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**China Health Reform Program for Results**

**(P154984)**

## **Fiduciary Systems Assessment**

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Prepared by

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## **Executive Summary**

1. Pursuant to the World Bank policy and directives for Program-for-Results Financing (July 10, 2015) and the earlier Interim Guidance Note (June 18, 2012), the Bank's fiduciary team, financial management (FM) and Procurement (PR), conducted an integrated Fiduciary Systems Assessment (FSA) of the Anhui and Fujian Provinces fiduciary systems. The overall assessment objective was to determine whether the fiduciary systems of the Program provide reasonable assurance that the Program financing proceeds will be used with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.

2. The Program will support implementation of the Anhui and Fujian Governments' health reform Masterplans over a five-year period (2017-2021). The Government's ambition is to scale up reforms province-wide by financing a purposely-selective subset of result areas with a focus on health service delivery reform along with the institutional and policy reforms needed to facilitate it.

3. The Program activities are implemented through a wide array of consulting services, procurement of equipment and IT systems and procurement of works for upgrading, health centers at county or township level. These activities might comprise policy reforms, design of medical norms and standards for delivery quality health services, engineering design of health facilities, upgrading and refurbishment of health centers, and construction of diagnostic centers, upgrading and construction of training centers, procurement of mobile and portable medical equipment, expansion of telemedicine network, establishing health information platforms and several IT systems to support the management of non-communicable diseases and a wide array of training programs.

4. The Bank fiduciary team assessed the Program financial management and procurement systems to determine the degree to which the relevant planning, budgeting, internal controls, treasury management and funds flow, accounting and financial reporting as well as auditing arrangements provide reasonable assurance on the appropriate use of Program funds and safeguarding of its assets, and the degree to which planning, bidding, evaluation, contract award and contract management arrangements and practices provide reasonable assurance that the Program will be adequately supported through its procurement processes and procedures.

5. Financing of the Program expenditures mainly comes from central and provincial government general transfers. The Program is mainly executed by the county and lower level health sector entities in Anhui and Fujian, CPSM, as well as the Health and Family Planning Commissions (HFPC) of the two respective provinces, using existing financial and procurement country systems, with support from the National Health and Family Planning Commission (NHFPC).

6. The FM assessment concluded that with the implementation of the proposed mitigating measures, the Program's financial management systems are broadly adequate and provide reasonable assurance on the appropriate use of the Program funds and safeguarding of its assets. Annex 5 of the PAD provides information on financial management.

7. The procurement assessment concluded that the current procurement legal framework, comprising the Government Procurement Law of 2003 the Tendering and Bidding Law of 1999, its regulations, and the procurement systems of the CPSM, two provinces provide enough assurance that procurement under this Program would be executed

with adequate levels of transparency, efficiency and fairness. With the proposed mitigation measures, the level of adequacy of the procurement procedures would be even enhanced and the procurement under this program would likely be carried out in compliance with the Bank's PforR anticorruption guidelines. Annex 5 of the PAD provides additional information on the procurement systems assessed.

8. None of the expected procurement activities is considered of large value. It is not envisaged that the Program will finance any contract for consulting, works or goods above the Operational Procurement Review Committee (OPRC) thresholds<sup>1</sup>, mainly because the construction of new hospitals is outside the boundary of this Program. Construction of new primary health facilities, the only contracts so far identified of a relatively high value, will not fall under the OPRC level value contracts

9. Overall the fiduciary risk rating is considered Substantial because (a) the provinces have little or no experience in program financial reporting or program financial statement audit, (b) PforR financial planning is weak, (c) the size and coverage of the program made us difficult to assess the fiduciary systems of a representative number of entities and (d) due to the numerous entities involved in this program there is a risk for the non-application of Bank debarment/temporary suspension lists.

10. The FM element of the Fiduciary Assessment identified the following principal findings, risks and proposed mitigating measures to address them:

### **Financial Management**

#### *Findings*

11. The Program planning is guided by the national and provincial 13th Five-Year Plan for the health sector. Discrete, detailed Program financial planning supporting the vision presented in the Provincial Masterplans would strengthen Program implementation.

12. Recurrent budgets are prepared at each level of government with due regards to national and provincial strategy, policies and priorities and follow well-established and nearly uniform national practices. Budgets are not consolidated vertically up to the provincial level. The Program funding sources are comprised of existing national and provincial general transfers to lower levels and some new earmarked funds to be established under the Program. The existing national and provincial transfers have been appropriated to county and lower level in a stable and predictable manner over the past two years. Program budgets, with a separate profile or budget code, are not an element of China country systems.

13. Most of the IAs are independent public institutions and follow MOF-issued accounting standards and regulations for Public Institutions and the "Hospital Accounting Regulations" jointly issued by MOF and NHFPC. The accounting for Primary Health Centers is either done centrally by the accounting center of each county health bureau or handled by themselves independently. IAs record Program expenditures financed by general transfers

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<sup>1</sup>The current OPRC threshold for works is US\$ 75 million for substantial risk. The unit costs for the construction of a new hospital with standard decoration are between CNY 3000 to 4000 per sq. m. A county level hospital of 10 floors with 33,000 sq. m<sup>1</sup> will cost approximately CNY 100 million equivalent to US\$ 14 million, this value is far below the OPRC thresholds for works.

comingled with local government funding but do not separately identify them by program or funding resource. IAs prepare standalone financial statements on a monthly basis. Each level HFPC will prepare the consolidated fiscal final statement of health sector for the same level budget entities on an annual basis using a uniform software developed by the Ministry of Finance which has been in use for more than ten years. Each level's health sector fiscal final statement is reported to the same level finance bureau. The whole province consolidated health sector fiscal final accounts are done by Provincial Finance Bureau generally in March every year.

14. Each level of government's Finance Bureau has a treasury single account (TSA) opened in the central bank (PBOC). Each IA has its own zero balance account opened in agent commercial banks which are selected and approved through government procurement procedures. Every working day (around 4 pm), the TSA clears account balances with all agent commercial banks. The FB treasury division at each level of government can process "direct" or "authorized" payments for IAs. For direct payment, the money will be directly paid from the TSA to third party contractors, suppliers or service providers. For authorized payments, a lump sum of money will be authorized to zero balance account of the budget entity based on their payment plan and the budget entity will pay third parties. In the health sector, the majority of transactions are done through the "authorized" payment mechanism though high value direct payments make up the larger share of payment dollar value. Program activities are carried out in accordance with the approved budget and sufficient funds are transferred to TSAs to make timely payment. 2012 National Treasury reforms appear to have been implemented successfully in the two Provinces.

15. The county or higher level audit offices conduct annual audit on budget execution and final accounts at its level. The audit reports on budget execution and other fiscal revenues and expenditure are published once approved by the same level People's Congress. Besides disclosing overall budget information of actual revenue and expenditures, the audit reports focus on compliance issues. Audits are performed for selected sectors on a rotation basis in accordance with government priorities each year. Usually a sector will be selected for a budget execution audit every four to five years. In Anhui, the latest audit of the provincial health sector was in 2013. In Fujian, there has been no audit of the provincial health sector in the past three years.

#### *Risks and mitigations measures.*

16. Most of the funding related to Program capital investments, including IT, will be financed by new earmarked funds, which are subject to provincial government's approval and have not yet been included in the regular annual budgeting process. Moreover, the Anhui Provincial DRC indicated that past financing to county and lower level health facilities was not included in the 13<sup>th</sup> Five-Year Plan. It also indicated that DRC's financing for IT systems is not expected to take place in the first three years of the 13<sup>th</sup> Five-Year Plan. This might lead to financing gaps that will need to be filled from other sources. The provincial HFPCs, DRCs and FBs should work together to prepare more detailed Program planning for the financing of Program activities.

17. The Program financing consists of general transfers of BPHP, ZMDS, EDS and CLHRS. These general transfers were set up to subsidize the operating deficit in county public hospitals and primary health centers (PHCs) including township health centers (THCs) and village clinics (VC). These transfers are comingled with local government funding and can be used by Implementing Agencies (IAs) for any recurrent budget line item. This

provides IAs flexibility but makes it difficult to identify how specific planned Program activities will be financed.

18. The provincial governments currently do not require program financial statements and the current financial reporting architecture makes it difficult to generate program financial statements. This creates risk of non-compliance with the PforR financial statement requirement. To mitigate this risk, as agreed with the borrowers, the PforR financial statements in the two provinces will be generated and prepared through health sector fiscal final statement process by using the existing final statement software developed by MoF during the PforR life. The Program financial statements in the two provinces will be prepared by provincial HFPCs and provincial finance bureaus together and will include the budget resources (i.e. subsidies) and expenditures defined by the Program. The PforR financial statements for the Program activities executed by NHFPC will be prepared by NHFPC through a designated accounting code in its existing accounting system which can capture all the Program expenditures systematically.

19. No Program financial statements audit is currently required. Carrying out a first-time Program audit will require coordination across government audit units and the application of financial audit techniques not practiced by some audit units. This creates a risk of weak audits, at least in the initial years of the Program. To mitigate this risk, Program financial statement audit arrangements have been agreed with the Borrowers. The Program financial statement audit will be guided by CNAO and will benefit from the experience learned from P4R audits carried out in Hebei province.

20. The procurement element of the Fiduciary Assessment identified the following principal findings, risks and proposed mitigating measures to address them:

### **Procurement**

#### *Findings.*

21. End users (health centers and hospitals) conduct procurement planning (preparation of procurement plans according to the public budgets allocated and/or their self-raised funds.

22. Bidding documents are prepared by the Purchasers with inputs provided by government design institutes (in charge of the technical specifications and estimated budgets), procurement agents (in charge of the commercial part of the bidding document) and consulting engineering firms who will elaborate the bill of quantities in case of the procurement of works.

23. The bidding and contract procedures stated in the two national laws and in the related regulations are adequate to ensure transparent and efficient procurement processes but also an open and fair competition. The time from publication of the procurement notices to the deadline for bid submission and bid public opening is set at a minimum of 20 calendar days. Invitations for bids should include all key information of the bidding process and be published in national media and/or easy accessible websites. The bid evaluation is normally completed in one day by an independent team comprised of bid evaluators selected randomly from a data base and a representative of the Purchaser. The contract will be signed within the 30 calendar days after contract award publication. Contract awarding recommendation notices and contract award notices are published timely and a standstill period of 3 working days allow bidders to complain if they are not satisfied with the outcome of the procurement

processes. Bidders are also allowed to submit requests for clarifications during the bidding period, and both laws set up clear periods for addressing bidder's request for clarifications and complaints

24. To ensure transparency and provide more efficiency to the procurement processes, the government set up transactions centers nationwide with the primary mandate to conduct e- bidding for all open competitive processes. Hefei transaction center expects that by 2017 80% of the open bidding processes will be conducted electronically. These centers are normally equipped with adequate resources, including physical facilities for conducting bid openings and bid evaluations sessions, and most importantly, they account with modern and well-functioning e-bidding platforms. Bidders need to be registered for participating in the bidding processes, but the registration process is free, fast and can be done on-line. In Hefei's transaction center 40,000 bidders have been registered and International bidders are allowed to be registered. Purchasers are fully satisfied with the performance of these centers; they work expeditiously even 7 days a week.

25. There are two tiers of complaint mechanism. Under the first tier, the bidder can lodge any complaint to the client regarding the bidding document, the bid opening, or the intended contract award recommendation. The intended contract award recommendation is required to be disclosed for at least three calendar days. The complaint regarding the intended contract award recommendation shall be submitted within this standstill period. The client is required to respond to the complaint within three calendar days. Under the second tier, the bidder can lodge any complaint to relevant supervision government authority regarding the bidding document, the bid opening, the intended contract award recommendation or other non-compliance of the procurement processing with relevant laws, rules and regulations within 10 calendar days from his awareness of the issue. Within 3 working days, the supervision government authority shall determine whether the complaint is valid. If the complaint is determined valid, within 30 working days, the supervision government authority shall issue a written judgment and determination.

*Risks and mitigations measures.*

26. Transactions centers and procurement entities at different levels and health and family planning authorities will be instructed to comply with the suspension and cross-debarred list. Anhui and Fujian Provinces will issue official instructions to cause the implementation agencies at various levels to ensure that no contract will be awarded to a firm or individual which is in the Bank's debarred list or under temporary suspension. In addition, the TOR for audit will include the assignment of selecting the awarded contracts on random basis and checking whether any contract is awarded to ineligible firm or individual.

27. Health and planning family authorities at provincial level, should inform the Bank of any credible and material allegations of fraud and corruption issues at regular basis in the program progress report.

28. Since the overall budget of the contract will be disclosed in the bidding document and any bid which offers a price higher than the budget shall be rejected, the budget shall be reliable. When the procurement plan is prepared, the Purchaser shall carry out a market analysis, check the historic records for similar procurement and work out a reliable and accurate budget for the contract. Before approving the procurement plan the Purchaser and/or the design institute as the case might be, should check the budget with the market to ensure that the budget is reliable. Prior to issuing the bidding document the Purchaser and/or design

institute in charge of that procurement, may also update the budget based on the latest market information. It is unlikely that any bid would be rejected on this basis, because estimated budgets are being published, but if this occurs, justifications for bid rejection shall be provided in the procurement files and that documentation should be subject to inspection by the auditors. Transactions centers should be able to provide reports as demanded containing this type of information.

29. Purchasers should conduct due diligence before awarding/signing a contract. Because evaluation members do not normally check the veracity of the documents submitted in the bids, and there is a risk of falsified information, it is necessary that Purchasers verify the documentation submitted by the winner bidder, such as to confirm the past claimed experience, financial resources available etc. Purchasers will be instructed to carry out due diligence before contract awarding. The Bank team will provide capacity building as needed.

## **China Health Reform Program for Results: Fiduciary Systems Assessment**

### **I. Program Elements Relevant to the FSA Scope**

1. The PforR will support over a five-year period (2017-2021) a subset of the Anhui and Fujian Governments' health reform Masterplans across the two provinces in both urban and rural areas. The provincial governments' Masterplans cover a timespan from 2016 to 2020. The PforR, which is expected to start in August 2017, will support the reform implementation across the years 2017 to 2020, and will focus on knowledge generation, the dissemination of lessons learned, and evaluation in 2021. The Program includes three Results areas whose objectives are the following:

*Results Area 1, Comprehensive Public Hospital Reform:* Improving the governance and management of public hospitals; controlling growth of health and expenditures; strengthening quality assurance in the delivery of hospital services; and institutionalizing an effective hospital M&E system.

*Results Area 2, Building an effective tiered service delivery system based on PCIC:* Strengthening primary care; improving service organization & strengthening integrated service provision of Non Communicable Diseases (NCDs); reforming provider payment arrangements for PCIC; and establishing quality assurance mechanisms.

*Results Area 3, Cross-cutting systems:* Establishing the intuitional structures required to provide overall stewardship to the health reform; integrating the management of the health insurance schemes; HR policy reform and professional training to strengthen the health workforce, particularly for primary health care settings; building standardized and effective health information system to support the service delivery system reform; and knowledge generation and sharing for reform implementation.

2. The Program covers the health systems of two large provinces with a combined overall population of approximately 107 million people, and with a large number of public hospitals and health centers at provincial, prefectural, county and township level. Most of the project activities are carried out at county and lower levels. The implementing agencies (IAs) include, but are not limited to, the following: county general public hospitals and traditional Chinese medicine hospitals, primary health centers (PHC) including township health centers and village clinics, and urban community health centers. Provincial and prefecture level hospitals will participate in the Program by providing training, developing clinical pathways and protocols, through their involvement in the strengthening of the multi-tiered health care system, among others. NHFPC will also participate in the Program by providing technical assistance and capacity building support as well as facilitating monitoring and evaluation and fostering knowledge generation and sharing by the Program.

3. The Program activities are implemented through a wide array of consulting services, procurement of equipment and IT systems and upgrading, expansion and refurbishment of health centers at county or township level. As explained in the technical assessment, these activities comprise policy reforms, design of medical norms and standards for delivery quality health services, engineering design of health facilities, upgrading, construction and refurbishment of health centers at county or township level. Construction of diagnostic centers, upgrading and construction of training centers, procurement of mobile and portable medical equipment, expansion of telemedicine network, establishing health information

platforms and several IT systems to support the management of non-communicable diseases and a wide array of training programs.

4. None of the expected procurement activities is considered of large value. It is not envisaged that the Program will finance any contract for consulting, works or goods above the Operational Procurement Review Committee (OPRC) thresholds<sup>2</sup>, mainly because the construction of new hospitals is outside the boundary of this Program. Construction of new primary health facilities, the only contracts so far identified of a relatively high value, will not fall under the OPRC level value contracts.

5. Based on the above consideration, the Fiduciary team selected the two provincial governments and one representative county in each province that covers the different fiscal modalities existing in the provinces as assessment samples.

6. The Bank's fiduciary team visited Anhui in May, August, November of 2016, February of 2017 and visited Fujian in July, October, November of 2016, February of 2017.

7. The Bank fiduciary team met with the following counterpart institutions at both provincial and county level: finance division and related business divisions of the Health and Family Planning Commission (HPPC), International, Social Security and Treasury Divisions of the Finance Bureau (FB), social security division and international division of the Provincial Audit Office as well as international and social security division of Anhui Provincial Development and Reform Commission (DRC), Hospitals, and transactions centers at province and prefecture level.

8. The assessment was conducted through discussions and sample reviews of documents including fiscal, financial management and procurement regulations, accounting and procurement records and financial reports, monitoring and supervision reports and other similar documents related to the Program.

## **II. Program Fiduciary System Arrangements and Performance Assessment**

### **A. Financial Management Arrangement and Performance Assessment**

#### *Planning and Budgeting*

9. The Program planning is guided by the national and provincial 13th Five-Year Plan for health sector. Recurrent budgets are prepared at each level of government with due regards to national and provincial strategy, policies and priorities and follow well-established and nearly uniform national practices. Budgets are not consolidated vertically up to the provincial level. The Program funding sources are comprised of existing national and provincial general transfers to lower levels and some new earmarked funds to be established under the Program. The existing national and provincial transfers have been appropriated to

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<sup>2</sup>The current OPRC thresholds for works are US\$ 75 million and US\$ 75 million for substantial risk. The unit costs for the construction of a new hospital with standard decoration are between CNY 3000 to 4000 per sq. m. A county level hospital of 10 floors with 33,000 sq. m<sup>2</sup> will cost approximately CNY 100 million equivalent to US\$ 14 million, this value is far below the OPRC thresholds for works.

county and lower level in a stable and predictable manner over the past two years. No Program budget is prepared with a separate profile or code in the provincial budget.

10. Annual budgets are prepared on a calendar year basis at each level of government. Provincial HFPCs usually start recurrent budget preparation in May of each year and is finalized in December of each year through two times up and two times down process between provincial HFPC and FB. During the recurrent budget preparation process, constant consultation and communication is maintained between provincial HFPC and FB.

11. Each level of government's recurrent budget is usually approved by the same level People's Congress in February or March of the next year and becomes effective immediately after the approval. According to the prevailing Budget Law, the approved budget should be officially allocated or appropriated within 30 days (for general transfers) or 60 days (for earmarked transfers) once the budget is approved by the People's Congress. The People's Congress generally makes no adjustments to the recurrent budget when approving it as necessary adjustments are made through earlier stages of the budget preparation process.

12. To avoid delay of Program execution, part of the best estimate recurrent budget is appropriated to lower level government before October 31 of the year so that budget entities can start their work with the budget appropriation. The final budget appropriation will be finally settled and accounted no later than September 30 of the following year. Usually more than 90% of general transfers and more than 70% of earmarked transfers are allocated to lower levels before October 31<sup>st</sup> of the budget year.

13. The general and earmarked transfers to county level are directly appropriated to county FBs from provincial FB through issuing of budget circulars and copying prefecture FBs. Once the recurrent budget is approved and appropriated to county FBs, it is entered into the GFMIS system with its circular reference number, transfer's name, sources and amount so that the treasury division of FBs can manage payments according to the approved budget. The GFMIS system is a mutual platform shared by budget entities and finance bureaus horizontally across any level of government. Higher levels of government however cannot view lower levels of government budgets.

14. The recurrent budget can be adjusted higher or lower according to implementation needs through formal budget adjustment process. Adjustments between different earmarked funds are not allowed. To ensure the Program implementation, the earmarked funds of the first year can be rolled over to the second year once if it is not fully used in the first year. If it cannot be fully used in the second year, the budget appropriation will be withdrawn at the end of second year. The recurrent budget and general transfers cannot be rolled over to the next year.

15. Over the past two years, national and provincial transfers to county levels have been stable and timely appropriated. The budget for some transfers, such as Basic Public Health Service Subsidy, has steadily increased. However, some Program activities (mainly capital investment such as information systems and construction, etc.) financed by new earmarked transfers, such Program investment first needs to be approved by provincial government based on the provincial 13th Five-Year Plan (FYP). Then such Program investment can be included in the regular annual budget preparation and further three year rolling budget preparation process to secure the funding for such implementation.

16. The recurrent budget processes appear well institutionalized and staffed. In the provincial HFPCs finance division and social security division of provincial FBs, staff designated to handle the recurrent budget appears familiar with budget policies and procedures.

#### *Transparency*

17. The information publication of FBs and HFPCs follows Government Information Publication Guideline and Catalogs as shown on its official websites. Approved annual fiscal and sector recurrent budget, budget execution and final accounts information are publicly disclosed on the official website of FBs or/and HFPCs. The Program's annual recurrent budget and expenditure are part of these disclosures but they cannot be separately identified under the current financial architecture.

18. Pursuant to the 2014 Budget Law, after being approved by the local People's Congress, the approved recurrent budget, budget adjustments, budget execution and final accounts should be published on the official website of each level's FBs. Anhui and Fujian HFPC's annual sector financial reports are also published on its official website. The Program's budget and expenditure information is part of such disclosures but cannot be separately identified under the current financial architecture. There is no national requirement for HFPCs to disclose Program information publicly.

19. For the general and earmarked transfers under the Program, HFPCs and FBs jointly issue a series of management regulations that include the business and financial management requirements. These regulations are also publicly disclosed at provincial FBs' official websites. The public can also easily search this information and regulations on search engines such as Baidu and others.

#### *Accounting and Financial Reporting*

20. Program IAs do not identify program information when recording expenditures funded by general transfers. There is no specific national policy or requirement on Program accounting or financial reporting in China. Program expenditures are part of IAs' stand-alone financial statements but are not separately disclosed in those statements. Consequently, there currently is no Program financial reporting to serve as a tool for monitoring Program performance and supporting Program decision making, evaluation, accountability and transparency. To maximize the use of country system, the PforR Program financial reporting will adopt a report format already used by HFPCs and the same process used by HFPCs to combine their annual financial reports. HFPCs and FBs will prepare the Program financial statements in accordance with the guidance and instruction established by MoF for sector fiscal final statement.

21. Most of the IAs are independent public institutions. In December 2012, the Ministry of Finance (MoF) issued "Public Institutions Accounting Standards" and "Public Institutions Accounting Regulations" to be implemented from January 1, 2013. Consistent with these standards and regulations, the IAs maintain their accounting records according to the "Hospital Accounting Regulations" jointly issued by MOF and NHFPC at the end of 2010 which are customized for the hospital industry.

22. County level hospitals maintain their accounting independently. The accounting for Primary Health Centers is either done centrally by the accounting center of each county health bureau or handled by themselves independently. Various accounting software packages are used by IAs in Anhui but accounting software is unified in Fujian. IAs record Program expenditures financed by general transfers after these funds are commingled with local government funding. After commingling of these funds there is no attempt to identify expenditures by funding resource. No separate financial report is required or produced for the transfers under the Program. IAs prepare standalone financial statements on a monthly basis. Program expenditures are part of IA financial statements but are not separately identified or disclosed in them.

23. The consolidation of financial reports is conducted once a year. At each year end, the HFPCs will call for the health sector final statement for its same level budget entities. Each level HFPC will prepare the sector consolidated fiscal final statement for the same level budget entities on an annual basis using a uniform software name “Jiuqi” which was developed by MoF and has been in use for more than ten years. Each level’s health sector fiscal final statement is reported to the same level finance bureau. The whole province consolidated health sector fiscal final statement is done by the Provincial Finance Bureau generally in March every year.

24. As agreed with the borrowers, the PforR financial statements in the two provinces will be generated and prepared during the duration of the PforR through the health sector fiscal final statement process, by using the existing final statement software developed by the MoF. The Program financial statements of the two provinces will be prepared together by the provincial HFPCs and provincial finance bureaus, and will include the budget resources (i.e. subsidies) and expenditures defined by the Program. The PforR financial statements for the Program activities executed by the NHFPC will be prepared by the NHFPC through a designated accounting code in its existing accounting system which can capture all the Program expenditures systematically.

### *Treasury Management and Funds Flow*

#### *Adequate and timely funds are available to finance the Program implementation.*

25. Each level’s finance bureau has a treasury single account (TSA) opened in the central bank (PBOC). Each IA has its own zero balance account opened in agent commercial banks which are selected and approved through government procurement procedures. Every working day (around 4 pm), the TSA clears account balances with all agent commercial banks.

26. The FB treasury division at each level of government can process “direct” or “authorized” payments for IAs. For direct payment, the money will be directly paid from the TSA to third party contractors, suppliers or service providers as required based on specific supporting documents such as contracts and invoices etc. For authorized payment, a lump sum money will be authorized to the zero balance account of the budget entity based on their payment plan and the budget entity will pay third parties. In the health sector, the majority of transactions are done through the “authorized” payment mechanism. Payment requests need to be approved internally by the FB’s budget unit and treasury division.

27. Program activities are carried out in accordance with the approved budget and sufficient funds are transferred to TSAs to make timely payment.

28. The Bank loan proceeds of USD600 million will be disbursed against achieved DLI's, and released to the bank account designated by Anhui and Fujian Provincial Finance Bureau as well as NHFPC.

## B. Program Internal Controls

*Reasonable control and monitoring arrangements are in place for the Program.*

29. The provincial leading groups, comprised of all concerned sector government agencies, are established in Anhui and Fujian. There is no leading group at the county level.

30. In Anhui and Fujian, a provincial project management office (PPMO) has been established in the provincial HFPC. The PPMO will be responsible for overall coordination of the Program implementation. Based on the nature of each general and earmarked transfer under the Program, the detailed technical implementation is managed and monitored by various professional divisions of county HFPCs. They supervise the IAs (such as hospitals or primary health centers) on carrying out the Program activities in accordance with the approved budget and regulations.

31. In each FB, there is a Supervision and Inspection Division which conducts internal compliance review of the FB's internal work. The review is aimed to prevent and detect irregularities, misuse, and inefficient use of government funds. In HFPCs, there is no inspection or internal audits division.

32. For each earmarked transfer under the Program, there are various management regulations jointly issued by different levels' HFPC and FB specifying the fiscal budget resource, budget allocation formula and management principles, performance evaluation, uses of funds and assignments, etc. HFPCs and FBs carry out supervision activities over the Program implementation and financial management in accordance with these regulations.

33. There is no mandatory requirement for supervision frequency and coverage over the usage of the Program funds. In practice, however, since these Program funds are from the national and provincial budget, the county HFPC usually conducts self-reviews and accommodates higher level supervisions. Every year, the business division and finance division of provincial HFPCs will select subprograms to conduct supervision with provincial FBs together based on their working priorities. Such supervision is conducted on a sample basis for selected subprograms. The supervision covers both operational and financial aspects. The supervision of financial aspects focuses on funds appropriation and disbursement, use and management of the funds, implementation progress and performance. A supervision report is prepared to provide background information, funds availability status, general implementation progress, major findings and required remedial actions. A supervision report was reviewed by the Bank and assessed as an effective internal control tool.

## *Program Audit*

34. Pursuant to the 2014 Budget Law, the county or higher level audit offices conduct annual audit on budget execution and final accounts at its level. The audit reports on budget execution and other fiscal revenues and expenditure are published once approved by the same level People's Congress. Besides disclosing overall budget information of actual revenue and expenditures, the audit reports focus on compliance issues identified during the audit and request corrective actions by the audited agencies.

35. Budget execution audits are conducted at each level of government by the same level audit office. Such audit is performed for selected sectors on a rotation basis in accordance with government priorities each year. Usually a sector will be selected for a budget execution audit every four to five years. In Anhui, the latest audit of the provincial health sector was in 2013. In Fujian, there has been no audit of the provincial health sector in the past three years.

36. Besides the selected annual government budget audit, the audit office also conducts other types of audit such as special audit of earmarked funds, accountability audit, resignation audit, etc. These audits are carried out with respective TORs and planned in accordance with government work priorities. For instance, Fujian Provincial Audit Office assisted the China National Audit Office with the audit of health insurance in 2016.

37. With regard to the Program financial statement audit, similar to other Bank-financed projects in China, the China National Audit Office (CNAO) will authorize Anhui and Fujian Provincial Audit Office (PAOs) to conduct the Program Audits on an annual basis. The audit in each province will be led by the International Division (ID) of the provincial audit office with assistance from the Social Security Division which is responsible for and experienced performing the budget execution audits of the health sector. Since most Program activities are implemented in counties, the audits will be carried out by the provincial PAOs with assistance from county audit offices.

38. There will be three Program audit reports issued, one for each province, and one for the NHFPC. Two audit reports will be prepared by the two provincial PAOs, and the third one will be prepared by the CNAO. The audit reports for the two provinces will be reviewed by the CNAO for quality assurance before issuance. The Program audit reports will be due to the World Bank no later than September 30<sup>th</sup> of each calendar year.

### **III. Procurement**

#### **A. Overview – Procurement Framework.**

39. China has a long established legal framework, which comprises two public procurement laws, the Government Procurement law (GPL) of 2003 and the Tendering and Bidding Law (TBL) of 1999 and a large number of regulations and administrative orders.

40. CPSM, as any government institutions, and Anhui and Fujian, as any other provinces of China, conduct their public procurement in accordance with both national laws, which are used in regards to the type of goods, works and services procured and the source of funds. The flow of funds defines in great measure which of these laws will be applied. However, practice shows that procurement of works (including plant and materials) to be incorporated into the permanent works), and consultancy services related to the works including geological exploring and survey, engineering design, cost estimating and pricing, and construction supervision follow the procedures specified by Tendering and Bidding Law (TBL) and in the

associated regulations. Whereby, the procurement of goods, IT systems and non-consulting services will be executed following the procedures stipulated by Government Procurement Law (GPL) and its related regulations. Regarding other consulting services, if the client is a government agency or receives financial subsidies from the government budget, the procurement will follow the procedures of the GPL and its relevant implementation regulations. If Purchasers (some public hospitals) are financially autonomous and do not receive subsidies from the government budget, the procurement of such consulting services will follow the procedures of the TBL and its relevant implementation regulations.

41. For performing government procurement well, government departments, provinces, municipalities and counties promulgate their own laws, regulations and administrative rules according to their respective political and economic developments and interpretations of both procurement laws. The intentions of provinces, prefectures and counties are to better regulate and facilitate the execution of procurement at each different level.

42. Both laws lack of some coherence and propose different procedures. There is an agreement among practitioners that it would be better to consolidate both laws into one legislative instrument. This was the intention of the Implementation Regulations of the Tendering and Bidding Law (RTBL) dated 2012, issued to harmonize procurement laws in the whole country. Nevertheless, provinces and sectors apply their own rules in accordance to their own interpretation of the laws. In addition, there are not harmonized bidding documents in the country and each ministry/province uses its own procurement/bidding documentation.

43. Despite this apparent confusing scenario on the applicability of each law and its numerous regulations, transparency and fairness, characterize the public procurement in China. Although both laws permit using different type of procurement methods, such as open competitive bidding, limited competition by direct invitation, competitive negotiations, single source selection and shopping, open competitive bidding was and is the most used procurement method. In 2013, open competitive bidding represented 83.8% of the total public procurement awarded, with a total value of CNY1364.58 billion (USD 197 billion).

44. Hospitals and health center's default procurement method is open competitive tendering. Hospitals and health centers, as well as any other public entity must abide by the procedures established in relevant laws and in the respective regulations. They are regularly audited and subject to disciplinary measures in case deviations from the regulations or laws are found. In addition, hospitals and health centers entrust their procurement activities to qualified procurement professionals and /or on qualified procurement agents as needed.

## B. Procurement Cycle

### *Procurement planning*

45. Hospitals and health care centers at provincial, prefectural, county and township levels prepare the procurement plans based on the available budget allocated from the government or from self-raised funds. Procurement plans are submitted to the health and family planning commissions at provincial, prefectural or county levels for review and clearance according to the extent of jurisdiction. Since procurement plans are prepared by the hospitals and health care centers which are the end-users of the works, goods, and services to be procured, contracts included in the procurement plans are closely linked to the needs of the

end-users. Procurement of some goods (consumables ordinary equipment, medicines, drugs) included in the central catalog and services (for example, specialized medical equipment, information systems, etc.) would be consolidated as appropriate and procured by a centralized level at provincial, prefectural, or county level for economy of scale. Goods requested by the hospitals but included in the catalog of the Health and Planning commission and with an aggregated value above determined thresholds are being consolidated and procured at the central level.

46. The Purchaser (Hospitals and Health Centers) prepares the bidding documents, with the assistance of an independent procurement agent company (which normally prepares the commercial part of the bidding document), a design institute (who develops the technical specifications and budget) and an engineering consulting firm, who in the case of the procurement of works elaborates the bill of quantities.

#### *Bidding transaction centers*

47. To enhance transparency in the execution of most public procurement, in 2012, the Government set up all along the country public resources transaction centers. These centers have been established in all capitals of provinces and prefectures, and in most populated counties. The transaction centers' main role is to conduct e-bidding for all open competitive bidding and for doing so they have been equipped with all resources needed to properly execute that function. They were provided with appropriate facilities (see Annex 1) and human and materials resources. Most importantly they account with a modern and well-functioning electronic platform which allows among other features, the electronic issuance of invitations for bids, publication of bidding documents, contract award intentions, contract award recommendations, addenda to the bidding documents, and electronic disclosure of lists of debarred firms. The electronic platforms also generate procurement performance reports on demand. Potential bidders are required to register in the transaction centers' information system to participate in bidding processes. Bidder's registration process is simple, fast, free, and it can be done on-line. International supplies are allowed to be registered in the system.

48. As an example of the volume of work handle by these transaction centers, the transaction center of Hefei has issued in 2015 around 11,000 bidding documents, it accounts with 40,000 bidders registered and has procured CNY 130 billion (USD\$ 20 billion) in works in 2016.

49. Transaction centers also provide physical space and offer suitable conditions for conducting bid opening and bids evaluation sessions, the latter in absolutely confidentiality and privacy. The transaction centers' staff do not participate in the bid evaluation exercise; they just supervise and monitor the bid evaluation process. As explained further below and to ensure impartiality, members of the evaluation committee are selected randomly from a database and within twenty-four hours prior to the starting of the bid evaluation process.

#### *Bidding and contract awarding procedures – Brief description of the Legal framework*

50. The Development and Reform Commission at central, provincial, prefectural, and county levels provide guidance and coordination for all procurement activities which follow the procedures of the TBL and its related implementation regulations. Relevant sectoral

government authorities at relevant levels assume the supervision responsibilities for procurement activities.

51. The Ministry of Finance and finance authorities at central, provincial, prefectural, and county levels provide guidance, coordinate and conduct overall supervision of all procurement activities, which follow the procedures of the GPL and related implementation regulations. Relevant sectoral government authorities assume the day-to-day supervision responsibilities of the procurement activities.

52. There are standard bidding documents issued by various line ministries or provincial governments. In accordance with the TBL, GPL and relevant implementation regulations. Both laws establish that bidding documents shall neither contain biased qualification nor restrictive experience and technical requirements and that there should not be any reference to specific manufacturers or brands is no permitted

53. If the value of the contract exceeds specified threshold, the procurement shall be conducted through open competitive bidding at the public resources transaction centers. Purchasers, procurement agents certified by the government to conduct procurement on behalf of the Purchaser and public transaction centers, participate at different stages of the procurement process.

54. If the value of the contract is less than a specified threshold, the procurement can be carried out through a less competitive process, such as limited competitive bidding or shopping. In this case, the procurement is not required to be conducted at the public resources transaction center and the Purchaser has the option to conduct the procurement process by itself or with the help of a procurement agent company. The invitation for limited competitive bidding or shopping should be sent to at least three qualified bidders.

55. Thresholds vary from province to province, from prefectural to prefectural, and sometimes from county to county

56. For example, under the TBL the thresholds specified by Fujian provincial government are CNY2<sup>3</sup> million (US\$ 300,000) for civil works, CNY1 million (US\$ 145,000) for plant to be incorporated in the permanent civil works, and CNY0.5 (US\$ 72,000) million for consultant services. The thresholds specified in Sanming Prefectural Municipality are CNY0.3 million (US\$ 43,000) for civil works, plant to be incorporated in the permanent civil works, and consultant services. In Anhui, the thresholds specified by Anhui provincial government are CNY0.5 million for civil works, CNY0.2 million (US\$29,000) for plant to be incorporated in the permanent civil works, and consultant services respectively. The thresholds specified in Chuzhou Prefectural Municipality are CNY0.3 million for civil works, plant to be incorporated in the permanent civil works, consultant services respectively.

57. Similar to the TBL, the GPL sets minimum thresholds for the utilization of different procurement methods and these are specified by governments at provincial, prefectural, and sometimes county levels. For example, the threshold specified by Fujian provincial government is CNY0.3 million for both goods and non-consulting services. The thresholds specified in Sanming Prefectural Municipality are CNY0.2 million for both goods and non-consulting services. In Anhui, the threshold specified by Anhui provincial government are CNY0.2 million for both goods and non-consulting services. The thresholds specified in

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<sup>3</sup> 6.9 CNY= 1 US\$

Chuzhou Prefectural Municipality are CNY0.1 million for both goods and non-consulting services.

58. Procurement notices should be published in national media including newspapers and/or easy accessible websites. For example, in Chuzhou Prefectural Municipality of Anhui Province, procurement notices are published in different sources such as, Anhui Provincial Tendering and Bidding Information Website, Anhui Provincial Government Procurement Website, Chuzhou Prefectural Public Resources Transaction Website, and Chuzhou Prefectural Information Disclosure Website. Procurement notices should contain basic but necessary information for bidders to submit bids. At minimum invitation for bids should include a brief description of the equipment to be procured and in the case of civil works, size or quantities, location, required completion time. The invitation should include name, address and contact of the client, an explanation on how to acquire the bidding document, and state the minimum qualification and experience required.

59. According to the TBL, after publication of the procurement notice, at least 5 calendar days are made available for the potential bidders to acquire the bidding document. The practice shows that this procedure is applied very strictly and some Purchases only allocate 5 calendar days for the potential bidders to purchase the bidding document whereby others allows bidders to acquire the bidding document any time before the deadline for bid submission and opening.

60. Bidders are required to send any request for clarification to the bidding document not later than 10 calendar days prior to the deadline for bid submission and bid opening. The Purchaser should respond to such request for clarification within 3 calendar days. If needed, the deadline for bid submission and opening will be extended so that there are at least 15 calendar days between the time when any clarification or addendum is issued by the client to the bidders and the time of the initial or extended deadline for bid submission and bid opening. The minimum bidding period is normally set at 20 calendar days. The process should be cancelled and a rebidding conducted if less than three bids are being submitted.

61. Bid openings are conducted in accordance with good international practices. Bid received after the deadline are not opened, and a bid opening record is being prepared with all the information read out at the bid opening session, such as bidder's name and bid's price. The amount of bid security should not exceed 2 percent of the cost estimates. The validity of bid security is the same as the validity of the bid.

62. Bidding document can indicate the acceptable maximum bid price. Any bid exceeding this cap will be rejected. However, the client is not allowed to specify the acceptable lowest bid price.

63. The bid evaluation committee should comprise five or seven members, including one representative of the Purchaser. Members of the committee, with the exception of the Purchaser's representative, are selected randomly from official sectoral expert databases maintained by various government authorities at the central or provincial level. The expert is normally required to have a working experience of not less than 8 years in the sector related to the bidding process in which the expert will take part.

64. Bid evaluation is normally completed within 24 hours. There is a risk that bid evaluation committee do not conduct due diligence during the evaluation process, as members of the committee do not dedicate sufficient time in assessing the veracity of the

documentation and/or the experience and qualifications claimed by bidders. According to the information received, these situations were not often present, contractors and suppliers in general performed well and just in rare occasions, cases of misrepresentations were reported by Purchasers, in which case bidders were debarred. Lists of misbehaved firms and the reasons for debarment, are often published in the transaction centers website.

65. Under the BTL contracts should be awarded to the lowest responsive bidder which meets the qualification and experience requirement specified in the issued bidding document.

66. The GPL provides two awarded criteria (a) contract award to the lowest responsive bidder; and (b) contract award to the highest rated responsive bidder.

67. The intended contract award recommendation is disclosed to the public including all the bidders for at least three calendar days. Finalized that period the contract can be awarded if no complaint has been received.

68. Within 30 calendar days after contract award, the client and the successful bidder will sign the contract. The successful bidder will furnish the performance security if so required in the bidding document. The amount of performance security normally does not exceed 10 percent of the contract price. Within five calendar days of contract signing, the client will return the bid securities to the bidders including the saving interest amount accrued in the corresponding period.

#### *Procurement resources*

69. As mentioned earlier, the agencies involved in the procurement, when open competitive procedures are chosen, comprise the Purchaser, the procurement agent company and the public resources transaction center. During the assessment, it was found that transaction centers and hospitals visited were equipped with sufficient human and material resources for conducting procurement, therefore we could infer that this would be in general the norm in the whole two provinces. It was found however that some public resources transaction centers lack of sufficient staff and are outsourcing some work to third parties. During the assessment for Fujian Province, Sanming Public Resources Transaction Center was visited. This center is a prefectural level transaction center. There are 21 staff working for the center. In Anhui, Anhui Hefei Public Resources Transaction Center was visited. The center is a provincial level transaction center. There are 40 staff working for the center. In addition, some procurement work is outsourced to a private medium size firm (60 staff). In 2016, the total number of procurement transactions processed in this transaction center was 9000 whereby 6000 processes were for government procurement

#### *Contract administration*

70. After the contract is awarded, the Purchaser (Hospital or health care center at provincial, prefectural, county or township level) will sign the contract with the Contractor, Supplier or Consultant selected. The Purchaser will also be responsible for contract administration throughout the contract implementation period. The Contractor or Consultant shall not assign the contract to other party. Subject to the Purchaser's prior concurrence, the Contractor or Consultant may sub-contract works, which are not a critical component or critical activity.

71. With respect to timeliness of completion of the contract, most of the contracts are completed within the contractual period.

72. In terms of cost control, there may be variations during the contract implementation which lead to additional cost and/or cost overrun. Variations are handled in accordance with the terms and conditions of the contract. The final value of variations is subject to strict clearance depending on the value of the variations and different local regulations governing the decision-making matrix.

73. Higher authorities should approve any contract variation. Contract addendum are first certified by the project supervision engineer, and then endorsed by the Purchaser. Contract variations are subsequently submitted to the relevant health and family authority for clearance and finally submitted to the local financial bureau for approval. For a contract procured following GPL, the aggregate value of the contract variations shall not exceed 10 percent of the initial contract value.

74. In respect of quality control, the supervision engineer and the client are responsible for regular daily quality control. In addition, work contracts are subject to a technical audit carried out by the Construction Bureau of each jurisdiction.

75. Purchasers are responsible for organizing and issuing the final acceptance certificate. Final acceptance tests, will be jointly conducted by representatives of government agencies, including local finance authority, health and family planning authority, urban construction authority, environment protection authority, land resources authority, quality and technology supervision authority, etc. The acceptance test is conducted in accordance with relevant national specification or national code enacted by relevant line ministries.

76. Payment is made to the Contractor, Supplier or Consultant in accordance with the terms and conditions of the contract without major delay. Normally, the payment is made within one to four weeks after the payment application is certified by the Purchaser

77. Efficient contractual dispute resolution procedure is in place in each contract. In case of contractual dispute, this is first settled by the contractual parties amicably. If the parties fail to reach agreement in amicable way, the dispute is referred to relevant government supervision authorities for adjudication. If either party is dissatisfied with the recommendation of the adjudication, either party can refer the dispute to either local arbitration commission or the court. Normally each contract provides both options for the parties to finally invoke the arbitration or the legal suit.

78. Contractual remedies are specified in the signed contract. The client is entitled to terminate the contract. In case of default of the supplier or contractor, the client is required to send a written notification in due course to the other party.

#### *Controls and integrity*

79. For procurement following TBL, procurement is under supervision and oversight by development and reform commission authorities and housing and urban-rural development authorities at relevant government level. For procurement following GPL, daily procurement is under supervision and oversight of the finance authority at relevant government level.

80. In terms of procurement decisions, procurement plan is prepared by the client and subject to clearance and approval by its supervision authority and local finance authority. The contract award recommendation is made by the bid evaluation members selected randomly from various expert databases and confidentiality is guaranteed in the evaluation process when the evaluation is conducted within the public transaction center.

81. In respect of confidentiality of the processing, as mentioned earlier, if the contract value exceeds the specified threshold, the procurement is conducted through the platform provided by the public resources transaction center, witnessed by the staff of the transaction center.

82. The agencies involved in the procurement process are the Purchaser, the procurement agent company and the public resources transaction center. All these agencies have clear ethics standard for staff to carry out their daily work. All these agencies are subject to annual external audit. In addition, there are external project specific audits. The project is selected randomly for project specific annual external audit. Each project is subject to a project specific audit at completion of the project. Staff is also subject to discipline measures, in case of any misconduct.

83. All procurement related documents are kept for a sufficient time. According to Tendering and Bidding Law, the procurement documents shall be maintained for at least 10 years after completion of the procurement. According to Government Procurement Law, the procurement documents shall be kept for at least 15 years after completion of the procurement.

#### *Complaint Mechanism following Tendering and Bidding Law*

84. There are two tiers of complaint mechanism.

85. Under the first tier, the bidder can lodge any complaint to the client regarding the bidding document, the bid opening, or the intended contract award recommendation. The intended contract award recommendation is required to be disclosed for at least 3 calendar days. The complaint regarding the intended contract award recommendation shall be submitted within this standstill period. The client is required to respond to the complaint within 3 calendar days.

86. Under the second tier, the bidder can lodge any complaint to relevant supervision government authority regarding the bidding document, the bid opening, the intended contract award recommendation or other non-compliance of the procurement processing with relevant laws, rules and regulations within 10 calendar days from his awareness of the issue. Within 3 working days, the supervision government authority shall determine whether the complaint is valid. If the complaint is determined valid, within 30 working days, the supervision government authority shall issue a written judgment and determination.

#### *Complaint Mechanism following Government Procurement Law*

87. There are three tiers of complaint mechanism.

88. Under the first tier, the bidder can lodge any complaint to the client regarding the bidding document, the procurement processing, the intended contract award recommendation or other non-compliance of the procurement processing with relevant laws, rules and

regulations within 7 working days from his awareness of the issue. The client is required to respond to the complaint within 7 working days according to Government Procurement Law or 3 working days according to the Implementation Regulations of the Government Procurement Law.

89. Under the second tier, if the bidder is not satisfied with the client's response or if the client does not respond within the required time, the bidder can lodge a complaint to relevant supervision government authority. This complaint should be submitted within 15 working days after receiving the Purchaser's response or after expiration of the required responding time as the case is applicable. Within 30 working days, the relevant government authority shall issue written judgment and determination. If the bidder is not satisfied with the determination made by the supervision government authority or if the supervision government authority does not make its determination within the required time, the bidder can refer the matter to administrative review or invoke administrative appeal.

### C. Procurement Performance

90. The procurement performance of the entities visited is considered adequate. The time from publication of the procurement notice to the deadline for bid submission and opening is 20 calendar days. The bid evaluation is normally completed in one day; this short period of time sometimes poses doubts about whether the authenticity of the Documentation is verified, whether bidder is being allowed to submit clarification during the evaluation process but also whether a profound examination of the bids is being conducted.

91. After the evaluation is completed, the intended contract award recommendation is disclosed to all bidders for a fix number of days (3 days in case of procurement following Tendering and Bidding Law and 7 days in case of procurement following Government Procurement Law) in the official website of government procurement and the website of the public resources transaction center. If no complaint is received within the standstill period, the contract will be awarded. The contract will be signed within the 30 calendar days after contract award publication.

92. Purchasers are fully satisfied with the performance of the public transaction centers; they work expeditiously even 7 days of the week.

## IV. Fiduciary Risks, Measures to Mitigate Fiduciary Risks

### *Financial Management Risks and Mitigating Measures*

Risk	Mitigation Measure
Planning and Budgeting	
Most of Program activities (mainly capital investment including IT) will be financed by new earmarked funds which are subject to provincial government's approval and have not yet been included in a detailed financial Program plan or the regular	Provincial HFPCs, DRCs and FBs will work together to report these Program activities to provincial government to obtain their approval.  Once the approval is obtained, the budget preparation can be started according to regular

<b>Risk</b>	<b>Mitigation Measure</b>
annual budgeting process. This might lead to the risk that specific Program activities are not sufficiently funded.	budget process and the budget will be included in the three year rolling budget plan if such activities will be implemented for more than one year.
The Program financing consists of general transfers (not earmarked transfers) that can be used by IAs for any purpose (except capital investments) after comingling with other funding sources. This provides IAs flexibility but makes it difficult to identify how specific planned Program activities have been financed.	The boundaries of the Program budget are defined as transfers of BPHP, ZMDS, EDS and CLHRS from central and provincial level government to county and lower level government as well as some earmarked transfers to be established during the Program life. The Program financial statements will present the aggregated expenditures financed by the commingled funding sources that include the above transfers.
<b>Accounting and Reporting</b>	
The current chart of accounts in the GFMIS does not include Program coding to tag, track and report on Program transactions. This makes it difficult to prepare Program financial reports useful for performance evaluation, transparency, accountability and decision making.	The IAs maintain separate recording on the expenditures of earmarked transfers under the Program but not for general transfers. These earmarked expenditures can be tracked to the Program. Program financial statements will capture accounts for the Program IAs but will also include expenditures that finance activities outside the PforR boundary. The Bank team will discuss enhancing the account code structure used by the provinces with national level authorities in MoF.
Attempts to manually identify PforR transactions to prepare Program financial statement limited to PforR transactions would create a significant risk that the Program financial statement would not be prepared in a consistent and reliable manner.	As agreed with the borrowers, the PforR financial statements will be generated and prepared through health sector fiscal final statement process by using the existing final statement software developed by MoF during the PforR life. The Program financial statements will include the budget resources (i.e. subsidies) and expenditures defined by the Program.
<b>Program Audit</b>	
No Program financial statements audit arrangement is currently required. Carrying out a first-time program audit will require coordination across government audit units and the application of financial audit techniques	The Program financial statement audit will be guided by CNAO and will benefit from the experience learned from PforR audits carried out in other provinces.

Risk	Mitigation Measure
not practiced by some audit units. This creates a risk of weak audits, at least in the initial years of the Program.	

#### *Procurement Management Risks and Mitigation Actions*

93. Transactions centers and procurement entities at different levels and health and family planning authorities will be instructed to comply with the suspension and cross-debarred list, which have been translated into Chinese, in all contracts executed and financed by the Program. Therefore, CPSM, Anhui and Fujian Province shall issue official letters or official instructions to cause the implementation agencies at various levels to ensure that no contract will be awarded to a firm or individual, which is in the debarred list or under temporary suspension. In addition, the TOR for audit includes the assignment of selecting the awarded contracts on random basis and checking whether any contract is awarded to ineligible firm or individual.

94. The team will work with the key government agencies and will ensure that appropriate measures are set in place to guarantee that no contract is awarded to Bank's debarred or suspended firms.

95. CPSM, Health and planning family authorities should inform the Bank of any credible and material allegations of fraud and corruption issues at regular basis in the program progress report.

96. Since the budget of the contract will be disclosed in the bidding document and any bid which offers a price higher than the budget shall be rejected, the budget shall be reliable. When the procurement plan is prepared, the Purchaser shall carry out market analysis, check the historic records for the equipment and work out a reliable and accurate budget for the contract. Before approving the procurement plan the government procurement administration offices at different levels should check the budget with the market to ensure that the budget is reliable. Prior to issuing the bidding document the Purchaser may also update the budget based on the latest market information. If any bid is rejected because its price exceeds the budget or other deviations, justifications shall be provided in the procurement files. The documentation of the justifications in this regard should be subject to inspection by the auditors.

97. Purchasers should conduct due diligence before awarding/signing a contract. Because evaluation members do not normally check the veracity of the documents submitted in the bids, and there is a risk of falsified information, it is necessary that Purchaser verify the documentation submitted by the winner bidder, such as to confirm the past experience claimed, financial resources available, etc. The World Bank team will provide training as needed during project implementation.

98. The procurement risk is proposed as substantial due to (a) the size and coverage of the program, (b) the difficulty in having assessed the procurement systems of a reasonable and representative number of entities involved in this program, (c) the lack of access to biding and contract data, and (d) the non-application of Bank debarment/temporary suspension lists.

#### *Overall Fiduciary risk*

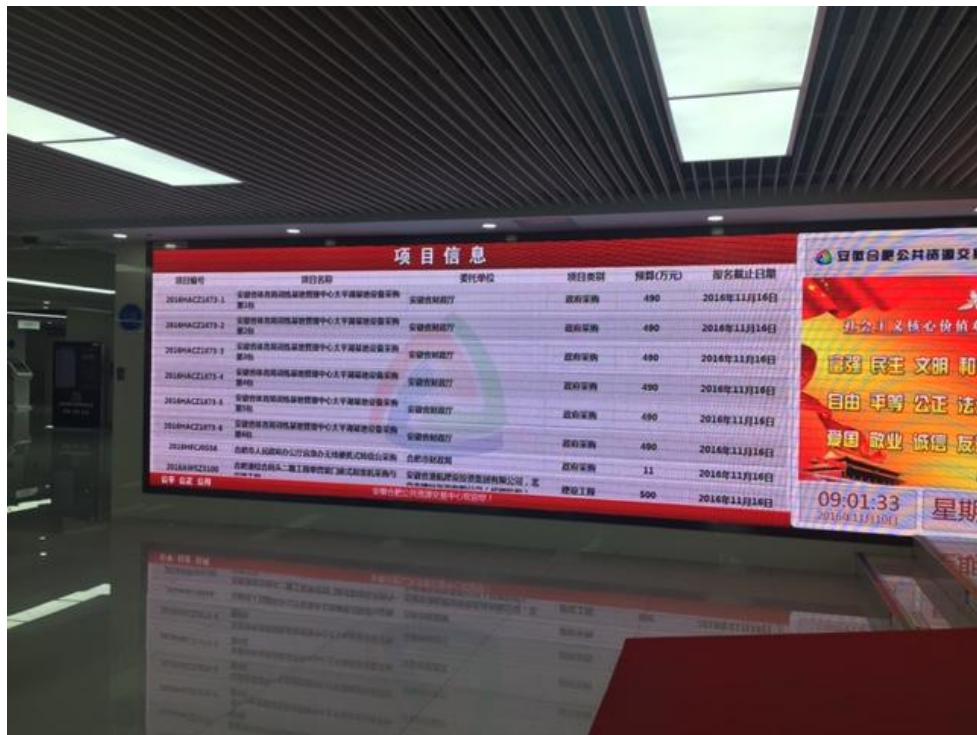
99. Overall, the fiduciary risk rating is considered Substantial because (a) the provinces have little or no experience in program financial reporting or program financial statement audit, (b) PforR financial planning is weak, (c) the size and coverage of the program made us difficult to assess the procurement systems of a representative number of entities and (d) due to the numerous entities involved in this program there is some risk for the non-application of Bank debarment/temporary suspension lists. This may result in unacceptable contract awards to firms and/or individuals under temporary suspension or cross debarment by the Bank or other Multilateral Development Banks.

### **V. Fiduciary Input to the Implementation Support Plan**

100. The proposed fiduciary implementation support includes:

- Review the implementation progress and work with the task teams to examine the achievement of Program results and implementation of the action plan
- Monitor the performance of fiduciary systems and audit reports, including implementation of the application of the PforR anti-corruption guidelines;
- Monitor changes in fiduciary risks of the program and, as relevant, compliance with the fiduciary provisions of legal covenants.
- Monitor the PforR financial statement reporting process and assist the clients as necessary.
- Assist the provincial audit offices and CNAO in strengthening audit arrangements to support the audit opinion on the PforR financial statements.
- Review the Program implementation with the sector team to assess the timeliness and adequacy of the Program funds appropriation as approved budget.
- Help the borrowers with institutional financial management and procurement capacity building.
- Continue assessing and monitoring the performance of the financial management and procurement systems (including transaction centers) under the Program and provide suggestions for improvement.
- Discuss PFM issues with national government authorities that exceed the decision-making authority of provincial or lower level government institutions.

## **Annex1 - Transaction Center Hefei, Anhui Province**



## Transaction Center- Disclosure of bidding opportunities



Transaction Center- Layout



Transaction Center- On line registration by the bidders



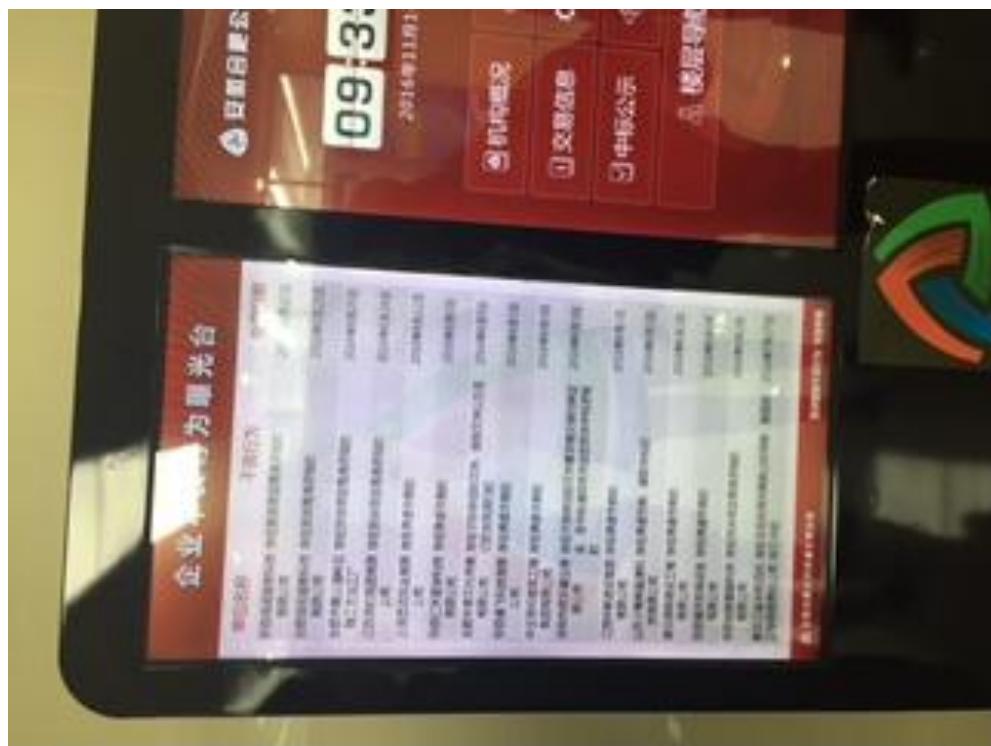
Transaction Center- On line registration by the bidders



Transaction Center- Meeting room



Transaction Center- Central monitoring room



Transaction Center- Disclosure of misbehavior of the bidders



Transaction Center- Bid opening



Transaction Center- Bidders, waiting hall



Transaction Center- Central monitoring room



Transaction Center- Bid evaluation room