



Technical Assistance Consultant's Report

Project Number: 47040-001
December 2016

The People's Republic of China: Fiscal Policy Reform and Management

TA 8452: Output 2 Final Report

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 2 December 2016)

Currency unit	–	yuan (CNY)
USD 1.00	=	CNY 6.875

ABBREVIATIONS

ADB	–	Asian Development Bank
DMF	–	Design and Monitoring Framework
EA	–	Executing Agency
IA	–	Implementing Agency
PRC	–	The People's Republic of China
TA	–	Technical Assistance

Note

In this report, "\$" refers to US dollars.

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EXECUTIVE SUMMARY

The Third Plenary Session of the 18th Central Committee of the Communist Party of China decided to propose the government comprehensive financial reporting reform task, and the State Council has issued the reform plan. The new Budget Law has made it clear that "the financial department within the governments at all levels should prepare the accrual-basis government comprehensive financial reporting on a yearly basis". Under the circumstances of PRC's ongoing economic transformation and public governance transition, the government's accountability has been subject to higher requirements. The government financial information disclosure reform has become an urgent and realistic issue, not only enabling public governance and government financial decision making to be more scientific, but also having a profound and practical impact on the stable economic development as well as democracy and legal system building in PRC.

In order to promote the financial policy reform and innovation, the People's Republic of China proposed policy and advisory technical assistance to the Asian Development Bank. In undertaking this project, we will proactively borrow and absorb international advanced experience, dive deeply into those significant issues related to the preparation of accrual-basis government comprehensive financial reports, make recommendations to enable the government financial reporting to be more scientific, accurate and comprehensive, improve the government's fiscal and financial management quality, and lay the groundwork for establishing a robust public financial system. The Ministry of Finance of the People's Republic of China will be the Executing Agency (EA), with UFIDA Software Co. Ltd. being the Implementing Agency (IA), and the Asian Development Bank providing the related supports. The Technical Assistance Project is expected to complete by 30 September 2015.

The consultant team's research roadmap is comprised of diving into the laws, regimes, accounting systems, and historical changes in relation to the Chinese government financial reporting, taking reference to the theories and practice about government financial reporting in developed countries around the world, and establishing the theoretical basis and the framework in relation to the Chinese government financial reporting. The framework will be constantly improved when moving towards the goal of collecting, storing, integrating and using the budget and financial information, with PRC's actual circumstances being considered at the same time.

As a critical component of the project of "The People's Republic of China: Financial Policy Reform and Innovation", the "Research on Government Financial Reporting" will significantly influence the completion of this project. The government financial reporting ultimately reflects the government accounting information, and the information in the government financial reporting provides a significant basis for scientifically evaluating the government's capabilities to provide public services or to repay their debts, as well as the government's operating performance. The comprehensiveness and completeness of what is reflected in the government financial reporting will not only make a difference as to whether the public can objectively and impartially evaluate the government's accountability, but also impact the development of the government's macro-economic policies and the improvement of public management quality.

The project will be carried out in 3 stages: (i) The initial stage: The consultant team established the project team, held early-stage seminars for the related people, and conducted international exchange activities to show the learning plans. Also, the consultant team built good relationships with the EA and the IA during this stage. (ii) The interim stage: The consultant team explored and verified those innovative proposals and draft plans in detail. (iii) The final

stage: The consultant team combed through the project-related proposals and conclusions, and integrated them into the complete reporting outcomes. The final report reviewed the research and implementation processes of government financial reporting, and provided an appropriate evaluation on the implementation effects.

TA made its success by providing an effective and appropriate way to achieve the Design and Monitoring Framework (DMF) of the project. The key outputs are: (i) an analysis report on the ongoing Chinese government financial reform and the necessity of preparing the government comprehensive financial reporting; (ii) an evaluation on the status quo and the future development trend of the government accounting basis; (iii) an evaluation on the tentative preparation of government comprehensive financial reports; (iv) the method and the process for preparation of government comprehensive financial reports; (v) the information-based system supports for government financial reporting.

During the project, the consultant team will provide 4 outcomes: i.e. Outcome 1 - *Research Report on the Preparation of Government Financial Reports*; Outcome 2 - *The Preparation Methods and the Implementation Guide on Government Financial Reporting*; Outcome 3 - *The Overall Demand on the Government Financial Reporting Information System*; Outcome 4 - *The Government Financial Reporting Training Materials*.

The stakeholders need to obtain an evaluation on the government's accountability and the allocation of government resources from the government financial reporting. Due to the local debt liquidation and performance evaluation, governments at all levels have paid more attention to financial reporting. Also, the EA and the consultant team have obtained useful experience from the tentative preparation of government financial reports. And the ongoing improvement process of the government accounting standards and the accrual-basis accounting system have been influenced by this project because some views have been adopted. The definitions of "budget accounting" and "financial accounting" set out in the government accounting standards for which public opinions are being solicited have been used in the outcomes of this project as well.

From 2012, the tentative preparation of accrual-basis government comprehensive financial reports has been carried out in several provinces and municipal cities. According to the measures on the tentative preparation of government comprehensive financial reports, the government department financial statements should include a balance sheet and a statement of revenues and expenses. A balance sheet will reflect the government department's assets, liabilities and net assets, and a statement of revenues and expenses will reflect the government department's revenues and expenses. The government comprehensive financial statements are generated based on the adjustments to the above statements against the existing accounting basis, i.e. by leveraging the existing statements' data adjustments. The research outcomes in relation to the government financial reporting have been used in the improvement process of the tentative preparation of accrual-basis government comprehensive financial reports.

I. INTRODUCTION / ISSUES

1. Currently, there is no accrual-basis government financial reporting in the real sense available in PRC. Instead, the government financial information is disclosed through financial statements and each individual department's final accounts. Although this reporting mode can reflect the budget execution accurately, it cannot fully or accurately disclose any government's financial activities or their financial position other than the government's budget payment and collections, e.g. the government's titles, debt receivables, debts and other assets and liabilities as well as operating performance, so as to make it difficult to achieve the followings: 1) having the government manage the public assets effectively, or improve the public funds' efficiency; 2) accurately assessing the burden of debts, preventing financial risks, or impacting the financial sustainable development; 3) enabling the people's congress at each level to monitor the government's financial activities more effectively. Therefore, the reform is required to focus on resolutions for such issues as how to establish the government financial reporting system that not only meets PRC's public financial management needs but is linked to the international practice, and how to prepare, present and issue the government financial reporting in an open, transparent and complete manner.

2. Along with PRC's further involvement in the globalization process day by day, accounting and reporting appears to be increasingly considered as "an international language". As a result, we are required to closely follow the government accounting reform process in different countries, and proactively explore the theories, methods and principles in relation to the government accounting and financial reporting reform around the globe, so as to help establish the government comprehensive financial reporting system that fits into PRC's actual circumstances.

3. Under the circumstances of PRC's ongoing economic transformation and public governance transition, the government's accountability has been subject to higher requirements. In the process of establishing the government performance evaluation system, although the design of the government performance evaluation criteria is important, the government accounting information and other related information that provide data for the government performance evaluation is believed to be more important. That means the government financial information disclosure reform has become an urgent and realistic issue, not only enabling public governance and government financial decision making to be more scientific, but also having a profound and practical impact on the stable economic development as well as democracy and legal system building in PRC.

4. In PRC, the central government is the executing agency of the highest organ of state power, and local governments can be classified into 4 levels, i.e. the provincial level, the municipal level, the county level and the township level, in accordance with the Chinese administrative divisions. As an international structural form, the unitary system is implemented in PRC, and local governments at all levels are subject to the central government's leadership. The Chinese government organizations strictly follow the pyramid-shaped organization structure. There are respective government's administrative units within the Chinese governments at all levels, i.e. governments at each level will have their own financial department at the same level.

5. The tentative preparation of accrual-basis government comprehensive financial reports. From 2012, the tentative preparation of accrual-basis government comprehensive financial reports has started in a few provinces and municipal cities. According to the measures on the

tentative preparation of government comprehensive financial reports, the government department financial statements should include a balance sheet and a statement of revenues and expenses. A balance sheet will reflect the government department's assets, liabilities and net assets, and a statement of revenues and expenses will reflect the government department's revenues and expenses. The government comprehensive financial statements are generated based on adjustments to the above statements against the existing accounting basis, i.e. by leveraging the existing statements' data adjustments.

6. In January 2015, the MOF issued the Government Accounting Standards – Basic Standard (Exposure Draft). This release will have an impact on the existing government accounting system, and therefore on the government comprehensive financial reporting. Under the existing government accounting system, the financial statements do not include any cash flow statement, and consequently the cash-basis final accounting statements can be used as an alternative in most cases.

7. Based on the goal of "the 12th 5-year Planning", the Technical Assistance Program is designed to explore new methods for government financial reporting management, use transparent and in-depth discussions to secure the provision of effective observations and proposals to the decision makers and stakeholders, and set an example of good practice in preparing and offering proposed policies. By focusing the team's advisory efforts on any innovations or added values in relation to the government financial reporting, the Technical Assistance Program will serve as a catalyst along with the development of the Chinese public finance reform, and pay more attention to learning new knowledge, sharing experience and improving capabilities.

8. The final report provides an evaluation on the details of the technical assistance regarding the government comprehensive financial reporting, and an estimation on the project's implementation effects in the future. And the next section will describe the outcomes arising in the course of technical assistance as well as the activities being conducted. Besides, this section also describes when and how any significant changes in TA's achievements as compared to TA's preparations are incurred, while the next section will give an evaluation on the quality of TA's implementation outcomes, and on the possibility and influence of TA's achievement of the expected outcomes.

II. DELIVERY OF INPUTS AND CONDUCT OF ACTIVITIES

A. Rationale

9. Currently, there is no accrual-basis government financial reporting in the real sense available in PRC. As a result, the EA is required to explore any resolutions for such issues as how to establish the government financial reporting system that not only meets PRC's public financial management needs but is linked to the international practice, and how to prepare, present and issue the government financial reporting in an open, transparent and complete manner, both of which have been included into the financial reform's priority listing.

10. Over the past few years, the Chinese public finance reform has been further strengthened with greater efforts. The tax-distribution financial system implemented in 1994 and its subsequent adjustments and improvements have furthered the standardization of the financial relationships between different governments. From the beginning of the new century, the Chinese public finance reform has gradually moved its focus from the systems to the

government budget and public finance management area. The most important action being taken in the course of the budget reform is: the establishment of the department budget system has started from Year 2004, and then prevailed quickly amongst the central government and the local governments at all levels. As required by this reform, all the government departments should prepare for and submit to the legislative body a budget report and a budget execution report on a yearly basis. Before that, such reports only need to be prepared and submitted by the overall government. Since Year 2003, the MOF has also initiated the preparation of the performance budget, which is now being phased in. In these circumstances, it is required from the objective perspective to establish a consistent and standard government financial reporting system, so that the overall government and all the government departments should be able to comply with the consistent financial reporting regulations, and to report, use and pass on the related budget and financial information.

11. Over the past 10 years, because PRC's opening policy has been further strengthened and the public finance scope has been quickly expanded, the establishment of a government financial reporting system that not only fits into PRC's actual circumstances but is linked to the international practice has been included into the agenda of the government public finance reform. In the light of the international practice, the government financial reporting together with the government departments in the Government Finance Statistics System (GFS) and the System of National Accounts (SNA) constitute the three major windows for the purpose of observing the government. There is no exception for PRC in this case.

12. Over the recent years, the construction of the government financial reporting has shown a more and more obvious tendency of global convergence, which is reflected by the most typical indicator that in more and more countries, the conventional cash-basis government accounting has been changed into the accrual-basis government accounting, and on that basis, the preparation of government financial reports has been also moved towards the accrual-basis accounting basis. It is predictable that under the background of the increased globalization of the economy, the government accounting and financial reporting in different countries will continue to show a tendency of convergence. In promoting the construction of the Chinese government accounting, we should fully consider the actual circumstances in PRC, instead of completely following the mode and practice from other countries. For any government accounting mode or practice that has proved to be effective around the world, we should analyze the actual circumstances instead of simply introducing it. On the other hand, PRC has after all been further involved in the globalization process day by day, and consequently accounting and reporting appears to be increasingly considered as "an international language". As a result, we are required to closely follow the government accounting reform process in different countries, and proactively explore the theories, methods and principles in relation to the government accounting and financial reporting reform around the globe, so as to use other countries' experience in PRC.

13. We should dive into the laws, regimes, accounting systems, and historical changes in relation to the Chinese government financial reporting, take reference to the theories and practice about government financial reporting in developed countries around the world, and establish the theoretical basis and the framework in relation to the Chinese government financial reporting. The framework will address the collection, storage, integration and use of the budget and financial information, and based on a good understanding of the necessity of the government responsibilities (including contingent liabilities), consider the alignment with the international standard framework, e.g. the Government Finance Statistics of the International Monetary Fund (IMF).

B. Formulation

14. The Technical Assistance Program is consistent with ADB's China National Partnership Strategy (CPS) for Year 2011-2015, and creates and shares the methods and knowledge in relation to the best practice of local public finance. As a critical component of the project of "The People's Republic of China: Financial Policy Reform and Innovation", the "Research on Government Financial Reporting" will significantly influence the completion of this project. The government financial reporting ultimately reflects the government accounting information, and the information in the government financial reporting provides a significant basis for scientifically evaluating the government's capabilities to provide public services or to repay their debts, as well as the government's operating performance. The comprehensiveness and completeness of what is reflected in the government financial reporting will not only make a difference as to whether the public can objectively and impartially evaluate the government's accountability, but also impact the development of the government's macro-economic policies and the improvement of public management quality.

15. The establishment of the theoretical basis and the framework in relation to the Chinese government financial reporting requires taking reference to the theories and practice about government financial reporting in developed countries around the world. The framework will address the collection, storage, integration and use of the budget and financial information, and based on a good understanding of the necessity of the government responsibilities (including contingent liabilities), consider the alignment with the international standard framework, e.g. the Government Finance Statistics of the IMF.

C. Costs and Execution Arrangements

16. The cost of the Technical Assistance Project is USD 216,736. The government will provide the funding, including people, offices, stationery, domestic traffic, and other kinds of physical aid. ADB will pay the related amounts to the IA according to the contract terms, so that the IA could use these amounts to cover the expenditure arising from consulting specialists or holding seminars.

17. The Ministry of Finance of the People's Republic of China will be the Executing Agency (EA), with UFIDA Software Co. Ltd. being the Implementing Agency (IA), and ADB providing the related supports. The Technical Assistance Project is expected to complete by 30 September 2015.

D. Procurement

18. The procurement consultant will be identified based on ADB's instructions on the use of consultants and upon the mutual agreement between ADB and the advisor. Any expenses arising from technical assistance should be paid by ADB, and TA will be responsible for the appropriation of such received amounts to the advisor. Also, TA will organize related seminars for the purpose of discussions around certain topics, and finally the related expenses will get reimbursed.

E. Outputs

19. During the project, the consultant team will provide 4 outcomes: i.e. Outcome 1 - *Research Report on the Preparation of Government Financial Reports*; Outcome 2 - *The Preparation Methods and the Implementation Guide on Government Financial Reporting*;

Outcome 3 - *The Overall Demand on the Government Financial Reporting Information System*;
 Outcome 4 - *The Government Financial Reporting Training Materials*.

20. During the initial stage of TA, the team members were called together before August 2014 to formulate a detailed work plan.

21. The consultant team considered the tentative preparation of financial reports for Year 2014 as the main target of their research, learning, verification and testing efforts. Between August 2014 and May 2015, we carried out 6 activities, including visits and forums. We completed the draft interim plan by conducting the field study according to the work plan and learning from advanced international experience. As a consequence of discussions with the EA representative, we successfully maintained the direction and principles of the final report, and secured the effectiveness and practicability of the final report. In June, the consultant team was meant to call for all the departments and stakeholders involved in the preparation of financial reports to discuss the specific steps for subsequent adjustments and communication.

22. Between 29 June 2014 and 19 July 2014, Lou Hong, Vice Director of the Treasury under the MOF, led a delegation to the U.S. to hold the "Accrual-basis Government Financial Reporting Training Program". During this training program, the U.S. Department of the Treasury, the Governmental Accounting Standards Board (GASB), the California Department of Finance, San Francisco Finance Department, the former Director of the U.S. Government Accountability Office, the former Assistant to the U.S. Treasury Secretary and other specialists were invited to lecture on the accrual-basis government financial reporting system reform in the U.S., and the construction of the government accounting standards. Besides, specialists from the World Bank, the IMF, Fitch Ratings and other institutions were also invited to lecture on the government financial reporting system reforms and credit ratings in different countries around the world.

23. Based on a detailed analysis of the basic situation and main practice in relation to the preparation of government financial reports in developed market-economy countries, such as the U.S. and Australia, in combination with PRC's actual circumstances, the consultant team made an in-depth analysis of the government financial reporting's scope, preparation basis, data sources, preparation process, and segregation of duties, and clarified the related needs as well.

24. Mike (Mr.), an Australia specialist, put forward a consulting report based on the following topics: i.e. "Australia – A Case Study on the Transfer from the Cash Basis to the Accrual Basis", "Reporting Topics and Consolidated Financial Statements", "Issues Arising in the Implementation of the Accrual Basis", "Other Issues within the Accounting System", and "The Australian Government Supported Public Finance Management Information System".

25. In September 2014, Lou Hong, Vice Director of the Treasury under the MOF, led a delegation of the related personnel to visit the Guizhou Provincial Finance Bureau to conduct an investigation on the relationship between the business systems in relation to budget preparation, budget execution, accounting, local debts, and final accounts, all of which are based on consistent budget and accounting accounts, and the government comprehensive financial reporting. The consultant team further clarified the gap between the existing accounting system and the government comprehensive financial reporting, and explored the ways to further improve the budget accounting and financial accounting vision from the perspectives of standards, regimes and operations.

26. In October 2014, the Treasury under the MOF called for the related personnel from the Finance Bureau of Beijing, the Finance Bureau of Tianjin, the Hebei Provincial Finance Bureau, and UFIDA Software Co. Ltd. to attend the Government Comprehensive Financial Reporting Forum in Beijing, which covered such topics as financial reporting elements and the information system construction.

27. UFIDA Software Co. Ltd. not only developed the preparation and presentation software and the consolidation and summarization software for the Shanghai Municipal Finance Bureau, but also conducted the tentative preparation of consolidated and summary financial reports at the department and public finance levels within the Shanghai Municipal Finance Bureau. The use of such systems provided a good attempt in relation to the information system construction for the tentative preparation, consolidation and summarization as well as the related processes.

28. When building the all-in-one planning financial system for the Ministry of Water Resources, UFIDA Software Co. Ltd. explored the possibility of tentatively preparing the government financial reporting based on the budget and accounting accounts of the business systems in relation to budget preparation, budget execution, accounting, and final accounts, and conducted a feasibility study and analysis with regard to the centralized and decentralized deployment of the government financial reporting information system.

F. Consultants

29. As required by the subject report, the arrangement of consultants was made as follows: the government financial reporting specialists and also the team leaders (9 man-month, National Consultant, intermittent), the government financial reporting specialists (9 man-month, National Consultant, intermittent), the senior government financial reporting consultants (2 man-month, International Consultant, intermittent), and the government financial reporting consultants (1 man-month, International Consultant, intermittent).

30. The initially designated Senior International Consultant for Government Financial Reporting withdrew from this subject study because of the conflict between this subject and other subjects arising from the delayed commencement of this project. After discussions with the EA, we engaged another qualifying consultant who's experienced with and has a good understanding of the government financial reporting and the related best practice.

31. A good relationship was established between the entire consultant team and the staff of the Treasury under the MOF. The two parties shared the same expectations about the government comprehensive financial reporting study. The consultants were able to provide supports in day-to-day contingencies flexibly, to complete the assignments from the IA and the EA (they were active learners themselves and wished to solve actual problems), and to provide the reference conditions for most of the required outputs. The consultants' good teamwork spirit and mutual assistance helped ensure that the outputs could meet the expectations.

G. Design Adjustments

32. In their compliance with the principle framework as agreed between ADB and the EA from the beginning of the project, the consultant team was specifically aware that such designs should meet the fixed objectives, fit into PRC's actual circumstances, and be highly operable at the same time. During the initial stage, some designs and plans were adjusted in the DMF deliverables to meet the specific requirements of the EA / IA and to update the deliverables

about the consultant team's research outcomes. These adjustments can be classified into two types: (i) adjustments to the plans; and (2) adjustments to the deliverables.

33. Adjustments to the plans. This project was encountered with a forced delay immediately after it was initiated. Because this project's initiation was behind the schedule, a consulting specialist from the U.S. previously involved in this project withdrew from the project, and then the recruitment of his replacement started, so that the project's progression was delayed. The early-stage information exchange session was held in September 2014, which was behind the schedule by 5 months. In order to catch up with the schedule for the expected final plan, this project will be compressed. The deadline of the Technical Assistance Project is 30 September 2015.

34. The revised TA outputs and the related performance objectives / indexes are not unchangeable. Instead, each deliverable item is required to be adjusted based on the actual circumstances. It takes time to implement the proposed policies in the report, or to improve the institutional framework. As required by the resulting changes, adjustments should be made to the research report, the preparation guide, the demand on the information system, and the training materials.

H. The Logic of Deliverables

1. The achievements of the TA consultant's work are reflected in the form of the technical report to some extent, including the findings and proposals of each TA subject team, and can also be instructive to the clients and stakeholders. These reports, believed to provide a roadmap for the deliverables in the DMF, will identify and solve any potential issues.

2. The Third Plenary Session of the 18th Central Committee of the Communist Party of PRC decided to propose the government comprehensive financial reporting reform task, and the State Council has issued the reform plan. The new Budget Law has made it clear that "the financial department within the governments at all levels should prepare the accrual-basis government comprehensive financial reporting on a yearly basis".

3. In January 2015, the MOF issued the *Government Accounting Standards – Basic Standard* (Exposure Draft). These standards stated that "As a significant reform based on the government accounting rules, the government accounting reform is designed to appropriately separate the government financial accounting from the budget accounting, and the government financial report from the final account report via the construction of a consistent, scientific, and standardized government accounting standard system, to prepare the accrual-basis government comprehensive financial reporting, to reflect the overall government financial position and operation and the medium- to long-term financial sustainability, to help conduct the government credit ratings, strengthen the assets and liabilities management, improve the supervision and assessment of the government performance, and prevent financial risks, and to enhance the government financial management and the financial and economic sustainability."

4. The government financial information disclosure reform has become an urgent and realistic issue, not only enabling public governance and government financial decision making to be more scientific, but also having a profound and practical impact on the stable economic development as well as democracy and legal system building in China. Taking into account PRC's actual circumstances and borrowing and comparing the international experience, the *Research Report on the Preparation of Government Financial Reports* will define the government comprehensive financial reporting framework, and prepare the process and

analysis framework. The *Preparation Methods and the Implementation Guide on Government Financial Reporting* will support the preparers and stakeholders to prepare / use the financial reporting. The *Overall Demand on the Government Financial Reporting Information System* will provide a basis for tender invitation on the information system construction. The *Government Financial Reporting Training Materials* will support the reporting preparers to learn and understand the specific methods and the processes.

5. Currently, there is no accrual-basis government financial reporting in the real sense available in PRC. Instead, the government financial information is disclosed through financial statements and each individual department's final accounts. Although this reporting mode can reflect the budget execution accurately, it cannot fully or accurately disclose any government's financial activities or financial position other than the government's budget payment and collections, e.g. the government's titles, debt receivables, debts and other assets and liabilities as well as operating performance, so as to make it difficult to achieve the followings: 1) supporting the government to manage public assets effectively, or improve the public funds' efficiency; 2) accurately assessing the burden of debts, preventing financial risks, or impacting the financial sustainable development; 3) enabling the people's congress at each level to monitor the government's financial activities more effectively. Therefore, the reform is required to focus on resolutions for the such issues as how to establish a government financial reporting system that not only meets PRC's public finance management needs but is linked to the international practice, and how to prepare, present and issue the government financial reporting in an open, transparent and complete manner.

6. In western countries, the financial reporting based on the overall government includes both the budget execution report and various reports that reflect the government financial position and business performance, e.g. a balance sheet, a business activity statement, and other statements that reflect the government performance and costs. However, in PRC, we only have the budget payment and collection final account report and the department budget and final account report to reflect the budget execution now. That appears to be too weak.

7. Although the government budget accounting provides summary accounting statements, the public finance budgetary accounting, the administrative agency accounting and the institution accounting own their independent financial reporting system respectively for the purpose of financial reporting, and thus no consolidated balance sheet can be generated through summarization for the overall government. As a result, many off-budget revenues and expenses fail to be included in such statements. Besides, the "overall government financial revenue and expense statement" that reflects the general revenue and expense budget does not include any fund revenue and expense budget. Therefore, none of the above statements provides a complete picture of all the financial revenues and expenses for the overall government.

8. We should establish a panorama of the government financial information disclosure. Servicing the government public finance management is an intrinsic characteristic of the government accounting and financial reporting, and the government financial information should be a critical component of the overall government financial position information. On the other hand, the government financial information and the government budget information should be appropriately separated and relatively aligned at the same time. Therefore, it is believed that the government financial accounting information and the budget information should be fully integrated to build a panorama of the government financial information disclosure, and to reflect the overall government financial position.

9. The tentative preparation of accrual-basis government comprehensive financial reports was successful. From 2012, the tentative preparation of accrual-basis government comprehensive financial reports has started in a few provinces and municipal cities. According to the measures on the tentative preparation of government comprehensive financial reports, the government department financial statements should include a balance sheet and a statement of revenues and expenses. A balance sheet will reflect the government department's assets, liabilities and net assets, and a statement of revenues and expenses will reflect the government department's revenues and expenses. The government comprehensive financial statements are generated based on adjustments to the above statements against the existing accounting basis, i.e. by leveraging the existing statements' data adjustments.

10. As a critical component of the project of "The People's Republic of China: Financial Policy Reform and Innovation", the "Research on Government Financial Reporting" will significantly influence the completion of this project. The government financial reporting ultimately reflects the government accounting information, and the information in the government financial reporting provides a significant basis for scientifically evaluating the government's capabilities to provide public services or to repay their debts, as well as the government's operating performance. The comprehensiveness and completeness of what is reflected in the government financial reporting will not only make a difference as to whether the public can objectively and impartially evaluate the government's accountability, but also impact the development of the government's macro-economic policies and the improvement of public management quality. The government financial reporting is comprised of sever parts:

i. The government financial information supply and demand and the objectives of the government financial reporting

11. There are significant differences between the public product property analysis of government financial information and the supply and demand analysis of general goods. Such differences are resulted from the public product nature of the accounting and financial information.

12. In the government financial information supply and demand environment analysis, the politics, regimes and environments will be incorporated into the political economy's supply and demand discussions under the analysis framework, so as to better fit the discussions around the government financial information.

13. The government financial information demand-side analysis. The government financial information users demonstrate extensive characteristics. For a long time, many scholars and various kinds of accounting organizations have attempted, in their literatures, to classify these largely scattered and extensive users, and to analyze these information users' information demand on that basis.

i. The government financial information supplier analysis. The extent of the government financial information disclosure depends on the balance between the government financial information supply and demand on the one hand. And on the other hand, it also depends on the government's mandatory regulations, including the institutional arrangements of the government financial reporting, due to the public product properties of government financial information. Now that governments are the only supplier of the government financial information, the information supply analysis can start from an interpretation of the government's nature.

14. The economic analysis of the government financial information supply and demand balance. On the one hand, the non-exclusive property would arouse people's motive to hide their true intentions about their demand on public products, i.e. the "free-rider" phenomenon. On the other hand, the non-competitive property means that the marginal cost of any additional consumption is nil. However, the efficiency principle of the product supply requires the market price to be determined based on the marginal social cost. Therefore, the nil price will definitely cause an insufficient supply of public products, and in these cases the government's involvement will be inevitable.

i. The objectives of the government financial reporting. The objectives of the government financial reporting can also be classified into three levels, i.e. the preliminary-level objective is a qualifying objective, which is aimed to promote the government budget execution, prevent frauds and other risks of control losses; the medium-level objective is to strengthen the government financial management; and the highest-level objective is to fully reflect the government's public accountability.

ii. Comparing and borrowing the international government financial reporting systems

15. The conceptual basis for the construction of the government financial reporting system. This basis is supported by 5 poles: (1) The purpose of financial reporting (purpose); (2) information products of the reporting system (products); (3) The designated preparers of financial reporting (preparers); (4) The policy in relation to the format and content of financial reporting (policy); and (5) The process for establishing the financial reporting system (process).

16. Comparing the purpose of government financial reporting. Theoretically, the government financial reporting is aimed to be not only the highest-level concept in guiding the government accounting standard setting, but also the prerequisite and basis for establishing the government financial reporting system. The objectives of government financial reporting can be classified into 3 areas: (1) Who will be the user of financial information? (2) What kind of information do they need? (3) What kind of information will be provided by financial reporting?

17. Comparing the government accounting environment with reform framework. The economic, legislative, political, cultural and educational factors inside and outside the accounting system will impact the government accounting. Taking into account the current circumstances of PRC's accounting environment, the consultant team focused their research efforts on the government accounting environment and characteristics in the USA, the UK, Australia, Canada, France, and New Zealand.

18. Under the guidance of the government comprehensive financial position theories, the government financial reporting should fully reflect the following features of a government under certain economic background: i.e. capacity to bear financial burdens, maintenance capability, dependence on uncontrollable financial resources, and flexibility in adjusting its own financial position, so as to form a "panorama " and an "organization chart" for the government financial position related to the financial resources under the government's control.

iii. The construction idea about the Chinese government financial reporting framework system includes 4 parts: i.e. Part 1: an overall report on the public finance activities; an analysis of the annual macro-economic situation; a statement of the government budget execution (the budget vs. the actuals); and an analysis of the government financial management. Part 2: a balance sheet and an operating statement; a cash flow statement; and other statements. Part 3: the notes; the accounting system; key accounting policies; explanations about the key items in

the financial statements; and detailed tables as attached. Part 4: additional explanations; additional explanations about the completion of the government budget; and additional explanations about the government financial position. The Chinese government financial reporting framework system can also be divided into two parts from the period and internal / external perspectives: i.e. 1) preparation of internal reports (interim financial reports); and 2) preparation of external reports (annual financial reports).

iv. The government financial reporting entities. The determination of government financial reporting entities is based on the prerequisites that the accountability should be reflected and there exist potential information users. From the perspective of accountability and users' needs, the Chinese government financial reporting entities should be defined using the principle criteria rather than the regulation criteria. However, based on PRCs actual circumstances, the consultant team believed that at present the Chinese government financial reporting entities should be defined following PRCs existing government hierarchy as well as division of superior-and-subordinate relationships between administrative institutions. That is to say, the Chinese reporting entities should be defined based on the idea of combining the political and organizational perspectives to some extent.

v. The recognition basis for the government financial statement elements

19. If the Chinese government financial reporting reform is designed to fully reflect the government's accountability and decision usefulness, then the government's current financial position information and forward-looking and sustainable financial information will be both required to achieve the above goal. In order to access such information, the process of the government accounting recognition basis reform is required to speed up. Therefore, the improvement of the Chinese government accounting recognition basis should be strategically oriented to an urgent progressive mode.

vi. The preparation of government financial reports

20. The government financial reporting process is comprised of the pre-work of the financial reporting, the financial reporting process, and the preparation methods for the government-level consolidated financial statements.

21. The presentation of the items in the government financial statements is comprised of the overall requirements for the presentation of the government financial statements, the presentation criteria and order for the items in the key statements, and the presentation of the items in the notes to the financial statements.

22. The methods used to obtain the key data of the government financial statements, the methods used to obtain the data for the current year, the methods used to obtain the data for the preceding year and the estimates for the upcoming year.

vii. An analysis of the government financial statements.

The Chinese government financial analysis work is under development now, and the financial analysis functionalities required by the government and stakeholders are also being changed. All these activities can be grouped into 3 related areas: i.e. an evaluation on the government business performance, the present decision usefulness, and the forecast on the government's financial risks in the future.

23. In view of the government financial reporting process and objectives in those western developed countries, the direct purpose of improving and constructing the government financial reporting is to expand the coverage of government financial information, and guarantee the quality of government financial information's generation and disclosure. As a contrast to profit organizations, governments will assume more non-legal and non-contractual responsibilities and obligations, resulting in a tremendous scope and quantity of the government's implicit liabilities and contingent liabilities, which will have a far-reaching impact on the government's long-term development, and will serve as a potential restraint on the government's efforts in scientifically managing money matters. Therefore, the government financial reporting should not be satisfied with reflecting the government's financial position at a certain time point. Instead, it should also reflect the government's comprehensive financial position under certain economic background, which will play an objective and important role in the construction of public finance, and the risk aversion in relation to economic decision making during the economic transformation period.

III. EVALUATION OF OUTPUTS AND ACHIEVEMENT OF OUTCOMES)

1. Outcome 1 - *Research Report on the Preparation of Government Financial Reports*. Outcome 2 - *The Preparation Methods and the Implementation Guide on Government Financial Reporting*. Outcome 3 - *The Overall Demand on the Government Financial Reporting Information System*. Outcome 4 - *The Government Financial Reporting Training Materials*, which was fully tested and verified during the tentative preparation process in each province, and as a result, this project proved to be successful. These outcomes are highly relevant to the government public finance reform and exhibit their effectiveness and sustainability as well. This successful attempt of the tentative preparation of government financial reports across the country has brought forth innovative thinking to the Chinese governments at all levels in terms of public finance management, providing effective supports to the government public finance reform.

I. Relevance

2. The consultant team's work is highly relevant to the government public finance reform, and therefore has been prioritized in the government public finance work plan. Being aware of the urgency of solving the problems, the EA is now in the process of making the annual implementation plan in relation to the preparation of government financial reports, the government accounting reform, and the government financial reporting analysis and application. All the outcomes provided by the consultant team during the course of planning have played their part for the planning.

3. The government intends to include some proposals from the 4 outcomes, i.e. Outcome 1 - *Research Report on the Preparation of Government Financial Reports*, Outcome 2 - *The Preparation Methods and the Implementation Guide on Government Financial Reporting*, Outcome 3 - *The Overall Demand on the Government Financial Reporting Information System*, and Outcome 4 - *The Government Financial Reporting Training Materials*, into the plan that is to be implemented soon.

J. Efficiency

1. Up to date, we have paid 50% of the total expenses for the specialists on this project, and the remaining payments will be settled by the end of the project. The implementation

process of this project was delayed, but fortunately all the members on the consultant team collaborated with one another so actively that the deadline was still met after a few adjustments were made to the time schedule.

K. Effectiveness

1. The Design and Monitoring Framework (DMF) delivered by the consultant team, i.e. the "government comprehensive financial reporting" may be able to effectively achieve the expected results. The government comprehensive financial reporting will not only be specifically discussed on the seminars organized by the government, but also play its part in setting the new government accounting system.

2. The financial departments will constantly put forward new requirements for the government comprehensive financial reporting as a result of the tentative preparation process being expedited by the MOF. Therefore, the MOF, ADB and TA are also required to respond with flexibility and timeliness by changing the priorities and improving TA's effectiveness.

3. DMF's performance objectives / indexes are expected to bring the following results: i.e. the EA, the IA and any authorities at higher levels would consider about accepting DMF's proposals in making policies related to the government financial reporting. DMF is aimed to submit the relevant deliverables so as to play its part during the course of tentatively preparing the government comprehensive financial reporting and of making policies for the future.

L. Sustainability

4. The accounting basis for the preparation of a cash flow statement will gradually mature along with the further revisions of the government accounting system. The design idea and preparation method in relation to the cash flow statement included in the project's Outcome 1 will play their part in setting the government regimes. Even the descriptions about the analysis framework in the government financial reporting will also be helpful to internal analyses and external disclosures.

5. Many documents that deliver outputs via TA, e.g. the *Implementation Guide on Government Financial Reporting*, may effectively facilitate the financial reporting of a government agency.

6. Outcome 3, i.e. *The Overall Demand on the Government Financial Reporting Information System*, has thoroughly considered the situation and conditions of the Chinese government public finance reform, and therefore will serve as important references during the course of the information system development.

IV. ISSUES, LESSONS AND FOLLOW-UP ACTIONS

7. In January 2015, the MOF issued the *Government Accounting Standards – Basic Standard* (Exposure Draft). This release will have an impact on the existing government accounting system, and therefore on the government comprehensive financial reporting. In particular, our consideration should be focused on how the setting and release of the specific implementation rules for the budget accounting and financial accounting will impact the government financial reporting.

8. ADB and the consultant team cooperated with each other closely to ensure that any challenges arising in the project would be solved satisfactorily. Examples including the requirements for the routine reports.

9. The key lessons include setting a more realistic and practical time schedule, and thoroughly considering the situation of the project and of the specialists to satisfy the needs of engaging specialists and consultants.

10. Another lesson is about considering the differences in public holiday arrangements between China and overseas countries, especially for the so-called "long holidays". Making a work plan and setting deliverables' deadlines without considering such factors' timelines may cause lower work efficiency, and further affect the consultant team's confidence in their capabilities.

11. Follow-up actions are related to the project's most critical and outcome-generating phase, where not only the overseas experience but also PRC's actual circumstances and any potential issues arising in the actual implementation process should be considered. At this phase, we will organize seminars and evaluate all the results to ensure that the final outcomes could be used as guidelines.

Functionality Checking for the Design and Monitoring Framework

Design debriefing	Performance objectives and indexes	Status	Comments / Interpretations
To optimize the financial policy and necessary management reform, and to promote the accountable and balanced development	The State Council's reports, the government announcements and webpages, the budget reports, and consulting the executing agencies and implementing agencies	May be attainable	The Technical Assistance reform activities by the end of Year 2017 are still in the process of preparation, and need to obtain an approval from the MOF.
Outcomes The reinforcement of the government financial reporting policies and legal measures	By the end of Year 2015, the reform activities recommended by Technical Assistance should be proposed in the government statement or policy documents.	May be attainable	
1 <i>Research Report on the Preparation of Government Financial Reports</i>	To organize field visits in 2 provinces;	Completed	
2 <i>The Preparation Methods and the Implementation Guide on Government Financial Reporting (Illustrative)</i>	To complete the interim research reports, including the <i>Research Report on the Preparation of Government Financial Reports</i> (Draft), and the <i>Overall Demand on the Government Financial Reporting Information System</i> (Draft);	Completed	
3 <i>The Overall Demand on the Government Financial Reporting Information System</i>	To organize the interim seminar to discuss any interim research outcomes;	Completed	
	To finalize the <i>Research Report on the Preparation of Government Financial Reports</i> , the <i>Overall Demand on the Government Financial Reporting Information System</i> , the <i>Preparation Methods and the</i>	Completed	

Design debriefing	Performance objectives and indexes	Status	Comments / Interpretations
4 <i>Training Materials</i>	<p><i>Implementation Guide on Government Financial Reporting (Illustrative) and the Training Materials;</i></p> <p>To hold a seminar to discuss the research reports.</p>	Completed	

Milestone Activities	Current status	Comments / Interpretations
1. The team members should be called together to develop a detailed work plan by August 2014.	Completed	
2. The early-stage report (draft) should be developed and submitted to ADB by November 2014.	Completed	
3. An early-stage seminar should be held for the related personnel, and the learning plan and key points should be revealed by November 2014.	Completed	
4. One international information exchange session should be conducted by December 2014.	Completed	
5. Field visits in 2 provinces should be organized before 1 July 2015.	Completed	
6. The draft research reports, including the <i>Research Report on the Preparation of Government Financial Reports (Draft)</i> , and the <i>Overall Demand on the Government Financial Reporting Information System (Draft)</i> , should be revealed during the interim seminar before 20 May 2015.	Completed	
7. An interim seminar should be held to discuss the interim research outcomes before 30 June 2015.	Completed	
8. The final report (draft) should be completed before 15 July 2015.	Completed	
9. A seminar should be held to discuss the research reports before 1 August 2015.	Completed	
10. The final report should be completed before 15 August 2015.	Submission to ADB by September	

Consultation Outcomes

1. The team members should be called together to develop a detailed work plan.
2. The early-stage report (draft) should be developed and submitted to ADB.
3. An early-stage seminar should be held for the related personnel, and the learning plan and key points should be revealed.
4. One international information exchange session should be conducted.
5. Field visits in 2 provinces should be organized.
6. An interim seminar should be held to discuss the interim research outcomes.
7. The design idea and preparation method in relation to the cash flow statement included in the project's Outcome 1 will play their part in setting the government regimes. Even the descriptions about the analysis framework in the government financial reporting will also be helpful to internal analyses and external disclosures.
8. The project's Outcome 2, i.e. *The Preparation Methods and the Implementation Guide on Government Financial Reporting*, may effectively facilitate the financial reporting of a government agency.
9. The project's Outcome 3, i.e. *The Overall Demand on the Government Financial Reporting Information System*, has thoroughly considered the situation and conditions of the Chinese government public finance reform, and therefore will serve as important references during the course of the information system development.
10. The project's Outcome 4, i.e. *The Government Financial Reporting Training Materials*, was fully tested and verified during the tentative preparation process in each province. As a result, this project proved to be successful. These outcomes are highly relevant to the government public finance reform and exhibit their effectiveness and sustainability as well. This successful attempt of the tentative preparation of government financial reports across the country has brought forth innovative thinking to the Chinese governments at all levels in terms of public finance management, providing effective supports to the government public finance reform.
11. All the research reports should be collected and sorted out, and a seminar should be held to discuss the research outcomes.