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GUIZHOU AGED CARE SYSTEM DEVELOPMENT PROGRAM

Fiduciary Systems Assessment

January 30, 2019

ABBREVIATIONS AND ACRONYMS

ACIF	Aged Care Industry Fund
AFD	Agence Française de Développement
CAB	Civil Affairs Bureau
CNAO	China National Audit Office
DA	Designated Account
DOCA	Department of Civil Affairs
DOF	Department of Finance
DLI	Disbursement-Linked Indicator
FB	Finance Bureau
FM	Financial Management
FSA	Fiduciary Systems Assessment
GOC	Government of China
GPDC	Guizhou Provincial Discipline-Inspection Commission
GPAO	Guizhou Provincial Audit Office
GPL	Government Procurement Law
IBRD	International Bank for Reconstruction and Development
INT	Vice Presidency Integrity Department
M&E	Monitoring and Evaluation
MOCA	Ministry of Civil Affairs
MOF	Ministry of Finance
NDRC	National Development Reform Commission
OPRC	Operational Procurement Review Committee
PAP	Program Action Plan
PforR	Program for Results
TSA	Treasury Single Account
TBL	Tendering and Bidding Law
WA	Withdrawal Application
ZBB	Zero-Based Budget

Table of Contents

Section 1: Conclusions.....	3
1.1 Reasonable Assurance.....	3
1.2 Risk Assessment	3
1.3 Procurement Exclusions	6
Section 2: Scope	7
Section 3: Review of Public Financial Management Cycle	8
3.1 Planning and Budgeting.....	8
3.1.1 Adequacy of Budgets.....	8
3.1.2 Procurement Planning.....	10
3.1.3 Procurement Profile of the Program	11
3.2 Budget Execution.....	12
3.2.1 Treasury Management and Funds Flow	12
3.2.2 Accounting and Financial Reporting.....	13
3.2.3 Procurement Processes and Procedures.....	14
3.2.4 Contract Administration	17
3.3 Internal Controls.....	20
3.3.1 Internal Controls.....	20
3.3.2 Internal Audit.....	22
3.3.3 Program Governance and Anticorruption Arrangements.....	22
3.4 Auditing	24
3.4.1 Program Audit	24
3.5 Procurement and Financial Management Capacity	25
3.5.1 Procurement and Financial Management Capacity and Performance	25
3.5.2 Public Resource Transaction Center.....	27
Section 4: Program Systems and Capacity Improvements.....	30
Section 5: Implementation Support	31

Section 1: Conclusions

In accordance with the World Bank policy and directives for Program-for-Results Financing (July 10, 2015) and the earlier Interim Guidance Note (June 18, 2012), the World Bank’s fiduciary team carried out an integrated Fiduciary Systems Assessment (FSA) of the fiduciary systems in Guizhou and the five Program prefectures. The overall objective of the assessment was to determine whether the fiduciary systems of the Program provide reasonable assurance that the Program financing proceeds will be appropriately used, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. Based on the assessment and actions agreed to strengthen the systems, which are reflected in the Program Action Plan (PAP), and other mitigation measures, the Program’s fiduciary systems are considered broadly adequate to meet the requirements in the Bank’s PforR Policy and Directive.

1.1 Reasonable Assurance

The Fiduciary Systems Assessment concluded that with the implementation of the proposed mitigating measures and actions included in the PAP, 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 and the current procurement legal framework comprising the Government Procurement Law (GPL) and Tendering and Bidding Law (TBL) and the regulations and the procurement systems of Guizhou and the five Program prefectures provide sufficient assurance that procurement under this Program will be executed with adequate levels of transparency, competitiveness, efficiency and fairness.

1.2 Risk Assessment

The key FM risks and mitigation measures are:

- 1) Three funding sources will exist under the Program. They include the government general budget, the International Bank for Reconstruction and Development (IBRD) loan, and the Agence Française de Développement (AFD) loan. AFD would follow the same fiduciary arrangements and disbursement principles as the Bank does under the Program. According to current debt management policies in China, the nature of the IBRD and AFD loans are defined and approved by the Ministry of Finance (MOF) as the debts to which the government will be taking guarantee obligation. As a result, the foreign loans cannot be incorporated into the existing budgeting and treasury systems. Two separate planning and budgeting lines—one for general budget and one for foreign loans—have to be going through under the Program. As such, inefficiency on the Program funds management may be caused.

The guidelines to elaborate the mechanism integrating the planning and funds flow arrangements of the two budget lines produced by Department of Civil Affairs (DOCA)

and Department of Finance (DOF) will be concurred with the Bank and finalized by August 31, 2019. The guidelines will be circulated to each of the Program related implementing agencies and finance bureaus (FB) for them to follow strictly. The Bank's task team and auditor will supervise compliance with the guidelines and the effectiveness of the Program funds management during implementation.

2) Zero-based budget reform (ZBB), i.e. the reform of optimizing the public resources allocation will be implemented by all government entities including aged care sector in Guizhou Province since 2019. The regulation issued by Guizhou DOF requires the government entities and finance bureaus to integrate the measurement and evaluation (M&E) throughout the budget preparation, implementation and performance evaluation. However, the ZBB concept has not yet been well understood by the visited county/district Civil Affairs Bureaus (CABs) and even most of the government entities at lower level. No guidelines are produced to elaborate the requirements and guidance on process.

Results Area 3 (DLI 6) supports the improvement of aged care related public resources allocation and capacity through development of the guidelines on ZBB management, enhancement of the M&E system as well as strengthening implementation of the ZBB among the Program counties/districts, with an aim to enable the governments to better align aged care budget allocation with the expected outputs/outcomes in an efficient and effective way.

3) Multiple level implementing agencies are included. The aged care related expenditures in same nature are recorded with inconsistent budget account classification by certain districts/counties or in different fiscal years by one implementing agency, which may cause the Program budget execution reports are not able to reflect the exact budget execution status and abnormal fluctuation under certain budget accounts. In addition, the figures accounted under certain budget accounts are not limited to the Program related expenditures. In addition, given the nature of the IBRD and AFD loans, the related expenditures cannot be reflected in the general budget planning, execution and reporting system in accordance with the government existing budget law. As such, a Program specific financial report cannot be directly generated from the existing budget execution report, which may cause non-compliance with the Bank's fiduciary requirements of the Program.

Mitigating measures to optimize the Program accounting and financial reporting arrangements concurred with DOCA and DOF include (i) setting up sub-ledger accounts or memorandum records in the DOCA and CABs existing accounting system to reflect the Program specific transactions; (ii) preparing the Program specific financial report with the existing format of budget execution report by each CABs and consolidated by provincial DOCA; and (iii) developing the guidelines that standardize the Program specific accounting and financial reporting practice by DOCA together with DOF, which will be concurred with the Bank and finalized by August 31, 2019.

The Bank's task team would closely monitor the establishment and execution of the Program accounting system and the quality of the Program financial reporting in the first year of the Program implementation and provide technical support over the whole Program life.

4) Under the existing government auditing arrangements, no one or a few particular audits may fully cover the Program transactions on annual basis. As such, a Program specific financial audit is required and needs cross unit collaboration within the government audit office. This creates a risk of weak audits, at least in the initial years of the Program. To mitigate this risk, audit arrangements and terms of reference (ToR) for the Program financial statement have been agreed with the Borrowers and Guizhou Provincial Audit Office. The Program financial statement audit will be guided by China National Audit Office (CNAO) and will benefit from the experience learned from similar PforR audits carried out in other provinces.

The key procurement risks and mitigations actions are:

1) It is envisaged that the purchase of aged care services will account for a large portion of procurement under the Program. Though the relevant laws and regulations provide the procedural requirement and methodologies for procuring the services, those requirements and methodologies are subject to refining since the aged care services are covering a wide range of activities that are different from the regular labor services or consultancy services that the civil affair authorities usually procure. Based on the dialogue with the local civil affairs authorities, it was noted that only on an exceptional case the purchasing of aged care services had been piloted in a district through non-competitive selection method and the scale of the services was small. Most of the prospective procuring entities have no precedent experience in purchasing aged care services.

The recommended mitigating measures are DOCA should explore the possible procurement approaches within the existing structure of laws and rules. The approaches should be adaptive to the unique features of aged care services and promote wide competition among the service providers. The approaches would be included in the operation manual to provide guidance for the procuring entities.

2) The procurement under the Program would be undertaken by the civil affairs authorities at the different levels. Given the Program will include the activities at the provincial level and the five Program prefectures, there are numerous procuring entities and stakeholders to be involved in the procurement processes. Depending on the availability of financial resource, some of the civil affairs authorities carried out the construction of aged care infrastructures or purchase of large equipment in the recent years through open competitive bidding, while some entities only procured disaster relief materials or labor services through simplified selection method. The procurement capacity of the different procuring entities varies materially.

To mitigate the risk, DOCA should take the lead to prepare an operation manual detailing (i) the responsibilities that procuring entity should take in the procurement process; (ii) the procedural requirements and the set of laws and regulations to be followed; and (iii) the approval, decision making and reporting structure for the procurement. DOCA should also organize the training for the procuring entities and serve as the hub for sharing experience and lessons learned.

3) The procurement would be processed through the electronic platforms run by local public transaction centers. It is common practice that the evaluation committee would verify the credit status of the bidders and check if the bidder is enlisted in the black list issued by the local authorities. The black list can be easily accessed by logging on the electronic platforms and the other government websites. However, most of the procuring entities and the evaluators are not aware of the list of debarred and temporarily suspended firms and individuals declared by the World Bank and other multilateral development banks. It is not a routine procedure to check against the World Bank's sanction list during the bid evaluation. There is risk that the contract under the Program is awarded to the contract to the firms or individuals ineligible for the World Bank financing.

The recommended mitigating measures are: (i) DOCA shall officially issue an instruction to the procuring entities at the district/county level that no contract is allowed to be awarded to the debarred or temporarily suspended firms or individuals; (ii) the access to the list of debarred and temporarily suspended firms and individuals shall be provided in the operation manual; (iii) it should be clearly defined in the operation manual that the procuring entity shall take the responsibility to verify if the selected firm or individual is enlisted; and (iv) the operation manual should require that the ToR for statutory audit include checking the eligibility of the selected firms or individuals against the debar and suspension list.

The overall fiduciary risk rating is considered *Substantial* as Guizhou has very limited experience in procurement of aged care services although FM risks identified are not major and can, or already are, largely mitigated by the proposed measures or other policies, procedures and controls existing in the procurement and FM systems.

1.3 Procurement Exclusions

No potential high-value procurement contract is expected to be included in the Program. It is not envisaged that the Program will finance any high-value contract above Operational Procurement Review Committee (OPRC) thresholds¹.

¹ The amounts are those, as may be amended from time to time, that require mandatory review by the World Bank's Operational Procurement Review Committee (OPRC): Currently, US\$75 million for works, turnkey, and supply and installation contracts; US\$50 million for goods IT systems and non-consulting services; and US\$20 million for consultant services.

Section 2: Scope

The scope of the FSA is based on the defined Program Boundary and Program Expenditure Framework. The FSA aimed to have a general picture of the operation context at the different level that the Program activities may happen. The assessment was carried out at provincial level and all the five Program prefectures with 48 districts/counties involved in the Program. The fiduciary team assessed the fiduciary systems of the key implementing agencies at the provincial, prefecture, district/county level, including provincial DOF and lower level FBs, provincial DOCA and lower level CABs and Audit Office. On the FM side, 4 prefectures and 6 counties are sampled as representatives. On the procurement side, in view that it is expected a large portion of procurement activities will take place at the district/county level, in order to make assessment more representative, one urban district and one county were sampled respectively for each of five Program prefectures to better illustrate how the procurement system is functioning in urban and rural areas.

Section 3: Review of Public Financial Management Cycle

3.1 Planning and Budgeting

3.1.1 Adequacy of Budgets

Total Program financing is USD1.67 billion over the six-year duration of the Program (2019 to 2024), which consists of USD 1199.8 million from the government general budget, USD 350 million from the IBRD loan, and USD114.52 million from AFD loan. Of total Program financing, 19 percent, 18 percent and 63 percent are from province, prefectures, and districts/counties respectively. Through technical assessment, the Program budget is prepared with due regard to government policy and implemented in an orderly and predictable manner. The aged care budget appears to be adequate and overall fiscal sustainability are considered to be acceptable. There is a reasonable expectation that the required resources will be appropriated in the financial years when required.

Sources of the Program Funds. There are three funding sources under the Program, including the government general budget, IBRD loan, and AFD loan. AFD would follow the same fiduciary arrangements and disbursement principles as the Bank does under the Program. According to current debt management policies in China, the nature of the IBRD and AFD loans are defined and approved by MOF as the debts that the government taking guarantee obligation. As a result, the foreign loans cannot be incorporated into the existing budgeting and treasury systems. Two separate planning and budgeting lines—one for general budget and one for foreign loans—will be going through under the Program. DOCA and DOF will develop guidelines with elaborated mechanisms to integrate the two budgeting and planning lines, which will be concurred with the Bank. The guidelines will require CABs and FBs to follow strictly under the Program.

The proposed Program activities will be implemented at the provincial, prefecture, and district/county levels. They can be categorized into six budget items, i.e. (i) investment for infrastructure, (ii) service operations, (iii) build-up of the provincial cloud platform, (iv) income support or subsidies for Tekun people and other beneficiaries eligible for basic aged care services, (v) training, and (vi) operational costs. These aged care activities are mainly coded under two budget codes—208 and 229—under the existing government budget system. The classification of six budget items and the two budget codes are coherently adopted under the two budgeting lines of the Program in parallel.

The current aged care related government budget at each level is from general budget (basic budget plus ear-marked budget), budget against welfare lottery funds arranged by corresponding level government, and/or transfers from the upper-level governments. The general budget and welfare lottery funds budget will be applied and arranged in separate way. However, the province-wide welfare lottery fund will be frozen and pooled for the aged care industrial fund (ACIF) from 2018 through 2020. The government is planning to

use the ACIF for investment of aged care affairs. The investment financed by the ACIF is not included in the expenditure framework of the Program operations.

Budget Preparation. In terms of the budget preparation, approval and allocation, each level government in the Guizhou follows a similar process which is relatively standardized throughout China. For the Program activities to be financed by the general budget borne by same level government, the CABs prepare the annual work plan, including the budget for operating costs and activities/projects for aged care affairs and submit to corresponding level FBs for review and approval. All the budget plans are implemented upon approval by the People’s Congress at the respective budget level. A “two up, two down process” is followed between the sector entities (budget makers) and the FBs until the final budget plan is approved by the People’s Congress, generally in February or March.

For the ear-marked funds or subsidies transferred from the national, provincial or prefecture level, the budget quota including the amount of budget allocation, eligibility of spending, and the execution period is transmitted through official documents co-issued by upper level FB and CAB. The quota of transferred ear-marked funds received is documented under the related budget code, mainly under the codes of 208 and 229 in the budgeting system maintained by local finance bureau. Treasury will approve the payment request submitted by the budget executing entities against the quota which has been documented in the budgeting system. In regard with aged care related infrastructure investment, the budget will be approved and allocated to specific project as applied. Meanwhile, the subsidies for elderly assistance are usually approved subject to certain designated purposes and the budget executing entities are empowered to decide how to allocate the budget to individual activity.

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.

Zero-based budget reform (ZBB), i.e. the reform of optimizing the public resources allocation will be implemented by all government entities including aged care sector in Guizhou since 2019 as required by Circular#14 of 2018 issued by Guizhou provincial DOF. The regulation requires the government entities and FBs to integrate the measurement and evaluation (M&E) throughout the budget preparation, implementation, and performance evaluation. However, the ZBB concept has not yet been well understood by the visited county/district CABs, and even most of the government entities at lower level. No guidelines are produced to elaborate the requirements and guidance on process.

Results Area 3 (DLI 6) supports the improvement of aged care related public resources allocation and capacity through development of the guidelines on ZBB management, enhancement of the M&E system as well as strengthening implementation of the ZBB among the Program counties/districts, with an aim to enable the governments to better align aged care budget allocation with the expected outputs/outcomes in an efficient and effective way.

In terms of the foreign loans, to ensure efficient and effective budgeting arrangements under the Program, budget for the foreign loans will be jointly managed by DOF/FBs and DOCA/CABs. The annual Program specific implementing plan including activities and proposed funding sources in line with the results areas of the Program will be prepared by DOCA and CABs. For the portion to be funded by general budget, the existing government budgeting procedures will be followed. Meanwhile, for the general budget funding gap to be financed by IBRD and AFD loans, the implementing plan prepared by county/district CABs with concurrence of the foreign debt management divisions of corresponding FB will be submitted to prefecture CABs for consolidation before going to DOCA and the line divisions to manage IBRD loan and AFD loan in DOF for jointly prior review. Upon receiving the People's Congress's approval on the Program related general budget, the foreign loans funding plan could be finalized by each CAB and approved by corresponding level's FB based on the joint no-objection from DOCA and DOF. The foreign loans proceeds will be appropriated from DOF through DOCA to the operating account in RMB maintained by each CAB based on the approved funding plan.

3.1.2 Procurement Planning

At the provincial level, the procurement planning is normally going through the following steps, i.e. (i) the line division makes the request, on the basis of allocated government budget or any other available resource; (ii) after verification by the financial division and the discipline inspection and supervision department, the request would be discussed at management meeting, the procurement method would be determined in line with the relevant government rules; (iii) subject to the approval by the Director General, the request would be reported to DOF; and (iv) the counterpart division and the government procurement division of DOF would review the planning to confirm if the fund is available and the budgeting is reasonable, in case the value is large, i.e. exceeding RMB10 million, it would be subject to approval by the leader of DOF.

The planning at prefecture or district/county level mirrors that at provincial level. The line division is held accountable for the planning, processing the approval procedure and reporting. The FB is reviewing the plan and make sure that there is fund available and the budgeting is reasonable.

In the process of preparation for the procurement planning, both the line agency and the financial authority ensure that the cost of procurable activities, including works, goods, and services, is within the available resource. The procurement planning is carried out strictly on the ground of availability of the fund.

Since the budget is a key factor to set the pricing benchmark, which would be adopted for bid evaluation, the bid price in turn normally is close to the cost estimate. The statistics below show that the actual bid price is about 2-10 percent lower than the cost estimate.

Table 1: Actual Bid Price against Cost Estimate

Prefecture	Civil Works	Goods	Services
Liupanshui	90%	95%	PPP: 99.99% Other: 90%
Guiyang			
Zunyi	97%	50%	50%
Qiannan	95%	94%	98%
Qianxinan	98%	93%	93%

3.1.3 Procurement Profile of the Program

The Program will focus on a subset of the Guizhou Aged Care System. The program boundary is defined along three dimensions: thematic activities, geographic coverage and sources of financing. The Program operation will help the government of Guizhou to develop an aged care system that will deliver a basic package of aged care services for the eligible elderly, with an emphasis on expanding home and community-based care, enhancing the quality of services and strengthening the efficiency of public financial resources. The Program has a geographic boundary that covers the cross-cutting activities at the provincial level such as quality standards, training, and the provincial cloud platform as well as the aged care service delivery activities at the sub-provincial level in five out of ten prefectures. Guizhou will roll out the enhanced program in phases, focusing first in those prefectures that have the capacity to implement the changes and can produce the lessons to adjust the system based on the results observed. The Program will support the zero-based budget planning, allocation and execution based on the existing budget lines and monitor the performance of aged care public financing. The Aged Care Industry Fund (ACIF) is outside the Program. The timeline of the Program is 2019-2013, which covers the remaining years of Guizhou 13FYP and the early years of Guizhou 14FYP.

The proposed activities that will lead to the achievement of the PDO are grouped in three interlinked Result Areas:

- Results Area 1: Expanding coverage of basic aged care services for the elderly.
- Results Area 2: Enhancing quality of aged care services for the elderly.
- Results Area 3: Strengthening efficiency of aged care financing for the elderly.

The Program will be deployed in five well performing prefectures with population accounting for 56 percent of 36 million provincial residential population and for 54 percent of nearly 6 million total elderly population aged 60 years old or above. The procuring entities are mainly including civil affairs authorities at the provincial, prefecture and district/county level. Guizhou Aged Care Office, housed at DOCA and led by Director of Social Welfare and Charity Division will be responsible for day-to-day Program operations at the provincial level, while the counterpart entities of prefecture and district/county CABs are responsible for implementation.

The Program activities are expected to cover a wealth of consulting services including assignment of needs assessment, defining the basic package and eligibility of the elderly, setting up M&E framework, procurement of equipment and cloud platform for service delivery, improving the quality of aged care facilities, purchasing basic package of aged care services for the targeted elderly in urban and rural areas, as well as the procurement of works for expansion and rehabilitation of aged care infrastructures. The Program tends to shift from the traditional “hardware” provision to enhance provision of basic aged care services as “software upgrading”, to improve and enforce aged care standards, to promote coordination and integration of aged care and health care services, and to expand workforce training. In that sense, the service purchasing will be accounting a large portion of the investment under the Program.

3.2 Budget Execution

3.2.1 Treasury Management and Funds Flow

As described in the budgeting and planning section, three funding sources under the Program include the government general budget, IBRD loan, and AFD loan. Given the nature of the government’s debt obligation, the foreign loans cannot be integrated into either the general budgeting system or the treasury payment system.

As for the payment of general budget funds under the Program, all the payments are going through the treasury system maintained by FBs. Each county maintains a Treasury Single Account (TSA) and makes payments through a network of commercial banks. The budget quota subject to activities approved by the People’s Congress are documented under each budget account, mainly 208 and 229 under the Program to monitor and control the nature and amount of the payment requested within the approved budget plan. Two payment modalities, Direct and Authorized payments are allowed in the China treasury system. Direct payments, applicable to larger payment amounts above the threshold given by the FBs are reviewed and approved by the relevant FB sector division and signed off by management before payment through the treasury system. Authorized payments for amounts below the threshold are entered in the treasury system by the budget entity and payment is made by the commercial bank and cleared overnight. The direct payments are increasingly encouraged and supported by the FBs to offer more ownership to the budget execution agencies. Vendor or contractor invoices include vendor bank account number and other relevant information to make the payment. The budget entity retains the original documents. Through observation of the payment process in the selected counties under the Program, all the payments observed are going through strict approval procedure under the two modalities.

The allocation and on-lending arrangements of the IBRD and AFD loans will be based on a comprehensive evaluation jointly conducted by DOF and DOCA on the proposed investment cost, debt repayment capacity as well as economic condition of each Program prefecture, and county/district.

For the IBRD loan and AFD loan, according to the government existing policy, Designated Accounts (DA) will be opened in the DOF to maintain the IBRD and AFD loan proceeds. For the AFD loan, it will fully follow the Bank's DLIs verification and recognition concepts. Both IBRD loan and AFD loan disbursed against each DLI will follow the same proportion defined in the project documents. The loan proceeds received by the DOF will be released from the operating account in RMB maintained by the lower level Program CABs through the relevant local FBs based on the funding plan approved by each level's FB and with no-objection from DOCA and DOF. DOCA and each CAB are responsible for using the loan proceeds for the intended purposes and maintain the related accounting records and documents. The Program related funds management mechanism produced by DOCA together with DOF by negotiation would provide guidance on the control and processing procedures regarding the Program funds flow.

AFD has signed a framework agreement with the Bank to harmonize the disbursement process for co-financing funds with the Bank. The withdrawal applications for IBRD and AFD loans will go to the Bank first for internal review. The Bank's loan team will send notification letter to inform AFD of making payments once the withdrawal application is deemed as acceptable.

3.2.2 Accounting and Financial Reporting

For the aged care affairs, a nation-wide government classification system for budget preparation and reporting are being used from MOF throughout FBs of each level. The accounting policies at the Program level is consistent with national public-sector standards. The Program will be implemented at three levels in Guizhou covering five prefectures and 48 counties with budget contributions from the national and three level governments. Computerized budget accounting systems have been utilized by all the finance bureaus and budget implementing entities in Guizhou. The FBs at each level maintain the records of budget appropriation and treasury payments incurred by each budget implementing entity under the budget codes according to the budget accounting regulation issued by MOF. The Program related budget implementing entities, i.e. CABs at each level are following the same budget accounting regulations issued by MOF as well to sets up chart of account and ledgers to record the budget funds received and expenditures incurred. Through observation of the visited CABs and FBs under the Program, since the budget fund payments are made through the treasury account maintained by corresponding finance bureau upon payment requests from the implementing agencies, reconciliations are conducted between the treasury department of FB and the budget implementing entities in respect to the budget allocation and budget execution on semi-annual basis. All the original accounting documents will be maintained by CABs. However, notably, the same aged care related expenditures—which were recorded under different budget accounts/codes by certain districts/counties or in different fiscal years—may cause the Program budget execution reports not able to reflect the exact budget execution status and abnormal fluctuation under certain budget lines. In addition, under certain budget accounts/codes, the figures accounted are not limited to the Program related expenditures.

In terms of the budget execution reporting, a computerized system with standardized format is set up from MOF to each level FBs and the budget implementing entities. The budget implementing entities prepare the budget execution report and submit through the computerized system to the division who is responsible for sector budget reporting under corresponding FBs for review and consolidation. The budget reporting system is not automatically connected to the budget accounting system either in FBs or in the budget implementing entities. As such, the budget execution entities need to manually make the data entry to the budget reporting system. The errors or difference are checked out through reconciliation conducted. The whole provincial aged care sector budget execution reports are consolidated through FBs at each level and finally submitted to and consolidated by the DOF before submitting to MOF. All the Program related CABs and FBs are noted to be taken the same practice during the assessment. Through review of the existing budget execution report, the format is acceptable to the Bank for the Program use. However, in the existing MOF designed budget reporting system, it's not allowed to set up a new profile or budget line to reflect the Program related information. For CABs, a statistic report with different expenditures classification is consolidated by DOCA as required by the Ministry of Civil Affairs (MOCA). However, some of the figures in the statistic report are different from the budget execution report because they are following different protocols and are not fully collected from accounting data. Meanwhile, given the Bank and AFD loans will be maintained and repaid from DOCA and CABs rather than by FBs as the way taking for the government general budget funds, a Program specific financial report is required and responsible by each CAB. The Program financial report will be consolidated by DOCA. A Program specific accounting and financial reporting guideline for work standardization produced by DOCA together with DOF is required to be strictly followed by relevant entities.

3.2.3 Procurement Processes and Procedures

The procurement of works (including plant and materials to be incorporated in the permanent works), goods and consultancy services related to the works including geological exploring and survey, engineering design, cost estimating and pricing, construction supervision, and research study should follow the procedures specified by TBL effective on January 1, 2000, and revised on December 28, 2017, as well as the implementation regulations enacted by the governments at the different levels. At the central level, the latest Implementation Regulation issued by the State Council came into force on February 1, 2012 and revised on March 1, 2017.

The procurement of goods, works and services included in the government catalog for centralized procurement or the estimated value is above the relevant thresholds should follow the procedures specified by GPL effective on January 1, 2003, as well as the implementation regulations enacted by the governments at the different levels. At the central level, the latest Implementation Regulation issued by the State Council came into force on March 1, 2015.

The National Development and Reform Commission (NDRC) and development and reform commissions (DRCs) at different levels are responsible for providing guidance and coordinating procurement activities governed by the TBL. In addition, the DRCs monitor the implementation of procurement for the critical projects. Relevant sectoral government authorities at different levels shoulder the supervisory responsibilities for the implementation of procurement.

MOF and FBs at different levels are responsible for providing guidance and coordinating procurement activities governed by the GPL. Relevant sectoral government authorities at different levels shoulder the day-to-day supervisory responsibilities for the implementation of procurement.

It is stipulated in the GPL that the formulation of catalog for centralized procurement and the thresholds rest with the provincial governments. The thresholds specified by Guizhou provincial government are RMB 0.3 million for goods and services, RMB 0.5 million for civil works. It means that for any contract above the threshold, the GPL shall apply. In addition, there are thresholds for open competitive bidding under GPL, i.e. RMB 1 million for goods and services, and threshold for civil works is consistent with the one established by the state authority.

In parallel, NDRC issued the thresholds for open competitive bidding under TBL on May 1, 2001. The thresholds are RMB 1 million for goods, RMB 0.5 million for services, and RMB 2 million for civil works. Any single contract with the estimated value exceeding the threshold should go through open competitive bidding.

In practice, in combination of both the thresholds under TBL and GPL, any goods or service contract above RMB 1 million should go through open competitive bidding and follow the procedure specified in the GPL, while any works contract above RMB 2 million should go through open competitive bidding and follow the procedure specified in the TBL. For the works with the value in the range from RMB 0.5 million to RMB 2 million, GPL should apply. Therefore, it became a common practice in Guizhou that TBL and its implementation regulation apply to the procurement of civil works and GPL and its implementation regulation apply to the procurement of goods and services.

The GPL allows a set of procurement methods including open competitive bidding, and other methods equivalent to limited competitive bidding or shopping, as well as single source. The TBL focuses on open competitive bidding while allowing the adoption of limited competitive bidding or shopping under the special circumstances. Under both laws, it is clearly stated that open competitive bidding is the most preferred procurement method.

For any contract above the threshold for open competitive bidding, the procurement should be carried out on the platform of public resource transaction center.

The procuring entities are allowed to carry out procurement for the contract below threshold for open competitive bidding without going through the platform of transaction center.

To conduct procurement through open competitive bidding, the procuring entities are required to hire a procurement agent certified by the government authorities and having registered with the local transaction center. The role of procurement agent is to assist the procuring entities to go through the procedures/formalities and organize the bidding process. The span of service offered by the procurement agent is normally starting from procurement planning and ending at the time of issuance of notification of award.

In line with the administrative method effective on January 1, 2018, which enacted by NDRC, the procurement notice would be published on “China Tendering and Bidding Public Service Platform” or the provincial electronic platform. The electronic platforms at different levels are interlinked. The information published through prefecture platform is automatically synergized on the provincial platform and the national platform. The method requires that the procurement notice shall contain the necessary information for the potential bidders to understand the context of procurement activities, including project name, content, scope, size and source of fund, the qualification criteria, the time and method to acquire the bidding document, the deadline for bid submission, the contact person for procuring entity and its procurement agent and so on.

There are no standard bidding documents issued by the local government authority. Neither local financial authorities or transaction centers provide any reference documents. Nevertheless, line ministries set up the standard bidding documents that are applicable sector wide. Both TBL and GPL and the implementation regulations prohibit the bidding documents showing preference to particular bidder by setting forth biased qualification or technical requirement or limiting or excluding potential bidders by adding unreasonable criteria or conditions. Moreover, any criterion not mentioned in the bidding documents shall not be used for bid evaluation. The bidding documents are normally comprising two major parts, one is the commercial part, which is often prepared by the procuring entity with the assistance from hired procurement agent, while the other part is technical part, which would be prepared by the design institute or external consultant on the basis of the demand raised by the procuring entity.

TBL states that upon the publication of procurement notice, the bidding documents should be available for at least 5 calendar days while the GPL requires that at least 5 working days should be allowed for the bidders to purchase the bidding documents.

Both TBL and GPL specify that at least 20 calendar days shall be allowed between availability of the bidding documents and the deadline for bid submission.

The bidder is required to submit the objection to the bidding documents not later than 10 calendar days prior to the deadline for bid submission. The procuring entity shall respond to the bidder within 3 calendar days upon receipt of the objection.

The procuring entity is allowed to make clarification or modification for the issued bidding documents. In case the clarification or modification have substantial impact on the preparation of bid, all the potential bidders who have acquired the bidding documents shall be notified of the clarification and modification in writing not later than 15 calendar days

prior to the deadline for bid submission. In case the time left is shorter than 15 calendar days, the procuring entity shall properly extend the deadline for bid submission. Such provision has been included in both implementation rules for TBL and that for GPL.

In line with the implementation rules for TBL, the procuring entity may set up baseline price for reference, which, however, shall not be taken as basis of rejection of bid. In addition, the procuring entity may also set up a maximum bid price, beyond which the bid shall be rejected.

Implementation rules for TBL specifies that if less than 3 bidders submit the bids, the procuring entity shall re-invite the bids while GPL specifies if less than 3 suppliers can eventually meet the qualification criteria or are substantially responsive to the requirement of bidding documents, all the bids shall be rejected. The purpose of setting up such provision is to ensure there is adequate competition in the bidding process.

It is stipulated in the TBL that the bid evaluation committee is held accountable for the bid evaluation. The committee is comprising of procuring entity's representative and the economic and technical experts, which would be randomly selected from the database set up by relevant authority. Although GPL and its implementation rules do not particularly specify the constitution of bid evaluation committee, in reality the setup of bid evaluation committee has followed the same principle as indicated in the TBL.

In Guizhou, an expert database is maintained by the "office of comprehensive evaluation experts management committee", which is housed at the provincial DRC. The platforms under public resource transaction centers have access to the database. Because every open competitive bidding is going through the platform of transaction center at different level, the evaluators are actually selected from this database regardless of whichever law applies.

The TBL specifies the contract should be awarded to the lowest evaluated responsive bid which meets the evaluation criteria in the bidding documents.

The GPL provides two methods of bid evaluation: (i) the contract is awarded to the lowest evaluated responsive bidder; or (ii) the contract is awarded to the bidder that meets the substantial requirement and obtains highest scores for the quantified evaluation elements.

The intent of contract award shall be disclosed to the public for at least 3 calendar days.

Within 30 calendar days after issuance of the notification of award, the procuring entity and the winning bidder shall sign the contract. The winning bidder should furnish the performance security in the amount of exceeding 10 percent of the contract value, if so required in the bidding documents. Implementation rules for TBL specify the procuring entity should return the bid securities within 5 calendar days after the signing of contract while the timeframe becomes 5 working days according to the implementation rules for GPL.

3.2.4 Contract Administration

The responsibility of contract implementation rests with the party who sign the contract with the winning bidder. Regardless of which law applies, the government authority is not involved in the day-to-day management of contract implementation. In accordance with the laws, the contractor, supplier or consultant shall not assign the contract to any other party while the contractor or consultant may sub-contract the non-critical component or contract activity, subject to prior concurrence by the employer or the client.

In the process of assessment, the provincial DOCA, 5 prefecture CABs, and 10 district/county CABs, namely Panzhou, Zhongshan, Yunyan, Xiuwen, Huichuan, Suiyang, Guiding, Duyun, Xingyi, and Pu'an, furnished the data on the timeliness of contract implementation. Each executing agency provided up to 10 contracts that were carried out in the past 3 years. The contracts were involving the works on rehabilitation of welfare homes, nursing homes, as well as small consultancy assignment such as sectoral study, design and survey. The data on the timeliness is summarized as below. It shows that most of contracts can be completed within the contractual timeframe.

Table 2: Timeliness of Contract Implementation

Pref. /Dist./ Cty.	No. of contracts sampled	No. of contracts completed as originally scheduled	No. of contracts with delay	Delay against original completion date
Panzhou	2			
Zhongshan	3	3	0	0
Liupanshui	6	6	0	0
Yunyan	1	0	1	17% (2 months)
Xiuwen	7			
Guiyang	5	5	0	0
Huichuan				
Suiyang	3	2	1	58% (7 months)
Zunyi				
Guiding	3	3	0	0
Duyun	2	2	0	0
Qiannan	1	0	1	?
Xingyi				
Pu'an	2	2	0	0
Qianxinan				

The executing agency should ensure that the contract is completed at the cost that is consistent with the contractual value. Any cost overrun shall be going through the approval procedures in line with the contractual conditions and the local regulations. First, the variations leading to cost overrun need to be verified by the supervising engineer. Second, the justification and costing of variations should be endorsed by the employer. Third, depending on the value, the variations would be subject to clearance by the line government agencies. In particular, if the aggregated value is expected to exceed the original budget materially, the case shall be reported to the financial authority to seek clearance for additional fund allocation.

In the process of assessment, the provincial DOCA, 5 prefecture CABs, and 10 district/county CABs, provided the relevant information on the variations and cost overruns. The data on the cost control is summarized as below. It shows that 7 out of 24 contracts

had cost overruns against the contractual value, accounting for 29 percent of the contracts. Indeed, the cost overrun happened only in one batch of contracts about construction works for rural nursing homes in Xiuwen County. The average cost overrun was about 20 percent of the original contract value, which was exceptional. There was no any other case of cost overruns in most of the cases.

Table 3: Cost Overruns

Pref. /Dist./Cty.	No. of contracts completed	No. of contracts where cost overrun took place	Range of cost overrun	No. of contracts where cost overrun exceeds 15%
Panzhou	1	0	NA	NA
Zhongshan	3	0	NA	NA
Liupanshui	6	0	NA	NA
Yunyan	1	0	NA	NA
Xiuwen	7	7	7-29%	4
Guiyang	5	0	NA	NA
Huichuan	-			
Suiyang	1	0	NA	NA
Zunyi	-			
Guiding	0	0	NA	NA
Duyun	0	0	NA	NA
Qiannan	0	0	NA	NA
Xingyi	-			
Pu'an	0	0	NA	NA
Qianxinan	0	0	NA	NA

For civil works contracts, it is mandatory that a supervising firm is hired to assist the employer to monitor the day-to-day implementation and exercise the quality control function. Upon the completion of works, the final acceptance would be jointly undertaken by representatives from the employer, the contractor, and the line government agencies including local FB, environmental protection bureau, local administration of quality supervision and so on. The acceptance is undertaken in line with the relevant national code or standard that is applicable for the works.

For goods contracts, it is normally required in the contract that 10-20 percent of the contract payment would be made against the acceptance of the goods delivered. In case of any dispute, the purchaser and supplier may submit the case to third party quality inspection agency. In addition, the contract normally stipulates the warranty period of at least one year, within which the supplier is obliged to address the defects in quality and to make repair or replacement as necessary. The warranty period is covered by the performance security.

For consultancy service contracts, the deliverables and outputs under the assignment are subject to review and assessment by an independent panel. The panel is mainly comprising of the experts in this area in addition to the government officials. The corresponding payment would not be made until the consultant addresses the concerns raised by the panel and the quality of the report is to the panel's satisfaction.

It is noted that payments are made to the contractor, supplier or consultant in line with the payment conditions and terms of the signed contract without major delay. Usually it takes

about 1 to 4 weeks after the application for payment is received by the executing agency. As one local practice, to prevent payment from exceeding the amount certified by the final audit, it is often stipulated in the contract that the payment would pause as soon as the aggregated payment reaches 80 percent of the contract value. The remaining 20 percent of payment would only be made upon the completion of government final audit. Normally it takes 1- 2 years after the completion of project the final audit can be concluded. However, in some extreme cases, the final audit was concluded in 5 years.

The dispute resolution procedures are included in the contract. The contract parties may resolve the contractual dispute through amicable negotiation. If both contract parties cannot reach agreement through negotiation, the contract offers the option that either party may submit the case to arbitration committee or go through the litigation process. If the case is submitted to arbitration committee, unless one party sues to revoke the arbitration decision, the case is not allowed to be resubmitted to the court for litigation. In the past 3 years, there was scarce case resolved through arbitration and lawsuit.

Table 4: Quality Issues and Non-performance of Contractors

Pref. /Dist./ Cty.	No. of contracts sampled	No. of contracts with substantial quality issues	No. of contracts with non-performance of contractors
Panzhou	2	0	0
Zhongshan	3	0	0
Liupanshui	6	0	0
Yunyan	1	0	0
Xiuwen	7		
Guiyang	5	0	0
Huichuan	-		
Suiyang	3	0	0
Zunyi	-		
Guiding	3	0	0
Duyun	2	0	0
Qiannan	1	0	1
Xingyi	-		
Pu'an	2	0	0
Qianxinan	-		

3.3 Internal Controls

3.3.1 Internal Controls

A well-developed control environment was perceived during the assessment, reflecting from the strong attention for improving the control procedures within the implementing entities as well as the intensive actions on inspections, performance reviews and audits from the perspectives of the budget holders.

The internal control system is in place at the provincial, prefecture, and district/county levels, which ensures the efficient use of the government funds including the Program funds. Through observation and discussion with DOCA and the visited prefecture and county/district CABs, internal controls are paid much attention, which comprehensively covers major processes, including program policies, planning, procurement, activity

implementation, final project acceptance, and payment. The requirements are officially documented in written and strictly followed by relevant people. For each payment from the general budget, sufficient control on review and oversight are carried out by FBs through the treasury system. The foreign loans will follow the mechanism on the Program funds management with clearly defined control and processing requirements and procedures.

Under the Program, the basic aged care services package will be delivered first to the current beneficiaries (Tekun beneficiaries) then expanded over the life of the Program to other categories of the vulnerable elderly population. In the current practice, to ensure the government subsidies for Tekun to be fully delivered to eligible beneficiaries, a series of control mechanisms are in place and implemented as follows.

- *Policy assurance.* Government policies from the national and provincial levels, i.e. circular#178 of 2016 by MOCA and circular#1 of 2017 by DOCA clearly defines the beneficiary eligibility criteria, procedures on application, evaluation, approval, disclosure, and withdrawal/termination as well as the service scope, service types relevant to the subsidies.
- *Procedures.* Mechanisms to ensure all the qualified beneficiaries are fully covered and fully supported are included in the policies and strictly implemented by the government entities. Two-way application mechanism, self-application plus household check in field for qualification screening is responsible and carried out by village and township government. The preliminary screening data are submitted to county CAB for approval. Based on the information provided, county CAB will conduct information double check with household registration data maintained by local police department to ensure all the qualified beneficiaries have been registered. The information for qualified beneficiaries is entered into a provincial-wide information system which is maintained by DOCA. All the qualified beneficiaries and subsidizing standards are disclosed at both screening and approval stages at villages/communities.
- *Payment to the beneficiaries.* All the personal information of the qualified beneficiaries will be passed on to the related FBs. A debit card to receive the subsidies are opened by FBs in the name of the beneficiary. The subsidies are directly paid to the designated personal account on monthly basis from FB.
- *Post review and audit.* The performance of the utilization of the subsidies are included in the supervisions conducted by DOCA, CABs and joint supervision conducted by CABs and FBs. Supervisions are conducted annually on sampling basis. Through discussion and review the supervision reports at DOCA in the past two years, no misuse issues are noted because the baseline information of the Tekun beneficiaries are transparent and well maintained in the government system and the monitoring mechanisms are strictly implemented.

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.

For now, aggressive stance and actions are being taken by Government of China (GOC) at nation-wide against fraud and corruption which is one of the biggest issues faced by the government. The Guizhou Provincial Discipline-inspection Commission (GPDC) assigned inspection team resides in DOCA. Three kinds of significant events, i.e. significant personnel appointment, significant project identification, event with significant value in money, usually above RMB 1 million need to be copied to the inspection team for concurrence while submission for the DOCA's management discussion. The inspection team is taking independent role and report to GPDC directly. The discipline-inspection commission is established at each level government to take the inspection actions to the corresponding government agencies.

Furthermore, the central government has put the M&E as priority since the 19th Congress of China Communist Party and the Directive document in this regard has been issued as guidance for relevant departments to strengthen the M&E functions. To properly and efficiently manage the government funds, the M&E division of DOF or the related position in lower level FBs are strengthening functions on evaluation throughout the whole process of government funds utilization, i.e. assessment on funds allocation plan, oversight during implementation and performance evaluation upon project/event completion. The FB's M&E covers all the government departments including DOCA and CABs and conducted on sampling basis. For example, sixty projects under 30 departments were selected in 2018 at provincial level. Meanwhile, all the government agencies at Guizhou provincial level was required to follow the M&E concept and government guidance to conduct self-evaluation since 2018. Strengthening M&E function is in big favor of improvement of the value of public funds.

3.3.2 Internal Audit

Within DOCA, prefecture, and district/county level CABs, the independent internal audit department or functioning internal audit duties are not generally and widely established. In addition to improving and following the internal control procedures, they are still purely relying on external audit or inspection to take certain functions of internal audit. As recurrent budget constraint, there are no plans to establish the internal audit department or functions in DOCA and the visited low level CABs in near future. As the sources of funds for both recurrent and project expenditures are from governments, the existing governance arrangements from various funds management aspects are acceptable to the Bank for ensuring the Program funds to be used efficiently and effectively.

3.3.3 Program Governance and Anticorruption Arrangements

A. Complaint Handling Mechanism

For the procurement following TBL, the complaint handling mechanism is comprising of two layers.

The first layer is the procuring entity. The bidder is allowed to raise objection for the bidding documents, the bid opening, and the bid evaluation result to the procuring entity. The procuring entity should make response within 3 calendar days upon the receipt of the objection regarding bidding documents and the bid evaluation result while the reply to the objection for bid opening should be made on the spot of bid opening right away.

The second layer is the line government authority. In case (i) the bidder or the other stakeholder deems that the bidding activity is not in compliance with the laws and regulations; and (ii) the procuring entity's response to the above mentioned objection for bidding documents, the bid opening and the bid evaluation result fails to address the concern, the bidder may file complaint to the line government authority within 10 calendar days since the awareness of incompliances. Within 3 working days upon the receipt of complaint, the government authority should make decision on whether the case can be accepted. Since the acceptance of the case, within 30 working days the government authority should make written resolution.

For the procurement following GPL, the complaint handling mechanism is constituted with two layers as well.

The first layer is the procuring entity. The bidder is allowed to raise challenge for the bidding documents, the procurement process, and the bid evaluation result to the procuring entity within 7 working days since the awareness of the infringement of rights. The procuring entity should make response within 7 working days upon the receipt of the challenge.

The second layer is the line government authority. In case (i) the procuring entity's response to the above-mentioned challenge for bidding documents, the bid opening and the bid evaluation result fails to address the concern; and (ii) the procuring entity fails to make response to the challenge within the time limit, the bidder may file complaint to the line government authority within 15 working days since the expiry of response time. Within 30 working days upon the receipt of complaint, the government authority should make decision should make resolution and notify the complainant and relevant parties.

Under both TBL and GPL, in case the complainant dissatisfies with the resolution, it may legally apply for administrative review or initiate an administrative litigation.

The provincial DOCA, 5 prefecture CABs, and 10 district/county CABs, furnished the data on the number of complaint received in the past 3 years. It shows that there were zero contract involving challenges or complaints. Most of the challenges or complaints were related to the qualification and experience offered in the bids.

B. Anti-Corruption Arrangement

The procurement process and contract implementation are involving procuring entity, procurement agent, the line government agencies and public resource transaction centers. Each entity has its internal rules and code of conduct on preventing and combating fraud and corruption. There is designated institution within each entity, namely discipline and

inspection team, which is independent of the entity and vertically managed by the higher-level discipline and inspection authority.

Furthermore, there are designated government authorities, including supervision agencies at provincial, prefecture and county level as well as anti-corruption agencies under procuratorates at different levels to undertake the function of preventing and combating fraud and corruption.

Every government invested projects are subject to the annual external audit. For some critical projects with large investment, there will be resident auditor to monitor the implementation process apart from the regular audit. For some of government authorities, there is institution in charge of internal audit which also has the function of combating fraud and corruption.

In addition to the complaint handling mechanism, any party or individual may report the cases involving corruptive practice to the discipline and inspection authority.

As the allegations on fraud and corrupt practices are maintained by multiple agencies under different jurisdictions, no existing centralized agency oversees collecting or summarizing the relevant data, there is potential risk that the credible and material fraud and corruption related to procurement could not be reported to the Bank in a timely manner.

The parties involved in the procurement process are lack of awareness of the Bank's list of debarred and temporarily suspended firms and individuals. In addition, the parties may not be aware of the available source to get access to the list. Consequently, there is potential risk that debarred or the temporarily suspended firms and individuals is awarded a contract under or otherwise allowed to participate in the Program during the period of such debarment or suspension.

3.4 Auditing

3.4.1 Program Audit

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 at the government level 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.

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. Most recently, DOCA accepted the budget execution audit in 2014 conducted by provincial audit office. The FM assessment reviewed the 2014 budget execution audit report for DOCA. The auditor expressed an unqualified audit opinion and summarized the findings and recommendations on requirements of refining

the budget preparation, improving the efficiency of budget utilization, strengthening the capacity on accounting. Budget execution audit reports were reviewed as well for four visited CABs under Panzhou municipality (for 2017), Zunyi Prefecture (for 2018), Guiding county (for 2017), and Xiuwen county (for 2017). The four audit reports are all provided unqualified audit opinions by the auditors. The key findings and recommendations raised by the auditors are payments delay to contractors, lack of refined budget preparation, improper accounting treatments, and budget utilization need to be improved. The results area 3 along with DLI6 and mitigating measures addressed on the Program budgeting, accounting, financial reporting and auditing have been targeted to the weaknesses raised by the auditors.

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.

Under the existing audit arrangements, no particular audit reports may fully cover the Program related information and to be available on annual basis. As such, as agreed with the Foreign Funds Application Division of Guizhou Provincial Audit Office, a PforR specific audit subject to the Program specific financial report is needed.

The GPAO will be responsible for the financial audit of the program financial statements. The Program audit will subject to the Program financial report and conducted based on the ToR produced between the Bank and the GPAO.

3.5 Procurement and Financial Management Capacity

3.5.1 Procurement and Financial Management Capacity and Performance

The financial division of DOCA are equipped with qualified staff and all of them get the required certificate being engaged in the financial related business. To ensure the quality and efficiency of the Program financial management, the DOCA outsourced two full time financial staffs who have rich experience with the Bank operations to carry out functions on coordination with the Program implementing entities, finance bureaus and auditors, providing capacity training and guidance to lower level CABs as well as consolidation of the Program financial statements. In each prefecture, county/district visited, 2-3 staff, including the unit chief, are recruited in the CAB. Most of the staff are familiar with the business operation, including required procedures, reporting, annual funds plan preparation and implementation, appropriation status, etc. For counties visited, the necessary documents including copy of each appropriation circular, regulatory documents issued by provincial, prefecture, and district/county governments are all systematically filed. In overall, the public financial management functions in DOCA and the visited prefectures, counties/districts reviewed during the FSA indicated they had adequate budget and staffing to carry out their functions. No delays in budget preparation, budget execution/financial reporting, treasury operations or inspection/auditing were noted that would indicate a shortage in personnel. As mentioned in the mitigating measure for improvement of

implementation of zero-based budget reform, the guidelines and capacity building trainings will be in place during the Program implementation.

The numbers of registered bidders furnished by the provincial transaction center are summarized as below, which implies that there were adequate competitions in the bidding process.

Table 5: Number of Registered Firms

	Works contractors	Goods suppliers	Consultants/Service Providers
Total no. of registered firms	10,818	36,886	2,684

Though most of CABs at the prefecture and district/county level carried out limited number of procurement in the past years, it appears that the open competitive bidding remained the most frequently used method for their procurement. Both TBL and GPL stipulate that the open competitive bidding is the most preferable procurement method, while if the cost estimate is less than the threshold, other methods including Shopping, direct contracting, or limited competitive bidding via invitation can be adopted for procurement. The percentage of procurement methods adopted by the civil affair authorities at provincial, prefecture and county level are sampled and summarized as below.

Table 6: Procurement Method

Pref. /Dist./ Cty.	No. of contracts sampled	No. of contracts using open competitive competition	Percentage of open competitive competition
Panzhou	2	2	100%
Zhongshan	3	3	100%
Liupanshui	6	4	67%
Yunyan	1	1	100%
Xiuwen	7	7	100%
Guiyang	5	3	60%
Huichuan			
Suiyang	3	3	100%
Zunyi			
Guiding	3	3	
Duyun	2		100%
Qiannan	1	?	
Xingyi			
Pu'an	2	1	50%
Qianxinan			

It is mandatory that at least 20 days should be allowed for the preparation of bids. The bid evaluation normally can be completed within one day. Though transaction centers may provide necessary lodging/accommodation to enable the bid evaluation is conducted in more than one day, in few cases, the evaluation needed to be extended to the next day. The intention for contract award should be publicized for 3 days on the website of provincial tendering and bidding public service platform and website of public resource transaction center. It is required in the procuring entity and the winning bidder should sign the contract

within 30 days upon issuance of notification of contract award. The time span from issuance of bidding documents to the signing of contract normally was not exceeding 1-1.5 months.

It shows that there was no serious non-performance of contractor for the sampled contracts. 94 percent of contracts were completed within the contractual completion date, while 6 percent of contracts were delayed for 2-7 months.

The statistics of cancellation and rebidding at the provincial, prefecture, and district/county level is summarized as follows. The number of cancellation and rebidding accounting for less than 9 percent on average. The main cause of cancellation and rebidding included none of bidders were qualified for the contract, there were substantial omission or errors in the issued bidding documents, and the bid price was far beyond the cost estimate.

Table 7: Cancellation and Rebidding

Prefecture	2015		2016		2017	
	No. of cancellation and rebidding	Percentage against total number of contracts	No. of cancellation and rebidding	Percentage against total number of contracts	No. of cancellation and rebidding	Percentage against total number of contracts
Provincial	26	0.5%	29	0.4%	55	0.7%
Liupanshui	31	6%	35	5%	49	10%
Guiyang						
Zunyi	68	7%	145	9%	216	10%
Qiannan	193	8%	197	6%	326	6%
Qianxinan	94	11%	132	14%	170	12%

It was noted that the civil affairs authorities did not have many procurement transactions indeed. Only one county CAB had 7 contracts of construction works for rural nursing homes. In some cases, the district/county CAB only had 1-3 contracts about the disaster relief materials, which were the regular procurement the civil affairs authorities undertook in the past years. Though the local CABs may borrow expertise from the procurement agent or other government owned companies, the lack of knowledge and experience on procurement may lead to the delay or difficulties for the implementation. In particular, except that Yunyan district CAB has been piloting the government purchasing aged care service within the jurisdiction of the district, without going through open competition procedures, basically the aged care service is an area that the government procurement has never touched yet.

3.5.2 Public Resource Transaction Center

The provincial public resource transaction center started running in June 2014. The purpose of establishing the transaction center is to prevent corrupt practice from the upper stream and effectively reduce human intervention to the microeconomic activities. Upon the establishment of transaction center, the bidding of civil works invested by the government or using state fund, government procurement, medicine procurement, state-owned property right trading, land and mining right trading are all carried out at the center.

The centers have been set up at the prefecture level and there is no center at the district/county level in Guizhou. The centers are independent public institutions directly under the local governments. The transactions at the district/county level are entirely centralized to the prefecture center. The transaction center offers the venue for bid opening and evaluation, provides access to the database for bid evaluators certified by the provincial authority, and managing the website that disclose information on bidding opportunity and contract award. In any case the transaction center will not intervene the bidding process.

The centers are well equipped and provide sufficient space enabling multiple bid opening and that bid evaluation may take place in parallel. The information systems run by the transaction center is interlinked nationwide. The information disclosed in sub-center at county level or at prefecture level can be seamlessly transferred to platform at provincial level. The bidders can easily acquire the information on bid opportunity by searching the websites of transaction center. The bidders are allowed to process many formalities on line. Moreover, the centers intend to provide an electronic platform for e-bidding, which enable electronic issuance of procurement notice, publication of bidding documents, bid evaluation, and publication of contract award.

Potential bidders are required to register with the center prior to participating the bidding process. The bidders will be given a token storing the digital certificate after they successfully register with the transaction center. The digital certificate is fabricated and distributed by the firms authorized by the government. Only with the digital certificate, the bidders may purchase the bidding documents, participate in the bidding, and upload or download the relevant documents on the website. The digital certificate issued outside Guizhou province currently cannot be recognized by local transaction centers.

The confidentiality is one of the primary concerns in the process of bid evaluation. The evaluators are randomly selected in a pool managed by a specialized office under provincial DRC. This office is responsible for examining the qualification of recommended evaluators and enroll the evaluators in the list. The evaluators are not informed of the project name or subject to be procured or identity of project owner prior to the bid opening. The evaluation is carried out behind the closed door with the whole process videotaped. Normally the evaluation is concluded in couple of hours and the evaluation result would be disclosed on the website the next day.

The statistics of procurement transactions are summarized as below. Basically, the volume of transactions at provincial and prefecture level was quite large, which reflect the capacity the transaction center has to offer the platform for procurement. As an example, the Guizhou provincial transaction center issued about 6,970 bidding documents, with 50,378 bidders registered and awarded contracts in amount of RMB 26,479 million in 2017. In most of cases, the civil works accounts for the largest portion of the total number of transactions. On some occasions the value of services was far outweighing the other categories because the PPP transactions were categorized as service procurement.

Table 8: Volume of Transactions and Staffing of Local Public Transaction Centers

Prefecture	Total number of contracts			Total value of awarded contracts (million RMB)		
	2015	2016	2017	2015	2016	2017
Liupanshui	W: 422	W: 526	W: 402	W: 9,493	W: 20,149	W: 18808
	G: 95	G: 98	G: 133	G: 452	G: 505	G: 411
	S: 20	S: 133	S: 34	S: 97	S: 13,077	S: 401
Guiyang						
Zunyi	W: 500	W: 741	W: 984	W: 31,122	W: 44,331	W: 62,789
	G & S: 423	G & S: 900	G & S: 1,157	G & S: 1,455	G & S: 6,807	G & S: 23,539
Qiannan	W: 164	W: 292	W: 438	W: 144	W: 8,772	W: 11,805
	G 1,170	G: 739	G: 1,118	G: 1,085	G: 2,270	G: 2,190
	S: 189	S: 203	S: 366	S: 1,093	S: 20,004	S: 59,117
Qianxinan	W: 521	W: 475	W: 626	W: 7,855	W: 9,698	W: 34,918
	G: 238	G: 298	G: 455	G: 628	G: 8,694	G: 66,022
	S: 105	S: 164	S: 303	S: 92	S: 338	S: 1,978

W: Civil Works; G: Goods, S: Services

Based on the assessment of performance information and institutional arrangements, the fiduciary systems adopted have sufficient capabilities to ensure the successful implementation of the program in achieving the development objectives of the program.

Section 4: Program Systems and Capacity Improvements

Risk	Mitigation action	Timing	Type of action
<p>The Program will be implemented at the provincial level and in five prefectures (Guiyang, Liupanshui, Qiannan, Qianxinan, Zunyi) with a total of 48 districts/counties. The procuring entities may not be aware of the list of debarred and temporarily suspended firms and individuals declared by the World Bank and other multilateral development banks. There is risk that the contract would be awarded to the debarred or temporarily suspended firms or individuals.</p>	<p>The proposed mitigation actions are: (i) Guizhou DOCA shall officially issue an instruction to the procuring entities at the district/county level that no contract is allowed to be awarded to the debarred or temporarily suspended firms or individuals; (ii) the access to the list of debarred and temporarily suspended firms and individuals shall be provided in the operation manual; (iii) it should be clearly defined in the operation manual that the procuring entity shall take the responsibility to verify if the selected firm or individual is enlisted; and (d) the operation manual should require that the ToR for statutory audit include checking the eligibility of the selected firms or individuals against the debar and suspension list.</p>	<p>By August 31, 2019</p>	<p>PAP</p>
<p>Bank might not be informed of serious fraudulent and corrupt practices in the process of implementation for the Program</p>	<p>The proposed mitigation actions are: (i) operation manual should specify that the procuring entity shall report the allegations of fraud and corrupt cases to the Bank on the regular basis in the Program progress report as required in the loan agreement; and (ii) the Bank's right to conduct an inquiry into such allegations or other indications, independently of or in collaboration with the Borrower regarding activities and expenditures supported by the Program and the related access to require persons, information, and documents will be observed in accordance with the standard arrangements for this purpose between the Government of the People's Republic of China and the Vice Presidency Integrity Department ("INT") of the Bank.</p>	<p>By August 31, 2019</p>	<p>PAP</p>
<p>Other than goods/materials, civil affairs authorities at different levels had little experience on procuring works and services, in particular, the purchasing aged care service through competitive process remains a blank area.</p>	<p>Especially for aged care service, DOCA may explore the possible procurement approaches that fit for purpose better within the existing structure of laws and rules. DOCA will develop provincial guidelines for government purchase of basic aged care services, which lay out the selection procedures for service providers, contracting requirements, performance review, verification, financial reporting, and payment arrangements as guidance for the procuring entities.</p>	<p>By October 31, 2019</p>	<p>PAP</p>
<p>The procurable activities under the Program have not been clearly defined yet. The needs assessment to be carried out under the Program is supposed to inform the size of demand.</p>	<p>The categories of procurable activities should be defined in the operation manual. In particular, the operation manual shall also establish a verification and approval procedure to ensure that the procurable activities are consistent with the result of need assessment.</p>	<p>By August 31, 2019</p>	<p>PAP</p>
<p>Three funding sources are under the Program. The Bank and AFD loans cannot be incorporated into the existing budgeting and treasury systems. Two separate planning and budgeting lines—one for general budget and one for foreign loans—have to be going through under the PforR. Inefficiency on the Program funds management may be incurred.</p>	<p>The mechanism integrating the planning and funds flow of the two budget lines produced by DOCA and DOF, concurred with the Bank and finalized by negotiation should be well followed by the relevant agencies.</p>	<p>Always</p>	
<p>No Program specific accounting profile and financial report can be utilized under existing budget reporting system.</p>	<p>The Program specific accounting profile and financial reporting package need to be set up according to the guidelines produced by DOCA and DOF by August 31, 2019.</p>	<p>Always</p>	<p>PAP</p>

No Program specific audit report can be utilized under the existing budget execution audit arrangements.	The Program specific audit arrangement need to be available.	Always	PAP
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Section 5: Implementation Support

The proposed fiduciary implementation supports include:

- Reviewing implementation progress and working with the task team to examine the achievement of Program results;
- Helping the borrower resolve difficult implementation issues and carrying out the institutional capacity building;
- Monitoring the performance of fiduciary systems and audit reports, including implementation of the PAP;
- Monitoring the implementation of the PforR anti-corruption guidelines and reporting the fraud and corrupt case to INT as necessary;
- Creating the awareness of procurement audit requirements for government audit offices and delivering the training to enhance the capacity of auditors; and
- Monitoring changes in fiduciary risks to the Program and, as relevant, compliance with the fiduciary provisions of legal covenants.