



Social Security Reform Co-operation Project  
中国 - 欧盟社会保障合作项目

# EU – China Compared Financial Aspects

Grayson Clarke ITAT Member for Financial Management

# Seven Areas of Comparison



Social Security Reform Co-operation Project  
中国 - 欧盟社会保障合作项目

- Organisation and Structure
- Financing
- Contribution Assessment and Collection
- Budget Management
- Financial Management
- Accounting
- Audit

# Organization and Structure



EU-CHINA

Social Security Reform Co-operation Project  
中国 - 欧盟社会保障合作项目

## • EU

- Vertically Integrated but some sub-national level administration
- One or more National agencies (for UI, MI, Pensions)
- Agencies operate performance based contract
- Operating budgets provided through parliament grant
- Accountability through Ministry and Executive Board
- Accountability to Parliament Committee(s)

- China
- Horizontal at each tier of Government
  - Some integration on specific insurances (pension) and n city provinces
  - Widespread use of agencies
  - Structure of agencies differ across China
  - Precise management and financial accountability relationships not well defined
  - Weak accountability to local NPC and Centre

# Financing



Social Security Reform Co-operation Project  
中国 - 欧盟社会保障合作项目

## • EU

- General Mixture of S.I Contribution and Tax based financing
- Some mandatory funded pension
- High pooling level
- Contribution and benefit rates approved by Parliament
- Subsidies routed through funds for largely contribution based schemes
- Differences in practice in charging administration costs to funds, but charges to funds subject to Government approval

## • China

- Funding mainly contribution based with some subsidy
- More of a separation between S.I and Social Assistance Funding
- Lower pooling level especially for UI / MI
- Contribution rates and benefit levels in accordance with national framework but considerable local flexibility
- Subsidies from national and provincial level, both budget and scheme based
- Administration costs not chargeable but some implicit subsidy

# Contribution Assessment & Collection



Social Security Reform Co-operation Project  
中国 - 欧盟社会保障合作项目

- EU
  - Several different models
    - Unified tax and NI (UK NL, SW, HU, EST,)
    - Unified SI (BG, GR, PORT, ESP, LITH)
    - Single SI (LUX, FR, AU)
  - Self-Assessment
    - Severe Financial Penalties for fraud / non-compliance
  - Collection Arrangements covered in Finance or other legislation
- China
  - Several different models
    - Tax Bureau collects
    - Mix Tax 7 SI for different insurances / client groups
    - Unified SI
    - Individual SI
  - Assessment largely done by SI
  - Weaker penalties for evasion / No SI Law

# Budget Management



Social Security Reform Co-operation Project  
中国 - 欧盟社会保障合作项目

- EU
- Authorization
  - Budgets included in documentation sent to Parliament but not approved
- Control
  - No cash limit in year
  - Controlled through benefit level & entitlement in medium term
- Forecasting
  - Actuarial / economic forecasts for long-term costs
  - Included in Medium Term Fiscal Forecasts and Expenditure Frames (MTFF & MTEF)
- China
- Authorization
  - Budgets adopted by Government but not by NPC
- Control
  - No formal cash control – borrowing to fund excess spending - some poor authorities may delay payment
- Forecasting
  - Development of Actuarial Work for Pensions
  - Limited medium term forecasting mainly in terms of contribution base

# Financial Management



Social Security Reform Co-operation Project  
中国 - 欧盟社会保障合作项目

- EU
- Fund Structure
  - Unified or single SI fund
- Financial Systems
  - Bespoke, unified, several big IT companies dominate market
- Cash / Treasury Mgt
  - Centralized Cash Mgt
  - Investment in Government debt or high grade bonds except for Reserve Funds
- China
- Fund Structure
  - 5 Funds (no virement)
- Financial Systems
  - Multiple operational and financial systems
  - Design and Implementation often local and very fast but
  - High fragmentation, poor control and information
- Cash / Treasury Mgt
  - One or more Individual Banks used for each insurance
  - Investment in very low interest bank deposits

# Accounting & Financial Reporting



EU-CHINA

Social Security Reform Co-operation Project  
中国 - 欧盟社会保障合作项目

- EU
- Primarily cash based but moving to accrual based
- Application of IAS 19 for funded schemes
- Chart of Accounts convergence to ESA 95 and GFS
- Annual Financial report and accounts
  - Performance
  - Statement of Internal Control
- China
- Cash Based
- Accounts prepared but not published
- No Standard Chart of Accounts applied to SI Funds (?)
- Limited Performance information mainly related to contribution base

# Internal Control and Audit



Social Security Reform Co-operation Project  
中国 - 欧盟社会保障合作项目

- EU
- Control Framework integrated in operations & financial governance
- PIFC Agencies (new member states)
- Internal Audit + Special Investigations
- Internal Audit Committee
- External Audit
  - Opinion on Financial Reports
  - Extensive work on Benefit Fraud
- China
- Internal Control just starting - wide variety of practice
- Internal Audit and control not integrated within wider governance framework
- Multiple level checking but no clear differences
- External Audit
  - CNAO getting better
  - No requirement under the Law to produce an opinion