

## **An Audit Study on Local Government debt**

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**Abstract:** In China, after a short period of contraction, the increasing downward economic pressure makes the scale of local government debt increase, and the hidden risk of debt is enhanced. The participation of government audit in local government debt management has the advantages of independence, professionalism and authority. With the method of research and theoretical analysis, the paper analyzes the present situation of the audit of local government debt in China, and studies the problems existing in the audit of local government debt and the ways to solve it.

### **1. Introduction**

Government debt security is a worldwide problem. The Chinese government attaches great importance to the risk control of local government debt, and clearly proposes to "continuously track and audit the implementation of major national policies and measures and macro-control and control arrangements, so as to give full play to the role of audit as a guarantor". At present, due to the change of the source and cost of debt service, the local government debt is faced with greater debt service pressure, and the prevention and control of debt risk is especially urgent. The research on risk-oriented audit, government audit and risk management has made some theoretical achievements, but the research on local government debt audit from micro-level is obviously insufficient. Therefore, it is of academic and practical significance to study the problem of local government debt audit from the perspective of government audit, prevent and resolve the risk of local government debt, improve the debt supervision system, standardize the performance of local government economic responsibilities, ensure the safe operation of macro-economy, and enrich the research of audit theory.

### **2. The present situation of Government Audit of Local Government debt**

The balance of local government debt in China was less than 5 trillion yuan at the end of 2007 and increased to 18.4 trillion yuan by the end of 2018, with an average annual growth rate of 12.8%. While growth slowed significantly in 2015 and 2016, local government debt growth was significantly higher than GDP growth in the past five years. The expansion of the scale of local government debt not only increases the attention of the society, but also increases the hidden factors of debt risk. The potential risk of government bond issuance is inevitable, and the hidden risk of bond replacement is also gradually revealed. Government audit is the main form of local government debt audit in China. Since 2011, the National Audit Office has organized three comprehensive audits of government debt. In 2015, the implementation of the new Budget Act was adopted to strictly manage local government debt.

In March 2011, the National Audit Office organized audit institutions at all levels to conduct a comprehensive audit of the direct and guaranteed debts of 25590 local governments throughout the country, keeping track of the formation and movement of government debt since 1979. The balance and composition of liabilities at the end of 2010 affirmed the contribution of debt funds to local economic development, analyzed the shortcomings of local government debt management and the ways to solve it, and made clear the responsibility and authority of local government debt management. At the end of 2012, the National Audit Office conducted a sample audit of 36 areas with significant changes in debt size and mode of borrowing since 2011, consolidating and revising the results of the first national audit of government debt. This paper studies the law of the change of

local government debt, which provides the data basis for predicting the scale and trend of government debt. In the third quarter of 2013, the National Audit Office conducted a comprehensive audit of more than 2.45 million debts of government departments, institutions and financing companies, and mastered the overall size and composition of local government debt, and summarized the measures and results of local government debt management, and revealed the hidden dangers and countermeasures of local government debt management.

After three large-scale audits of government debt throughout the country for three consecutive years, and according to the relatively accurate audit data on local government debt, governments at all levels have successively revised the regulations and systems for the management of government debt. Beginning in October 2017, The Ministry of Finance official website regularly publishes local government bond issuance and debt balances on a monthly basis. Provincial governments and some cities, county-level governments also publish government debt-related bond issuance, debt service, debt balance and other information to the public on a regular basis. To some extent, government audit promotes the transparency and standardization of local government debt management.

### **2.1 The Government Audit of Local Government debt is not sound.**

The standard government audit system is the premise and foundation for implementing local government debt government audit. At present, the audit system that the local government debt can refer to is mainly the "pre-algorithm" and "the State Council comment on the strengthening of local government debt management". These systems are issued after 2014, and there are three large-scale government debt audits nationwide. After the implementation of the new "pre-algorithm", although the various provinces of the provinces have strengthened the administration of government debt, only the eastern two provinces of Zhejiang and Shandong have introduced specific implementation opinions, and the other provinces have not issued special documents to guide the audit. At present, some grass-roots government has not developed the standard government debt management system, and also lacks the supporting measures such as the debt repayment plan and the repayment preparation. The absence of the system leads to the lack of process and result basis of the local government debt audit, and the result of the audit is dependent on the subjective judgment and working experience of the auditors, and the objectivity of the audit conclusion is affected, which is not conducive to the local government debt risk management.

### **2.2 The audit of the government debt process is not complete.**

To avoid the risk of local government debt, the whole-process management of the debt should be strengthened, including the debt-making, the source of funds, the use of funds and the return of the debt. The whole-process audit of the government debt is one of the academic difficulties of the scholars and scholars. The whole-process audit can comprehensively master the flow direction and the benefit of the debt fund, but the requirements of the audit power and the audit technology are high. At present, the country is generally only concerned with the movement of the debt funds in the accounting audit, and tracks whether the turnover of the debt funds is smooth and is influenced by the accounting artistry. Combined with the limitation of the measurement of the money, this kind of audit method can not meet the government debt management needs.

### **2.3 The government debt audit method is too traditional.**

The audit of local government debt covers a wide range of areas, covering many fields such as accounting, finance, engineering and so on. In order to ensure the quality of the audit, it is necessary to combine multiple auditing methods. The current government debt audit in our country is mainly used to inform audit and post-post audit. To inform the audit of the audit project and the audit focus of the other party in advance, to prepare relevant information before the audit team is stationed, to improve the timeliness of the audit, but at the same time provide an opportunity for the concealment and the fraud; and the post-audit audit is convenient to master the formation of local government debt. The overall situation of the use and balance was the main role of the review of the overall debt panorama and the constructive comments, but could not play an early warning role in the risk of debt.

## **2.4 The disclosure of audit announcement information is not comprehensive.**

First, the number of local government debt audit announcements is limited. The audit result announcement information of the official network of the provincial audit offices is inquired, and the audit announcement is issued at the time of the comprehensive audit of the local government debt in the country from 2011 to 2013, and the information on the local government debt audit announcement can be seen later in 2014. Second, the information on the local government debt audit announcement is not comprehensive. The local debt audit results of the audit department at all levels mainly disclose the scale, composition and management effect of the local government debt, and do not provide the specific reason for the increase of the debt, the use benefit of the debt fund and other sensitive information; while the main problems existing in the debt management are disclosed, however, it is not only vague and express as a "part of the place", that that name of the specific department and the person in charge is not provide, not only the improvement of the main liability party, but also the exercise of the supervision right by the public; only the numerical value and the safety degree of the debt risk evaluation index of the government at the corresponding level are provided, The degree of debt risk of its lower-level government is unknown.

## **2.5 The Government audit power is relatively weak.**

First, the number of government audit staff is small. According to the data provided by the Audit Department website, the total number of national auditors is over 4,000, of which 30 per cent are retirees, and more than 20 projects are required each year and nearly 8,000 units have an audit. In recent years, the audit tasks of the government have been increasing year by year, but the auditors have only increased by 30%. Secondly, the professional quality of the government auditors is low. The nature of the local government debt audit requires that the auditors should have higher professional quality and comprehensive business ability, and can provide accurate insight into and judge the legal rationality of the management of the debt funds. According to the data statistics of the national audit personnel, the proportion of senior auditor in 2017 is 18.5%, but the proportion of personnel without any audit qualification is 32.4%. The average number of graduate students in the last five years is 47.6%, but their working life is generally short and the audit experience is relatively short; the average proportion of the undergraduate and the following educational background is 52.4%, which is the main force of the current government audit, However, they are generally well versed in traditional business and financial audit, have limited knowledge and receive capacity for new and new technologies, and are not conducive to that improvement of the audit efficiency and the quality of the audit.

## **3. The way of Government Audit to strengthen Local Government debt**

### **3.1 Improve the regulation system and strengthen the management of audit objects.**

First, the system of the government debt-paying fund should be established. At present, the government debt has been put into the category of national budget management, and reference is made to the experience of the government debt management in the developed countries. The establishment of the government debt-paying fund system can help to protect the legitimate rights and interests of the creditors and the good reputation of the government debt, and also urge the governments at all levels to advance the budget pass. Secondly, the local government debt management institution should be defined. With the improvement of the regulation and management measures of the government debt management system, the debt management task of all levels of government is becoming more and more difficult, and it is necessary to have the specialized agencies independent of the government departments to carry out the debt management and carry out the function of the transfer. Finally, the administration cost management of local government should be strengthened. "The implementation of the government accounting system", while beneficial to the objective reflection of the government assets and liabilities, still lacks cost accounting, can not accurately evaluate the performance of the government, and should continue to deepen the reform of the accounting system and implement the government cost accounting system

as soon as possible.

### **3.2 Optimize the early warning environment and improve the audit early warning mechanism.**

The theory of immune system is that audit early warning is an effective way of government debt risk management, and has the function of accurately identifying, evaluating and reporting the risk of local government debt. To optimize the early-warning environment is the premise and foundation to play the role of audit early warning. First, the relevant laws and regulations should be improved, and the system guarantee should be provided for the government debt management and audit early warning; and secondly, the risk management consciousness of the auditors should be set up, and through training, Self-study and other means improve the application ability of the auditor debt risk identification and risk evaluation index. improving the audit early-warning mechanism, requiring the audit department to determine the system and index weight of the government debt risk evaluation index system and the index weight, calculating the index value, determining the risk level, establishing a dynamic sequence according to the index value for a long time, and matching with the dynamic trend model, The future debt risk is calculated and prevented. With the popularization of information technology, government departments at all levels can access the audit early-warning module in the management information system, which is convenient for data processing and information sharing.

### **3.3 Increase the audit strength and implement the whole-process audit of the project.**

The local audit department shall, on the basis of the comprehensive audit of the government debt by the State Audit Office, carry out special audits and irregular audits in due time on the basis of the time limit and the use of the government debt. In the case of major investment projects, the prior, middle and post-post audit should be implemented. Before borrowing, the budget income level and the debt quantity of the local government should be reviewed, the credit rating of the government should be grasped, the implementation of the debt limit should be understood, the borrowing scale of the government should be strictly controlled, the benefit and risk assessment of the proposed investment project should be carried out, and the project income is stable and the risk is moderate, To be in the bud. In that case of debt, the audit of the debt fund follow-up should be implemented. The current "pre-algorithm" clearly states that the government debt capital should be mainly used for construction projects such as people livelihood, infrastructure and so on. Therefore, the investment period of the fund is long and the quantity is large, and the difficulty of the audit is increased. The audit department shall conduct comprehensive audit in the key links such as project bidding, construction and final accounts, so as to improve the use efficiency of the debt fund. When the debt is due, the repayment of the principal and interest of the debt shall be reviewed, the economic and social benefits of the project shall be comprehensively evaluated in combination with the results of the following audit, and the objective audit conclusion shall be made; for the debts that cannot be repaid on time, the risk level shall be evaluated and the risk early warning shall be carried out; The rectification opinions and the punishment measures shall be put forward for the violation of the law and regulations in the process of obtaining, using and repayment of the debt funds.

### **3.4 Innovate the way of auditing and absorb the social audit power.**

To solve the problems of weak government audit power, in the implementation of the non-confidential debt audit project, the social audit power can be introduced, and the audit evidence collection and analysis can be carried out with the aid of the experience of the industry experts such as finance, accounting and law; can strengthen the cooperation with the government financial department, the financial institution, the supervision department and the like, comprehensively collect the audit evidence and ensure the quality of the audit, and can entrust an accounting firm to carry out the periodic audit of the large-scale audit project, which not only is beneficial to the improvement of the independence of the government audit, But also is beneficial to the exchange and cooperation of the auditing main bodies, and the auditing service level is improved. in order to

be convenient for that social public to monitor the performance of the entrusted responsibility of the local government, in the highly professional debt audit project or the audit link, the public can be absorbed, the strength of the audit team is enhanced, and the public can be informed of the audit procedure of the local government debt, Know the formation process of the audit announcement, master the scale and composition of the local debt, supervise the use benefit of the debt fund, and further improve the openness and transparency of the local government debt management.

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