



## Completion Report

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Project Number: 46022-001  
Technical Assistance Number: 8192  
July 2017

# People's Republic of China: Improvement of Fiscal Management and Accounting Services Supervision

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TA No., Country and Name			Amount Approved: \$750,000.00	
TA 8192-PRC: Improvement of Fiscal Management and Accounting Services Supervision			Revised Amount: not applicable	
Executing Agency: Ministry of Finance (MOF)		Source of Funding: ADB's Technical Assistance Special Funds (TASF-Other Sources)	Amount Undisbursed: \$176,814.17	Amount Utilized: \$573,185.83
TA Approval Date:  15 October 2012	TA Signing Date:  28 December 2012	Fielding of First Consultant:  4 April 2014	TA Completion Date Original: 31 October 2014      Actual: 31 October 2015  Account Closing Date Original: 31 October 2015      Actual: 29 April 2016	
<b>Description</b> The policy and advisory technical assistance (TA) was designed to improve fiscal management and accounting supervision in the People's Republic of China (PRC), with a focus on improved efficiency in utilizing public assets, effective utilization of water resources, and strengthened competitiveness of accounting services. The TA was aimed at (i) strengthening the integration of public asset management and budget management, so as to overcome improper use and maintenance of public assets and an incremental budgeting process that emphasized expenditures rather than good public asset management; (ii) generating of the fiscal resources needed for a water resource management system that can conserve water resources made increasingly scarce by rapid industrialization and climate change; and (iii) filling gaps between PRC accounting services consistent and those of other leading world markets, so as to facilitate private sector development.				
<b>Expected Impact, Outcome and Outputs</b> The impact of the TA was improved efficiency in utilizing public assets, effective utilization of water resources, and strengthened competitiveness of accounting services. Performance was to be assessed with the implementation of (i) integrated public asset management and budget management measures for three key central government agencies and in three provinces by 2018; (ii) a 2.0% per year decrease on water consumption per CNY1000 of industrial value-added from 2012 to 2013; and (iii) Chinese Accounting Standards and Chinese Standards on Auditing recognized as acceptable financial reporting and auditing standards by major capital markets by 2018.  The outcome of the TA was the integration of public asset management and budget management process, effective public finance policy framework for the water resource management, and adherence to international standards of accounting services in the PRC. Performance was to be measured by 2015 (i) a designed budget management system incorporating public asset management completed; (ii) fiscal policy framework for water resource management formulated; and (iii) certified public accountants law amendment and implementation regulations issued.  The TA was to produce 4 outputs: (i) a study of strengthening the integration of public asset management and budget management; (ii) a public finance policy framework for water resource management; (iii) support for development of accounting services; and (iv) and knowledge products for researchers and senior policymakers and decision makers.  MOF's International Department was the executing agency, while other MOF departments served as the implementing agencies — the Administrative and Law Enforcement Department (output 1); the Agriculture Department (output 2); and the Accounting Regulatory Department (output 3). All implementing agencies contributed to the production of knowledge products (output 4).				
<b>Delivery of Inputs and Conduct of Activities</b> The TA provided for 83 person-months of services from an international consultant (3 person-moths) and 12 national consultants (80 person-months). The TA engaged the following firms for each output: (i) China Public Finance Association, (ii) Development Research Center of Ministry of Water Resources of PRC, and (iii) PricewaterCoopers Zhong Tian LLP. The firms were engaged using the fixed budget selection method and following ADB's <i>Guidelines on the Use of Consultants</i> ((2013, as amended from time to time).  The original TA completion date of 31 October 2014 was extended to 31 October 2015. The main cause of the delay was the difficulty in identifying suitable individual consultants required for outputs 1 to 3. The delay was resolved by revising the consultant selection method. Around 23% of the TA funds (\$176,814.17) were not used due to the savings from consultant contracts and a higher than expected cost sharing by the implementing agencies to cover workshop and other costs.				

The performance of the consultants was satisfactory, with all outputs delivered. The performance of the implementing agencies was satisfactory. The provided counterpart staff, office space, and logistical support as well as guidance on quality and expectations for the TA outputs. ADB provided guidance and fielded timely missions for the inception, interim, and final reviews. ADB's performance was satisfactory.

#### **Evaluation of Outputs and Achievement of Outcome**

All outputs were achieved and accepted by the executing agency, albeit with a delay. The TA helped the implementation of public finance reforms. Common ground was evident across the outputs in how they integrated with MOF's work. The TA identified key policy and operational principles and provided background material that deepened the understanding among MOF staff of key issues, which was applied by MOF to implement government reform initiatives. TA deliverables provided the foundation of policy statements, regulations, pilot projects, and knowledge products (e.g., journal articles), with important deliverables submitted to senior levels of MOF. These positive results confirm the relevance of the TA design.

The TA provided usable recommendations on how (i) to strengthen the integration of public asset and budget management; (ii) establish a public finance policy framework for water resource management system; and (iii) developed policies on how to open-up accounting services, strengthen the competitiveness on accounting services, and promote inter-cooperation in the supervision and market development of accounting services.

Output 1 supplemented the required Study on Reforms and Innovations of Governmental Budget Management with additional reports on Several Opinions on Improving Administrative State-owned Assets Management Establishment of Long-term Mechanism of Integration of Budget Management and Public Asset Management, and Innovation Research on Chinese Financial Budget Management Reform.

The framework produced under output 2 contributed to the preparation of regulations on agriculture water price reforms. Key regulations were the 2014 Regulations for the Collection of Water and Soil Conservancy Fee, which clarified the scope and methods for water and soil conservancy compensation, and the 2015 Notice on Further Accelerating the Review of Public Investments in Water Conservancy Construction Projects, which was issued by the Ministry of Finance to strengthen the regulation of fiscal investment in water conservation projects. The TA also contributed to the adoption of water ownership and management reforms in Yunnan Province, and the design of a pilot eco compensation system funded by local government revenue.

Output 3 helped overcome discrepancies between the Chinese Accounting Standards and the International Financial Reporting Standards (IFRS) and International Standards on Auditing. The TA had two major achievements. It assisted in a proactive manner the negotiation of Foreign Trade Agreements with Australia, United States of America and New Zealand, and amendments to regulations of foreign accountants on a negative list basis. Specific topics addressed were the upholding of rotation of responsibilities within a firm cross-border accounting services, methods for issuing guarantees such as professional indemnity insurance, and the registration system for accountants and auditors. The TA contributed to the release by MOF of the draft of Order No 24 on Standardization of Accounting agencies in June 2015.

The outcome was achieved on-time through submission of high quality deliverables. The impact is expected to be realized, a result primarily driven by the central government reforms and facilitated by the TA.

#### **Overall Assessment and Rating**

The TA is rated as successful and was useful in providing guiding principles, and reviews of policies and regulations. It reinforced policy reforms and directions which had been implemented by MOF, providing a vehicle for discussion and for sharing of ideas which helped build the foundation for future reform. The TA provided analysis and detailed specific opinions that implementing agencies could do action. The results are expected to be sustainable given the alignment of the TA's work with the government's public finance reform program.

#### **Major Lessons**

The effectiveness of advisory TA is improved by a close alignment with government reform programs. The effectiveness of such TA is also enhanced by being responsive during implementation to emerging needs.

#### **Recommendations and Follow-Up Actions**

The policy and advisory support provided for public finance and fiscal reforms in the PRC are followed-up by assistance for the implementation of key recommendations. Successful reforms require a sustained commitment in accordance with a long term, sequenced set of actions. The contributions of international perspectives by ADB will help maintain the effectiveness and momentum of reform.