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Economic Accountability Audit Carried Out in China

(Draft)

To be delivered by

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Ladies and Gentlemen, Friends:

Good morning.

Standing here at the forum and talking about the theme of *Power to the People: Indicators for Accountability*, I am imbued with a spontaneous sense of responsibility. To ensure people claim their rights and safeguard their rights’ of claiming has always been the highest goal we are pursuing, the core value that auditing in China are centering around, and the ideal that 80,000 government auditors in China are striving for with unremitting efforts. The people hold the power of a nation while the government exercises the right to manage the economy and society on behalf of the nation. As an agent to exert people’s power, the government should make good use of the power endowed by the people and provide a voluntary and effective service for the nation, society and public, and right here lies in the responsibility of the government. Whether the responsibility of the government has been effectively fulfilled, has a bearing upon the social progress and economic development, and is also a presupposition for the claiming of citizen’s rights as well as insurance for survival and happiness of every citizen. In this sense, the fulfillment of
government’s responsibility should be supervised.

In our view, the most effective supervision upon the fulfillment of government’s responsibility is to oversee the process of exercising the power and see to its outcome. During this process, it is of great importance to carry out effective supervision upon the behavior of government and its administrative head as they are endued with the power of final decision-making and action-executing within their jurisdiction, and the right of managing and utilizing a large amount of public funds and resources. So with regards to the overseeing of the fulfillment of government’s responsibility, the core and key is to make effective supervision upon the process in which governments and its administrative heads at various levels are exercising the power and performing their responsibilities. Under this supervision mechanism, audit institutions, independent and specialized supervisory organs with professional technical advantages, can play a very important role. In view of this, combining the basic principles of auditing and duties of government auditing supervision, China has established a brand-new form of auditing supervision, namely the system of economic accountability audit.

Economic accountability audit refers to the supervision by audit
institutions through auditing government and financial revenues, expenditures, as well as relevant economic activities and situation of government and its departments, or of state-owned enterprises and enterprises with state-owned capital controlling their shares, in order to supervise, evaluate and assure as to how the principal leading persons of those districts, departments or units perform their economic accountabilities. Economic accountabilities here means the duties and obligations of the audited leading persons in respect of managing and utilizing public finance funds, national resources, state capital and relevant social funds which fall into his or her jurisdiction when assuming certain office.

Economic accountability audit is consistent with traditional model of auditing in terms of theoretic foundation. The origin of auditing is along with the emergence of social division of labor and depository duty. The so-called depository duty here is a form of responsibility deriving from principal-agent relationship and is essentially the same as what the connotation of accountability in economic accountability audit can tell. The birth of every system can be ascribed to its given social groundwork and historical background, and economic accountability audit is not an exception. Audit institutions of China were established in the year of 1983 and it was just in 1980s that catering to the ever deepening of
economic restructuring, some audit institutions in China started the exploration of economic accountability audit over leading persons of state-owned enterprises and then administrative heads of governments were also incorporated into the group of persons subject to audit. In May 1999, the State Council formulated *Provisional Rules Governing Economic Accountability Audit over Party and Government Leaders at or below county levels for Their Terms of Office* and *Provisional Rules Governing Economic Accountability Audit over Leading Persons of State-owned Enterprises and Enterprises with State Capital Controlling Their Shares for Their Terms of Office*. Soon economic accountability audit has been widely undertaken in China. As stipulated in Article 25 of the Audit Law of the People’s Republic of China revised in 2006, “Audit institutions shall, in accordance with the relevant regulations of the State, supervise through auditing the principal leading persons of government departments and of other units subject to auditing by audit institutions as stipulated by law as to how they perform, during their terms of office, their economic accountabilities in respect of government and financial revenues, expenditures as well as relevant economic activities of their districts, departments or units.” So in China, it is clearly stipulated in the law that economic accountability of leading persons shall be audited.

According to traditional audit theory, auditing could be divided into two
general types: financial audit and performance audit. In our opinion, economic accountability audit in China has combined characteristics of both financial audit and performance audit and also stood out with its unique features, thus making itself a new type of auditing in the following perspectives.

- **Auditees.** Economic accountability audit is conducted to audit leading persons of the various departments of the State Council, of the local people's governments at various levels and their departments, the State institutions as well as other public organs, institutions and organizations using government funds, leading persons of enterprises and monetary institutions either state-owned or with state capital dominate or predominate, as well as units, departments or districts that leading persons belong to. In other words, economic accountability audit covers both supervisions over the Persons and auditing over the Units, though with the former functioning as the core issue. While both financial audit and performance audit fall into the type of unit-oriented auditing with supervision upon the Persons only working as an instrument or ramification for overseeing Units.

- **Objectives.** Economic accountability audit is targeted at supervising, evaluating and assuring the fulfillment of economic accountability of auditees. While traditional auditing is to supervise, evaluate and assure
the authenticity, legality and performance of government and financial revenues and expenditures or assets, liabilities, profits and losses of auditees.

- **Methodology and Evaluation Criteria.** Besides traditional audit methodology, economic accountability audit shall also use Decision Analysis, Behavior Impact Assessment, etc. The approach and mode of audit evaluation has evolved from traditional static evaluation to process-oriented analysis and evaluation as well as dynamic evaluation. The evaluation criteria have also experienced changes and adjustment.

- **The Mode of Managing and Organizing Audit.** Economic accountability audit shall be executed by audit institutions with the involvement of other departments in charge of personnel, inspection, state-owned assets supervision and administration. Audit institutions and departments in charge of personnel, inspection, and state-owned assets supervision and administration shall jointly set down plan for economic accountability audit. Audit institutions are responsible for independently exercising audit assignments while the audit results could be used as a benchmarking reference by departments in charge of personnel, inspection and state-owned assets supervision and administration to decide whether the audited persons could be appointed to a new or higher position, or whether they should be
punished or awarded.

In the practice of executing economic accountability audit in China, we are mainly concerned with the following aspects to supervise, evaluate and assure the behaviors (management, administration and decision-making, etc) of audited persons, and impact incurred in the course of fulfilling their economic accountabilities for their terms of office:

- General economic situation, corporate progress, operation achievements and task performance, fulfillment of relevant economic indicators and operation targets;
- Whether key state economic policies have been complied;
- Authenticity, legality and performance of relevant government and financial revenues and expenditures, or assets, liabilities, profits and losses;
- Internal administration as well as its effectiveness and effects;
- Regularity, procedures and effects of momentous economic decision-making process;
- Whether the audited persons have observed financial and economic laws, regulations and stipulations with regard to building a clean government;
Practically, in view of the actual economic growth and social progress in different stages of development or specific region that the audited person belongs to, we shall also make adjustments to what should be audited so as to carry out a more responsive economic accountability audit. In recent years, the Chinese government has put forward various development conceptions like “Scientific Development”, “Building a New Socialist Countryside” and “Building a Harmonious Society” and made efforts to carry out and implement the above-mentioned notions. Correspondingly, in the audit over leading persons of governments, auditors shall also check their performance in the field of promoting environmental protection and social progress, such as whether arable land protection and land policy has been implemented, whether targets for energy-saving and pollutants emission-reducing have been reached, whether medical service, education and social security undertakings have been improved, whether agriculture policy has been executed and whether the management and utilization of agriculture funds has been optimized. It is believed that if we could make certain what to audit in a scientific and effective manner, try to make it cover various occupational behaviors of economic accountability bearer such as management, administration and decision-making, and then supervise, evaluation their behavior as well as
its influence, we shall be able to oversee, promote and steer leading persons of governments to fulfill their responsibilities in the right way, enhance and improve their governing capacity and arts of governance, so as to ensure the accomplishment of governments’ set objectives and people’s rights.

It is not difficult to imagine how much more difficult it is to bring the above-mentioned audit tasks to success while ensuring quality of audit assignments than traditional financial revenues and expenditures audit and performance audit. Besides the exploration and practice in the utilization of new and effective audit mode, methodology, as well as IT techniques such as Computer-aided audit and Database Management System, the spirit of diligence and devotion to work should be given due consideration for carrying out economic accountability audit. For instance, auditors in Huangnan Autonomous District of Qinghai Province in China often had to trudge for five hours to homes of herdsmen in Qinghai-Tibet Plateau for verifying whether funds used for converting land for pasture and alleviating poverty have been granted.

After more than twenty years’ development, the system of economic accountability audit in China has been crowned with full success. According to statistics, during the period of 2003-2006, audit institutions
in China have audited about 133,000 leaders of governments and their departments, as well as roughly 7,500 state-owned enterprise leaders. By the year of 2006, accumulated total of audited administrative heads at county and city levels have reached more than 4000 and 12 ministers or governors have been audited too. Up to now, economic accountability audits carried out in China have discovered totally funds of over 23 billion RMB (3 billion US$) involved in acts of violating laws and regulations, funds of over 28 billion RMB (3.7 billion US$) relating to malpractice in management, and loss and waste amounting to 1.7 billion RMB (2.2 billion US$), for all of which audited persons are directly liable. In response to the audit results, personnel departments have demoted or dismissed more than 300 leading persons and over 1800 persons involved in irregularities have been referred to inspection authorities or judicial organs by the Chinese audit institutions. It is proved that, through the supervision, promotion and steering work by economic accountability audit, sense and capacity of leading persons of governments to fulfill their responsibilities in the right way has been improved, governing capacity of governments been enhanced, effectiveness and effects of administration work been promoted and the claiming and guarantee of people’s rights been ensured more or less. It would a mission impossible to figure out such tremendous social benefits brought by economic accountability audit in pure numbers.
The system of economic accountability audit is a kind of audit supervision mechanism nurtured and evolved in China, compatible with the development of politics and economy. As it directly relates to the supervision over the fulfillment of government’s accountability as well as the claiming of people’s democratic rights, its evolution in China shall incorporate new connotation and vigor to the development of auditing in China and the world. We firmly believe that under the staunch leadership of Chinese government and in the spotlight of auditors around the world, Chinese auditors shall exert themselves to make a new historic leap. With the further optimization of the system of economic accountability audit, a health economic development and social progress shall be seen in China and people’s democratic rights shall be guaranteed to the most extent.