PROGRAM FIDUCIARY SYSTEMS ASSESSMENT

1. The Guangxi Modern Technical and Vocational Education and Training Development Program will support, in 2017–2021, the implementation of the Guangxi Zhuang Autonomous Region (GZAR) Modern Technical and Vocational Education and Training (TVET) System Development Plan, 2015–2020 in public TVET institutions. The results-based lending (RBL) modality will be used to finance the program. The RBL program implementation will use the country’s program fiduciary systems, including the existing financial management systems for Guangxi Education Department (GED) and TVET institutions to manage the loan proceeds, and the procurement laws and regulations of the People’s Republic of China (PRC) to undertake the procurement of civil works, goods, and services.

2. This fiduciary systems assessment was conducted in accordance with the Asian Development Bank (ADB) RBL policy to determine the degree to which the systems, procedures, and regulations for public financial management (PFM), procurement, and anticorruption measures will be able to manage fiduciary risks. The assessment and proposed mitigating measures are intended to provide assurance that the RBL program funds will be used for the intended purposes, with due consideration for economy and efficiency.

A. Information Sources

3. The assessment was undertaken from January 2017 to April 2017 and included a review of the PRC’s PFM and procurement systems and anticorruption mechanisms, their regulatory environment, and practices in GZAR. The assessment was based on desk reviews, and interviews with staff of the GZAR government, in particular Guangxi Finance Department (GFD) and GED, and six TVET institutions under the jurisdiction of the regional, municipal, and county governments. The assessment also drew on past country and sector fiduciary assessments.

B. Financial Management System

4. The fiduciary-related financial management system assessment considered (i) institutional arrangements for PFM in the education sector; (ii) PFM laws and regulations; and (iii) PFM practices at GED and TVET institutions, regarding budgeting, funds flow, accounting and reporting, information systems, and audit arrangements.

5. Institutional arrangements for public financial management in the education sector. At the national level, the Ministry of Finance (MOF) oversees PFM in the education sector. The Ministry of Education (MOE) is responsible for the preparation and management of education budgets, and review of education budget allocation to lower levels of government. The National Development and Reform Commission (NDRC) approves major capital investment projects in the education sector. The National Audit Office (NAO) of the PRC conducts financial, compliance, and performance audits of government agencies, including MOE. These institutional arrangements are replicated in GZAR, including GFD, GED, Guangxi Development and Reform Commission, and Guangxi Audit Department.

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1 ADB. 2013. Piloting Results-Based Lending for Programs. Manila; ADB. 2013. Staff Guidance for Piloting Results-Based Lending for Programs. Manila.

6. **Public financial management laws and regulations.** A comprehensive set of laws and regulations on PFM exists in the PRC, covering budgets, accounting, financial management, and auditing, including those for secondary and tertiary TVET institutions. Within the national legal and regulatory framework, further detailed regulations and implementation guidelines have been promulgated in GZAR. The staff interviewed at GFD, GED, and TVET institutions were familiar with the regulations and guidelines, and their application.

7. **Budget formulation and execution.** All government entities use a standardized budget preparation and approval system, a web-based information system, for budget preparation and approval. In June or July of every year, the Finance Division of GED and TVET institutions start preparing budget proposals, including revenues and expenditures. Budget proposals are then submitted for review and consolidation by GFD, GED, or municipal or county finance and education bureaus. A time lag between the local and central budget approvals (central budgets are approved later than local budgets) causes difficulties in fully integrating intergovernmental transfers into local budgets (over half of local government budgets rely on transfers) and delays in budget implementation.

8. TVET institutions submit a monthly fund utilization plan for 3 months based on the approved general annual budget plan to GED or municipal or county finance and education bureaus for review and approval on a quarterly basis. The monthly fund utilization plan specifies the methods of payment (i.e., direct payment and authorized payment). GED or municipal or county finance and education bureaus integrate all applications and submit them to GFD for approval. After review and approval of the monthly fund utilization plan, GFD allocates the budget to the TVET institutions. Upon receiving the approval of the monthly fund utilization plan, the TVET institutions use the funds through direct payment or authorized payment, which cannot exceed the limits approved by GFD.

9. **Payment system and fund flow arrangements.** All financial transactions involving government funds are managed through the Treasury Single Account (TSA) system, which has extended to all government entities since 2010. Zero-balance accounts are used to track fund flows for accounting and reporting purposes. Funds are transferred to the end payee through direct payment or authorized payment via the TSA system. GFD and local finance bureaus determine the scope of direct payment and authorized payment.

10. In addition to accounts in the TSA system, TVET institutions have other types of accounts, such as basic accounts, infrastructure accounts, and nontax revenue accounts (transition accounts) to deal with different sources of funds. Regardless of whether funds are managed via zero-balance accounts or are deposited into TVET institutions’ bank accounts, GFD and local finance bureaus closely oversee the flow of various funds. The arrangements generally operate to prevent budgetary overruns, promote efficient fund management, and minimize the risk of embezzlement.

11. The Government of the PRC requires separate management, accounting, reporting, and auditing of the use of foreign funds, in parallel with the PFM system for government funds. ADB loan proceeds cannot be mixed with government funds, and are transferred and used only on a

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3 A balance is shown in the zero-balance account but no actual funds are deposited in the zero-balance account.
4 Direct payment is usually for salaries, civil works, goods, and services procured, while authorized payment is usually for operating costs, incidental expenses, and urgent payments.
reimbursement basis. Payments to suppliers and contractors need to be controlled by the two separate systems depending on the source of funds (ADB loan and counterpart funds). Both systems have been examined and found to have strong financial controls.\(^6\)

12. **Accounting and reporting.** MOF stipulates detailed requirements for key accounting elements, charts of accounts, templates of financial statements, and notes to the financial statements, which are followed by GED and TVET institutions. GED and TVET institutions use cash-basis accounting, but accrual accounting may be used for some activities.\(^7\) Double-entry bookkeeping systems are used. GED and TVET institutions prepare standardized financial statements, including a balance sheet, income and expenditure statements, and government fund income and expenditure statement, on a monthly and annual basis. Separate accounts are usually kept for capital investment projects, although they are consolidated with other accounts annually at the end of each fiscal year.\(^8\) The predominant use of cash-basis accounting without full-income accruals, with internal control focusing on fund use (para. 18), used to be a risk that locally raised income could be misappropriated as it was not properly accounted for at source. GFD and local finance bureaus now adopt measures to mitigate the risk, including the separation of revenue collection from expenditures by requiring TVET institutions to deposit the collected revenues into an account designated by GFD or local finance bureaus, and apply for the use of the revenue through GFD or local finance bureaus.

13. In January 2013, MOF reinforced the financial management system for higher education institutions, including tertiary TVET colleges and application-oriented universities, together with some financial performance indicators.\(^9\) This move is expected to increase transparency in the financial management of higher education institutions.

14. **Final annual accounts.** The regulation requires government agencies and institutions to prepare final annual accounts and financial statements, to reflect the status of budget implementation, and summarize their financial status.\(^10\) The final annual accounts and financial statements are standardized for all government entities and include basic data, notes, analysis tables, and analysis reports. The final annual accounts and financial statements of TVET institutions are submitted to their supervising authorities for review, which then prepare and submit consolidated annual accounts and financial statements to the same level finance department or bureau. The finance department and bureaus at all levels will further consolidate and submit the final annual accounts to the Standing Committee of the People’s Congress for approval. Once approved, the finance department and bureaus will release the final annual accounts and financial statements of each department or bureau and disclose them to the public on their websites. The final annual accounts and financial statements of TVET institutions are discussed at staff council representative conferences annually at the beginning of each fiscal year, but are not normally disclosed to the public.

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\(^7\) The regulations do not specify which activity or account should use accrual accounting. TVET institutions may decide based on their needs. Accrual accounting is usually applied to capital investment projects.

\(^8\) Some TVET institutions cancelled infrastructure accounts because of stringent checks on the number of accounts by GFD and finance bureaus.


15. **Information systems.** Modern information systems are extensively used to enhance PFM in GZAR government, including GED, and at TVET institutions. Information systems include
   (i) the budget and approval system, a web-based system used by all government entities for budget preparation and approval;
   (ii) the TSA system, a web-based system used by all government entities to receive and/or make payments; and
   (iii) accounting software packages, used by GED and TVET institutions to carry out daily financial management and generate financial statements.

16. **External audit.** The Department of Foreign Funds Application Audit of the NAO has the primary responsibility for auditing foreign-funded projects, including those financed by ADB. Normally, NAO authorizes its provincial and/or regional counterparts to carry out external audits in accordance with the Methods of Implementing Audit of Foreign Funded or Granted Projects, and clearly specifies the scope of the audit.\(^{11}\) NAO requires audited financial statements and audit reports to be disclosed to the public.

17. The external audits include examination of the budget implementation status for all government entities, changes of entity heads, special fund utilization in accordance with the requirements of the funds, and foreign-funded projects on an annual basis. Most audits are financial attestation or regulatory compliance audits. Annual external audits are not conducted for GED or TVET institutions. Instead, external audits are performed in a 2–3 year cycle or when entity heads change. Government auditors conduct a special ad hoc audit almost yearly for GED and TVET institutions, focusing on large expenditures such as capital investments and student subsidies.

18. **Internal audit.** Not all GZAR government departments have a separate internal audit office. At GED, the Finance Division plays the role of internal control, with a focus on fund utilization by GED, rather than how management decisions were made. Not all TVET institutions have an internal audit office. The TVET institutions interviewed claimed that they had established internal control procedures, they had assigned the responsibility of internal control to staff (principals or finance officers of TVET institutions), and they would recruit external auditors to conduct expenditure audits on their key capital investment projects. The arrangements and capacity for internal control were found to be weak at county-level TVET institutions and some municipal-level TVET institutions.

19. **Staff capacity.** The International Cooperation Division of GFD has managed more than 40 foreign-funded projects on behalf of the GZAR government, including more than 30 ADB- and World Bank-financed projects since the 1980s. The staff have many years of experience in managing foreign-funded projects, and are familiar with government policies and ADB requirements. The Planning and Finance Division of GED is responsible for financial management within GED, and supervises the financial management of subordinate institutions (including some TVET institutions). The division has seven well-educated staff with professional expertise. The finance departments of the TVET institutions interviewed generally have a minimum of 2–4 professionally qualified staff. However, county-level TVET institutions lack experience in terms of financial management and internal control. Moreover, at GED and TVET institutions, staff duties predominantly concern bookkeeping, financial accounting, routine reporting, and financial control, rather than detailed management accounting and financial planning. Thus, the use of funds tends to be well controlled for their intended purpose, but efficiency of use is not as well measured and controlled.

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\(^{11}\) NAO issued the methods in 1996, and developed and issued a complementary audit manual for audit staff.
Table 1 summarizes risks and mitigating measures.

**Table 1: Financial Management Risks**

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Risk Description</th>
<th>Risk Rating</th>
<th>Mitigation Measures</th>
</tr>
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<tbody>
<tr>
<td><strong>Inherent Risk</strong></td>
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<tr>
<td>1. Country-specific risks</td>
<td>Sub-provincial levels lag in the implementation of PFM reforms, including accrual accounting, detailed management accounting, and financial planning; dedicated internal audit units; and risk-based internal control.</td>
<td>Moderate</td>
<td>PRC and provincial governments have scaled up their efforts to build PFM capacity at sub-provincial levels.</td>
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<tr>
<td>2. Sector- and program-specific risks</td>
<td>Time lag between the local and central budget approvals causes difficulties with fully integrating intergovernmental transfers in local budgets and delays in budget implementation.</td>
<td>Moderate</td>
<td>TVET institutions have developed a habit of completing all the preparation work to procure major civil works and goods 1 year before budget approvals to minimize delays in budget implementation.</td>
</tr>
<tr>
<td><strong>Overall Inherent Risk</strong></td>
<td></td>
<td>Moderate</td>
<td></td>
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<tr>
<td><strong>Control Risk</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Internal controls</td>
<td>Staff capacity for internal audit at GED and TVET institutions is inadequate to ensure the efficiency and effectiveness of fund use.</td>
<td>Moderate</td>
<td>The financial management specialist engaged under the attached TA will provide training for audit staff on modern risk-based approaches to internal control. An action plan to strengthen internal audit will be developed, together with relevant departments, and implemented.</td>
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<tr>
<td>2. Funds flow</td>
<td>All financial transactions involving government funds are managed through the TSA system. The arrangements are in place for GFD and local finance bureaus to oversee the flows of various funds to TVET institutions.</td>
<td>Low</td>
<td>The PRC and provincial governments have extended the coverage of the TSA system to all the government entities.</td>
</tr>
<tr>
<td>3. Accounting and financial reporting</td>
<td>Generally lower financial management capacity of county TVET institutions, show weaknesses in control over locally generated revenues.</td>
<td>Moderate</td>
<td>The financial management specialist engaged under the attached TA will provide training for managers and financial management staff at GED and TVET institutions. An action plan to transition to accrual accounting will be developed, together with relevant departments, and implemented.</td>
</tr>
<tr>
<td>4. Independent audit</td>
<td>NAO and its provincial counterparts have well-established methods to conduct external audits of foreign-funded projects.</td>
<td>Low</td>
<td>The methods for performing external audits of foreign-funded projects will be used for the RBL program.</td>
</tr>
<tr>
<td><strong>Overall Control Risk</strong></td>
<td></td>
<td>Moderate</td>
<td></td>
</tr>
<tr>
<td><strong>Overall Risk</strong></td>
<td></td>
<td>Moderate</td>
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</tbody>
</table>

GED = Guangxi Education Department, GFD = Guangxi Finance Department, NAO = National Audit Office of the PRC, PFM = public financial management, PRC = People’s Republic of China, RBL = results-based lending, TA = technical assistance, TSA = Treasury Single Account, TVET = technical and vocational education and training.

*a* Low, moderate, substantial, or high.
b The susceptibility of the RBL program financial management system to factors arising from the environment in which it operates, such as country rules and regulations and the agency’s working environment (assuming absence of any counter checks or internal controls).

The risk that the program’s accounting and internal control framework are inadequate to ensure RBL program funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported. Source: Asian Development Bank.

C. Procurement System

21. The procurement system assessment considered the procurement systems to be used under the program, including the laws and regulations on procurement issued by the PRC and GZAR governments, and procurement practices in GZAR.

22. Procurement profile. The program will involve the procurement of civil works for new TVET institution buildings and practical training facilities, and rehabilitation; teaching and learning materials, information and communication technology and training equipment, and furniture; engineering designs; and consulting services. The contracts of civil works, goods, and services will not exceed the RBL limit defined for high-value contracts.\(^\text{12}\)

23. Country-level procurement system. In the PRC, public procurement is conducted in accordance with the Law of Tendering and Bidding (LTB, 1999) and the Government Procurement Law (GPL, 2002).

(i) NDRC administers the LTB, which became effective on 1 January 2000. The law applies to all tendering and bidding activities in the PRC; and includes extensive articles on tendering, bidding, bid opening, evaluation and winning, and legal liabilities.

(ii) MOF administers the GPL, which has a fundamental role for all levels of government entities that procure works, goods, and services using government funds. New regulations on GPL implementation became effective on 1 March 2015.

24. The LTB and GPL are based on international best practices and principles, and have articles dealing with corrupt practices. Both laws require the use of competitive bidding as the main procurement method, and define the conditions under which other procurement methods can be used. They offer two forms of evaluation leading to contract award (the method must be specified in the invitation to bid): lowest compliant bid, or comprehensive evaluation method, which give weights to different factors.

25. The Ministry of Supervision monitors the integrity of national government officials. NDRC’s Key Project Inspectorate Office monitors the procurement of major projects, while NAO conducts financial compliance and performance audits of government agencies.

26. Guangxi Zhuang Autonomous Region procurement system. In GZAR, the GZAR Public Resources Trading Center (PRTC) of the GZAR government is responsible for general management and supervision of procurement activities. Government procurement is classified into two categories: centralized procurement, which is organized by the centralized procurement

\(^{12}\) The specified monetary amounts will be harmonized with the amount applied to the World Bank’s Program-for-Results financing. This will increase development coordination and support program implementation. The amounts are $50 million for works, turnkey and supply, and installation contracts; $30 million for goods; $20 million for information technology systems and non-consulting services; and $15 million for consulting services. The amounts may be changed from time to time, and the thresholds for high-value contracts for RBL programs will also be changed accordingly.
institute; and decentralized procurement, which is organized by the purchaser or entrusted procurement agent. At the regional level, the GZAR Government Procurement Center, managed by the GZAR PRTC, is responsible for government procurement, which falls under the centralized procurement category. There are five procurement methods: open competitive bidding, invited bidding, competitive negotiation, shopping, and single source procurement. Competitive bidding (open competitive bidding and invited bidding) should be applied to engineering construction projects, infrastructure projects, public utility projects, and projects using state-owned funds; and financed by the government, international organizations, and foreign governments, including the design, construction, and supervision of civil works, and the procurement of equipment and materials, when the contract value of the project exceeds the minimum thresholds.

27. In 2016, four types of public resource trading—construction project bidding and tendering, government procurement, land-use and mine ownership, and state-owned ownership—were integrated into regional, municipal, or prefectural PRTCs located in 14 municipalities of GZAR. Among county PRTCs (66), only 19 county PRTCs have been retained, while the rest were integrated into the municipal-level PRTCs. Each municipal government has issued methods to manage public resources trading.

28. The arrangements for the supervision of public procurement in GZAR mirror those at the national level. At the regional level, the Guangxi Government Affairs and Service Supervision and Management Office provides overall supervision and oversight, and supervises the Guangxi PRTC. The office handles letters and complaints related to public resource trading, and assists in investigations of relevant departments.

29. Furthermore, development and reform commissions at all levels guide and coordinate the tendering and bidding of major construction projects in their jurisdictions, receive and handle relevant complaints, and investigate and penalize illegal practices. Similarly, various departments and bureaus supervise relevant tendering and bidding under their jurisdictions, and receive and handle complaints. Finance department and bureaus at all levels, by contrast, supervise the budget implementation status of construction projects procured through competitive bidding, as well as the implementation of government procurement policies. Audit department and bureaus at all levels perform audits on funds security and efficiency in fund utilization for construction projects financed by state-owned funds. Finally, supervision department and bureaus at all levels provide supervision of the tendering and bidding of concerned supervisees.

30. Procurement at technical and vocational education and training institutions. The preparation of teaching and training equipment procurement is usually integrated with the annual budgeting process. The TVET institutions visited during the assessment all had clear segregation of responsibilities and internal processes for procurement, with experienced staff and easily available expert support as needed. All procurement documents were kept in safe custody for the period stipulated in local regulations. The TVET institutions claimed that the procurement of civil works and equipment is normally completed within budget and significant cost overruns are rare; and that the preparation of thorough designs, technical specifications, and cost estimates is a key success factor.

31. Key procurement risks. The key procurement risks identified by the assessment include a lack of qualified procurement staff and training opportunities, leading to noncompliance with relevant laws and regulations in procurement activities; and lack of technical skills at TVET institutions, especially at county level, to prepare technical specifications and cost estimates, resulting in delays, inefficiency, and ineffectiveness in procurement activities.
32. **Key mitigating measures.** The key mitigating measures to address the procurement risks above include ensuring training for procurement staff at TVET institutions in technical, procedural, regulatory, and ethical aspects of procurement; and encouraging the use of experienced design institutes to prepare technical documents.

D. **Anticorruption System**

33. The anticorruption system assessment considered (i) country-level policies, laws, and regulations; (ii) arrangements set up by the GZAR government; and (iii) arrangements at GED and TVET institutions. Earlier ADB country assessments (footnote 2) were referenced.

34. **Country level.** In 2010, the Government of the PRC issued a white paper that provides a comprehensive overview of anticorruption mechanisms in the PRC comprising legal systems, institutional arrangements, and prevention measures.13 Two sets of laws, regulations, and rules support anticorruption efforts in the PRC. One is a series of laws and regulations that have been enacted, in the framework of the PRC’s constitution, for combating corruption and building a clean government. The other is a series of intraparty rules and regulations anchored in the constitution of the Communist Party of China (CPC), which complement the national laws and regulations, and reiterate the significance of fighting against corruption in the CPC.

35. The main organizations responsible for combating corruption are the CPC entities for discipline inspection, judicial, supervisory, and auditing departments of the government; and the National Bureau of Corruption Prevention. Other agencies include public security departments and financial institutions. The State Bureau for Letters and Calls provides multiple channels for individual citizens to exercise their right of supervision.14

36. These organizations perform their designated duties, and coordinate and collaborate with one another. The CPC’s commissions for discipline inspection take disciplinary measures against party members who violate the party discipline, while reporting any criminal activities to judicial departments. Supervisory departments of the government administer punishment to those who violate government discipline. Public security, auditing, and administrative law enforcement departments refer those who violate laws or government discipline to judicial departments, CPC’s commissions for discipline inspection, or supervisory departments, depending on the circumstances. Judicial departments transfer evidence and materials related to the violation of CPC or government discipline to the CPC’s commissions for discipline inspection, or supervisory departments of the government.

37. In the education sector, MOE plays a leading role and has issued various supporting regulations and documents, including a code of ethics for teaching profession.

38. **Guangxi Zhuang Autonomous Region level.** Guangxi Supervision Department (GSD) is the lead agency for supervision and inspection of anticorruption in GZAR. The department’s website publishes information on methods and procedures to file reports, and enables the tracking of reports. It also publicizes convicts to warn others. Each GZAR government department has a small supervisory office functionally aligned with GSD.

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14 Written, telephone, and online ([http://www.gjxfj.gov.cn](http://www.gjxfj.gov.cn)) communication channels are available.
39. **Guangxi Education Department level.** The Planning and Finance Division of GED is responsible for internal audits. The Supervision Office of GED, functionally aligned with GSD, is an independent office responsible for the supervision of GED’s operations and the work of its leaders. The General Office of GED receives and handles public complaints, which can include allegations of corrupt activities. It publishes the email addresses and phone numbers of the director general and all divisions of GED on GED’s website.

40. **Technical and Vocational Education and Training institution level.** As GED has not issued any additional methods or procedures for TVET institutions, they follow the laws and regulations of the PRC and GZAR governments to handle the complaints received through different channels. A discipline inspection and supervision unit established at each TVET institution normally carries out supervision and investigation of any alleged or suspected offenses. These units are under the dual leadership of the institution and the Supervision Office of GED or the supervision office of their administrative authorities. Some TVET institutions, on their own initiative, take additional internal control measures, e.g., recruiting an independent auditor to examine the entire processes of civil works and equipment procurement, assigning the responsibility for procurement to different persons, and requesting staff involved in procurement and construction management to sign a letter of commitment to integrity. To enhance transparency, TVET institutions regularly disclose financial reports to employees, usually on an annual basis. However, such reports are not made public.

41. **Risks of fraud and corruption.** The key risks are mainly those related to financial management and procurement activities. ADB’s Country Governance Risk Assessment (footnote 2) notes the likelihood of conflict of interest in public procurement arising from connected parties. Moreover, individual integrity failings, especially by those who can make or influence key decisions in procurement and fund allocation, fostered by weaknesses in control over the use of research funds and TVET institution-generated income, remain a risk.

42. **Risk mitigating measures.** The Government of the PRC has promulgated anticorruption regulations and antifraud measures for public procurement and financial management. The centralized management of procurement under PRTCs could reduce the risk of conflict of interest. MOE has issued regulations on the management of research funds and the code of ethics for teachers. All TVET institutions are required to develop and implement methods to manage and control the use of research funds, which is also subject to GED’s supervision and external audit.