Abstract Reference Number: e15

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Title

From Government Supervision to Self-responsibility: Update the Annual Examination System of Nonprofit Organizations to an Annual Report System in China

Abstract

The Annual Examination System (AES) is a critical method the Chinese government used to supervise the nonprofit organizations and ensure they operate following the law. However, since 2016 AES is going to be replaced by an Annual Report System (ARS) because of its inefficiency and ineffectiveness. The advocates claim that ARS is superior to AES because it is a voluntary system while AES is a compulsive one (You and Liu, 2013). AES requires the nonprofit organizations submit the annual reports to the registration agencies which examine each report and make a conclusion of conformity or not. Under ARS, the nonprofit organizations are required to submit the annual reports to the registration agencies voluntarily and take the all the concerned legal responsibilities by themselves while the registration agencies are free from the obligation of the annual reports examination. In the pilot experiment cases in Shenzhen and Hainan, the local governments remove the annual report examination responsibility from the registration agencies while the other part of the system keeps the same (Chen, 2017).

What are the real problems the current AES faces? Will the ARS improve the effectiveness of the supervision system or just become a chance for the registration agencies to shirk their responsibility? This article answers this question based on analyzing the data from the four years (2011-2014) annual reports of the 1200 social nonprofits registered at the M provincial government and the interviews with a dozen of government officials and managers of nonprofit organizations in the M province. We find that the participation rate of nonprofit organization in AES has declined from 86.3 percent to 72.7 percent through 2011-2014, there are obvious mistakes in more than 10 percent of the annual reports, about 1 percent of nonprofit organizations failed the examination though a quarter of them have revenue of zero each year. Beside lack of capacity and incentive in both the registration agencies and the nonprofit organizations, another import but neglected factor is the poor design of the report forms which discourages the fillers to make the reports perfectly. We argue that it may provide an excuse for the registration agencies to evade their responsibility but would not improve the effectiveness of supervision if the local governments only force the
nonprofit organizations take the responsibility to submit the annual reports “voluntarily” while the design of report forms keep unchanged and the information disclosure makes no progress.

**Keyword**

Nonprofit Organizations; Government Supervision; Annual Examination System; Annual Report System;