
<b>Total non-earmarked grants</b>	<b>119,323</b>	<b>150,215</b>	<b>238,489.9</b>	<b>-88,275</b>	<b>88,275</b>	<b>37%</b>
<b>Earmarked grants</b>						
Tax rebate for fuel tax reform	2,023	2,023	4,043.4	-2,020	2,020	50%
Transfers for public security, prosecution and legal department	1,357	2,279	2,712.2	-433	433	16%
Transfers for compulsory education	22,201	25,615	44,372.9	-18,758	18,758	42%
Transfers for basic old-age insurance	31,969	39,527	63,896.2	-24,369	24,369	38%
Transfers for urban and rural basic medical insurance		44,849	0.0	44,849	44,849	
Transfers for new cooperative rural medical system	713		1,425.1	-1,425	1,425	100%
Transfers for rural comprehensive reform	4,415	6,380	8,824.2	-2,444	2,444	28%
Rewarding fund for large grain (oil) producing counties	2,937	3,353	5,870.2	-2,517	2,517	43%
Transfers for key ecological functional areas	5,683	6,600	11,358.6	-4,759	4,759	42%
Transfers for resource exhausted cities		220	0.0	220	220	
Sum of rest (special transfers)	50,857	201,579	101,647.4	99,932	99,932	98%
Total Grants	241,478	482,640	482,640.0	0	290,001	
<b>Overall variance</b>						<b>200%</b>
<b>Composition variance</b>						<b>60%</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: million RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
<b>Non-earmarked grants</b>						
Income tax rebate	1,334	1,334				
VAT rebate	3,081	3,081				
Income from excise tax rebate		19				
Income from VAT 50: 50 sharing rebate		3,558				
Other tax rebate	5,127	1,550				
Institutional adjustment subsidies	208	208				
Equalization transfer	60,512	70,166				
Awarding transfer under basic financial support mechanism for counties	21,953	32,729				
Settlement subsidies	3,391	8,119				
Subsidies for budget-level adjustment of enterprises and institutions	1,909	235				
Fixed amount subsidies	20,455	20,539				
Transfers for old revolutionary base areas		2,120				
Transfers for poor areas		16,993				
Other general transfers	131	41,968				
<b>Total non-earmarked grants</b>	<b>118,101</b>	<b>202,619</b>	<b>426,861.9</b>	<b>-224,243</b>	<b>224,243</b>	<b>53%</b>
<b>Earmarked grants</b>						
Tax rebate for fuel tax reform	2,023	2,023	7,311.9	-5,289	5,289	72%
Transfers for resource exhausted cities		350	0	350	350	
Transfers for public security, prosecution and legal department		1,603	0	1,603	1,603	
Transfers for compulsory education	13,442	34,481	48,584.5	-14,104	14,104	29%
Transfers for basic old-age insurance	37	37,209	133.7	37,075	37,075	27724%
Transfers for urban and rural basic medical insurance	713	44,584	2,577.1	42,007	42,007	1630%
Transfers for rural comprehensive reform	1,292	7,193	4,669.8	2,523	2,523	54%
Rewarding fund for large grain (oil) producing counties		3,075	0	3,075	3,075	
Transfers for key ecological functional areas	6,112	6,850	2,2091.1	-15,241	15,241	69%
Sum of rest (special transfers)		172,243	0	172,243	172,243	
Total Grants	141,720	512,230	512,230.0	0	517,753	
<b>Overall variance</b>						<b>361%</b>
<b>Composition variance</b>						<b>101%</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: million RMB

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
general public service expenditure	294	419	527	-107	107	20.4
public security expenditures	141	218	253	-35	35	13.8
defense expenditure	3	3	4	-1	1	25.4
expenditures on education	769	949	1,377	-428	428	31.1
expenditures on science and technology	13	12	23	-11	11	48.6
cultural, sports and media expenditure	23	55	41	13	13	32.8
social security and employment expenditure	441	888	790	98	98	12.4
health and family planning expenditure	487	767	873	-106	106	12.2
energy saving and environmental protection expenditure	25	143	46	97	97	213.5
urban and rural community expenditure	62	410	111	299	299	270.5
agricultural, forestry and water expenditure	314	1,028	563	465	465	82.6
transportation expenditure	27	195	49	146	146	297.4
expenditure for resources exploration information	42	124	75	50	50	66.4
business services and other expenditures	14	43	25	17	17	69.6
financial expenditure	0	1	0	1	1	
expenditure on land, ocean and meteorology	45	63	80	-17	17	21.1
housing security expenditure	5	284	9	275	275	2948.9
expenditure on stockpiling grain	4	12	8	4	4	48.1
other general public budget expenditure	9	14	16	-1	1	9.7
urban and rural community affairs expenditure	344	0	616	-616	616	100.0
expenditure for resources exploration and power information	1	0	1	-1	1	100.0
other government fund expenditure	109	54	195	-141	141	72.2
allocated expenditure	3,171	5,682	5,682	0	2,930	
interests	0	25				
contingency	25	0				
total expenditure	3,196	5,707				
<b>Aggregate outturn (PI-1)</b>						<b>178.5%</b>
<b>Composition (PI-2) variance</b>						<b>51.6%</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: million RMB

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
general public service expenditure	291	467	517	-50	50	9.7
defense expenditure	7	15	12	3	3	26.6
public security expenditures	167	245	296	-52	52	17.4
expenditures on education	883	1,141	1,568	-428	428	27.3
expenditures on science and technology	13	19	23	-4	4	19.0
cultural, sports and media expenditure	37	66	65	1	1	0.9
social security and employment expenditure	860	1,168	1,527	-359	359	23.5
health and family planning expenditure	242	758	429	329	329	76.7
energy saving and environmental protection expenditure	53	155	95	60	60	63.8
urban and rural community expenditure	60	437	106	331	331	313.5
agricultural, forestry and water expenditure	434	1,216	770	445	445	57.8
transportation expenditure	60	261	107	154	154	143.3
expenditure for resources exploration information	38	78	68	10	10	14.7
business services and other expenditures	16	47	29	19	19	65.9
financial expenditure	0	0	0	0	0	
expenditure on land, ocean and meteorology	44	205	79	127	127	161.4
housing security expenditure	130	271	231	40	40	17.1
expenditure on stockpiling grain	4	7	8	-1	1	9.9
other general public budget expenditure	8	21	14	7	7	54.7
urban and rural community affairs expenditure	314	0	557	-557	557	100.0
expenditure for resources exploration and power information	1	0	1	-1	1	100.0
other government fund expenditure	91	87	162	-76	76	46.6
allocated expenditure	3,753	6,662	6,662	0	3,052	
interests	21	112				
contingency	25	0				
total expenditure	3,800	6,774				
<b>Aggregate outturn (PI-1)</b>						<b>178.3%</b>
<b>Composition (PI-2) variance</b>						<b>45.8%</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: million RMB

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
general public service expenditure	317	531	1,014	-483	483	47.6
defense expenditure	5	11	15	-4	4	27.6
public security expenditures	127	213	404	-192	192	47.4
expenditures on education	759	1,155	2,425	-1,270	1,270	52.4
expenditures on science and technology	13	33	42	-8	8	19.5
cultural, sports and media expenditure	22	83	69	14	14	20.4
social security and employment expenditure	418	1,177	1,337	-159	159	11.9
health and family planning expenditure	167	744	534	210	210	39.2
energy saving and environmental protection expenditure	33	134	104	30	30	28.3
urban and rural community expenditure	360	1,707	1,150	557	557	48.4
agricultural, forestry and water expenditure	283	1,808	902	906	906	100.4
transportation expenditure	43	259	138	121	121	87.4
expenditure for resources exploration information	43	79	138	-60	60	43.2
business services and other expenditures	22	67	71	-3	3	4.5
financial expenditure	0	0	0	0	0	
expenditure on land, ocean and meteorology	44	205	141	63	63	44.9
housing security expenditure	72	465	229	235	235	102.6
expenditure on stockpiling grain	3	10	9	1	1	15.5
other general public budget expenditure	6	36	18	18	18	95.9
other government fund expenditure	19	84	60	24	24	40.8
allocated expenditure	2,756	8,802	8,802	0	4,357	
interests	40	114				
contingency	25	0				
total expenditure	2,821	8,916				
<b>Aggregate outturn (PI-1)</b>						<b>316.0%</b>
<b>Composition (PI-2) variance</b>						<b>49.5%</b>
<b>Contingency share of budget</b>						<b>0.0%</b>

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

Table A6.7: Revenues, FY 2016

Unit: million RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
VAT	68	119	68	51	51	74.8%
Business tax	133	113	133	-20	20	15.1%
Corporate income tax	30	33	30	4	4	12.6%
Corporate income tax refund	0	0	0	0	0	
Individual income tax	19	14	19	-5	5	24.8%
Resource tax	8	7	8	-1	1	8.8%
City maintenance and construction tax	26	23	26	-2	2	8.6%
Property tax	7	10	7	2	2	32.7%
Stamp duty	8	4	8	-4	4	44.8%
Urban land use tax	7	5	7	-1	1	20.8%
Land appreciation tax	16	10	17	-7	7	41.8%
Vehicle and vessel tax	16	15	16	0	0	0.9%
Farmland conversion tax	62	60	62	-2	2	3.1%
Deed tax	98	52	98	-46	46	46.9%
Tobacco taxes	0	0	0	0	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	5	0	5	5	
Other revenues						
Special Revenue	52	71	52	19	19	35.6%
Income from administrative fees	57	65	57	8	8	13.9%
Fines, penalties and forfeits	88	77	89	-12	12	13.7%
Income from state capital operation	0	0	0	0	0	
Income from paid use of state-owned resources (assets)	38	61	39	23	23	59.3%
Government housing fund income	5	6	5	0	0	7.1%
Other Revenue	8	8	8	0	0	2.2%
Government fund income	453	444	455	-11	11	2.5%
Total revenue	1,199	1,204	749	11	212	
<b>Overall variance</b>						<b>100.4%</b>
<b>Composition variance</b>						<b>28.3%</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: million RMB

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
VAT	124	106	137	-31	31	22.4%
VAT from former Business tax	57	100	63	37	37	59.2%
Business tax	2	2	2	0	0	4.7%
Corporate income tax	40	53	45	8	8	18.4%
Individual income tax	16	21	18	4	4	20.0%
Resource tax	11	8	13	-5	5	38.5%
City maintenance and construction tax	0	27	0	27	27	
Property tax	0	13	0	13	13	
Stamp duty	0	7	0	7	7	
Urban Land Use tax	6	6	7	0	0	6.1%
Land appreciation tax	0	24	0	24	24	
Vehicle and Vessel tax	0	19	0	19	19	
Farmland conversion tax	75	49	83	-34	34	40.6%
Deed tax	96	69	106	-36	36	34.4%
Tobacco taxes	0	0	0	0	0	
Other tax revenue	76	0	84	-84	84	100.0%
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	7	7	
Other revenue						
Special Revenue	53	62	59	3	3	5.8%
Income from administrative fees	82	96	90	5	5	6.0%
Fines, penalties and forfeits	94	41	104	-63	63	60.6%
Income from state capital operation	0	0	0	0	0	
Income from paid use of state-owned resources (assets)	41	16	45	-29	29	64.9%
Government housing fund income	6	6	7	-1	1	9.3%
Other Revenue	35	0	39	-38	38	99.2%
Government fund income	443	658	490	167	167	34.2%
Total revenue	1,257	1,390	1,390	0	642	
<b>Overall variance</b>					<b>110.6%</b>	
<b>Composition variance</b>					<b>46.2%</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: million RMB

Data for FY 2018						
Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
VAT	234	257	624	-367	367	58.9%
Corporate income tax	59	60	156	-97	97	61.9%
Business Tax	2	0	6	-6	6	98.4%
Individual income tax	22	29	58	-29	29	49.7%
Resource tax	9	16	23	-7	7	31.0%
City maintenance and construction tax	29	35	79	-44	44	55.9%
Property tax	14	12	37	-25	25	68.3%
Stamp duty	8	10	22	-11	11	52.7%
Urban Land Use tax	7	6	18	-12	12	65.6%
Land appreciation tax	25	34	68	-33	33	49.3%
Vehicle and Vessel tax	21	21	55	-34	34	61.2%
Farmland conversion tax	54	48	145	-97	97	66.8%
Deed tax	75	66	200	-133	133	66.9%
Tobacco taxes	0	0	0	0	0	
Environmental protection tax	4	2	9	-8	8	82.4%
Other tax revenue	2	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	8	0	8	8	
Other revenues						
Special revenue	57	70	153	-83	83	54.5%
Income from administrative fees	71	77	188	-111	111	58.9%
Fines, penalties and forfeits	53	52	142	-90	90	63.7%
Income from state capital operation	0	0	0	0	0	
Income from paid use of state-owned resources (assets)	29	14	77	-63	63	81.8%
Government housing fund income	6	7	16	-9	9	57.7%
Other Revenue	15	2	39	-37	37	94.4%
Government fund income	489	2,592	1,302	1,290	1,290	99.1%
Total revenue	1,283	3,418	3,418	0	2,596	
<b>Overall variance</b>						<b>266.4%</b>
<b>Composition variance</b>						<b>76.0%</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 (SOEs) can bear the fiscal risks to the county government. This PEFA assessment evaluated the quality of fiscal risk monitoring associated with PCs under dimension PI-10.1. The assessment is anchored to the financial reports of the PCs - and determines whether they are submitted to the Government in a timely fashion, are disclosed to the public, and are audited. China laws and regulations require that SOEs operate on a commercial basis and produce goods and services at market prices. The government has no legislative obligation to bail out any SOE. However, some PCs, particularly those tagged as LGFV that have been undertaking quasi-governmental activities, can present significant fiscal risks for the county government. Pingjiang Government confirmed that there was only one LGFV in the process of transformation toward a commercial entity at the time of assessment—Pingjiang UDIC. All other previous LGFVs in Pingjiang had either been shut down or successfully been transformed into commercial SOEs.

This annex complements the PEFA assessment with an analysis of the risks posed by LGFVs by assessing (i) the size of their operation, as compared with the government budget, (ii) their debt recording and reporting, and (iii) their monitoring of the major investment projects they sponsor. In all three cases, the assessment is based on PEFA dimensions and requirements. Table A7-1 provides key information on Pingjiang UDIC and its subsidiaries. Pingjiang UDIC is allowed to borrow to finance public benefit projects, an activity about which it reports to, and which is closely monitored by, the Finance Bureau. Non-LGFVs are not required to report to the Finance Bureau about their borrowing.

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

Name of PC	Main activities	Shares owned by Pingjiang Government	Assets (million RMB)	Stock of debt (million RMB)
<b>Pingjiang UDIC</b>	Land development and city infrastructure development	85.96%	11,695.72	6883.54
<b>Subsidiaries of Pingjiang UDIC</b>				
1. Pingjiang Fukang Agricultural Development Co.	Agricultural Development	100%	1,456.06	971.83
2. Pingjiang Transportation Development Investment Co.	Transportation Development	100%	182.18	72.18
3. Pingjiang Urban and Rural Construction Development Co.	Urban and Rural Construction Development	100%	424.75	95.65
4. Pingjiang Tianyue Water Service Co.	Water Service	100%	1,049.97	165.67
5. Pingjiang Xingcheng Landscape Projects Co	Landscape Development	100%	474.84	57.35
6. Pingjiang Mixed Investment Development Co	Mixed Investment	100%	0.00	0.00
7. Pingjiang Water Facilities Construction Investment Co	Water Facilities Construction	60.98%	2,753.90	764.27
8. Hunan Changpeng Construction Development Co.	Urban Development and Construction	91.74%	680.92	164.51
9. Kaiyuan Development (Pingjiang) Investment Co.	Urban Development and Construction	100%	1,748.26	759.00
10. Pingjiang Likang Construction Investment Co.	Urban Development and Construction	100%	948.80	734.94
<b>Total</b>			<b>21,415.41</b>	<b>3785.41</b>

Data source: Pingjiang 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 Pingjiang UDIC exceeds 10 percent of BG's expenditure.	D
<b>6.2 Revenue outside financial reports</b>	Total gross revenues of the Pingjiang 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 Pingjiang UDIC amounted to RMB1273 million in 2018, equivalent to 14.3 percent of the BG's total expenditures. Score D.

### PI-6.2 Revenue outside financial reports

Total gross revenue of the Pingjiang UDIC amounted to RMB735 million in 2018, equivalent to 21.5 percent of BG's total revenues. Score D.

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

	Gross amount	As % of Government Budget
<b>Revenues</b>	735.32	21.5%
<b>Expenditures</b>	1,273.03	14.3%

Source: Pingjiang 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 the SOEs to ensure value for money and fiduciary integrity. The monitoring system should maintain records on both physical and financial progress, including estimates of work in progress, and

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

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>11.4. Investment project monitoring</b>	Pingjiang County Government has set up an Office of Major Projects (OMP) since 2015. Pingjiang UDIC implements projects according to the project plans issued by the OMP. The rules and procedures are prescribed in the County Government Decree. Pingjiang UDIC strictly complies with these rules and procedures. The physical progress is monitored weekly and submitted to the OMP. However, the information on implementation progress of major investment projects is not published.	C

**Table A7.3: List of investment projects at assessment period (2019)**

Name of project	SOE sponsoring the project	Government agency /proprietor	SOE signed contract with proprietor (Y/N)	Total capital cost (million RMB)
1.The Yuechitang Community Construction Project In Pingjiang County (Phase II)	Pingjiang UDIC	Pingjiang UDIC	Y	608.9
2.The Shoujiaping Community Construction Project In Pingjiang County (Phase I)	Pingjiang UDIC	Pingjiang UDIC	Y	882.5
3.The Lusushan Community Construction Project In Pingjiang County (Phase I)	Pingjiang UDIC	Pingjiang UDIC	Y	76.7
4.The Siqian Community Construction Project In Pingjiang County	Pingjiang UDIC	Pingjiang UDIC	Y	97.4
5.Zhongshan Road Construction Project	Pingjiang UDIC	Transportation bureau	Y	194.8
6.Construction Project from Lijiabei to Xiaotian highway	Pingjiang UDIC	Yueping Company	Y	66.9
7.Pingjiang avenue extension project	Pingjiang UDIC	Yueping Company	Y	442.3
8. S202 Ansi Highway Construction Project	Pingjiang UDIC	Yueping Company	Y	229.2
9. S317 Zhonghong Highway Construction Project	Pingjiang UDIC	Yueping Company	Y	189.2
10. S208.S322 Huodian Main Highway Construction Project	Pingjiang UDIC	Yueping Company	Y	290.0

Data source: Pingjiang UDIC.



**Table A7.4: Monitoring of investment projects**

Name of the project	Monitoring 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 or submitted to the county (P/S/N)
1.The Yuechitang Community Construction Project In Pingjiang County (Phase Ii)	Y	Y	Y	Y	S
2.The Shoujiaping Community Construction Project In Pingjiang County (Phase I)	Y	Y	Y	Y	S
3.The Lusushan Community Construction Project In Pingjiang County (Phase I)	Y	Y	Y	Y	S
4.The Siqian Community Construction Project In Pingjiang County	Y	Y	Y	Y	S
5.Zhongshan Road Construction Project	Y	Y	Y	Y	S
6.Construction Project from Lijiabei to Xiaotian highway	Y	Y	Y	Y	S
7.Pingjiang avenue extension project	Y	Y	Y	Y	S
8. S202 Ansi Highway Construction Project	Y	Y	Y	Y	S
9. S317 Zhonghong Highway Construction Project	Y	Y	Y	Y	S
10. S208.S322 Huodian Main Highway Construction Project	Y	Y	Y	Y	S

### 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 A7.5: 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)
Pingjiang UDIC	Y	M	Y	M	M	Y	Monthly

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





Hunan Finance  
Department



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