



**Ukraine**  
**ZHYTOMYR CITY COUNCIL**

**PUBLIC EXPENDITURE AND FINANCIAL  
ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT  
REPORT 2021**

Final Report  
*24<sup>th</sup> March 2022*

*Funded by:*



**Federal Department of Economic Affairs FDEA  
State Secretariat for Economic Affairs SECO**

*Implemented by:*



PEFA Check



**PUBLIC EXPENDITURE AND FINANCIAL  
ACCOUNTABILITY (PEFA)  
GENDER RESPONSIVE PFM ASSESSMENT**

**ASSESSMENT OF ZHYTOMYR CITY SUB-NATIONAL  
GOVERNMENT (UKRAINE)**

**MARCH 2022**

---

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat

March 31, 2022

-

## ASSESSMENT MANAGEMENT AND QUALITY ASSURANCE

The assessment management framework, oversight, and quality assurance are summarized in Box 1.1 below. The assessment was funded by **Swiss SECO** under the ElocFin Project. **Dr Boris Petkov** (Overall Team Leader, Linpico SARL) was the assessment manager, supported by **Ms. Sophie Djugeli** (Linpico SARL).

**Members of the oversight team are:** (i) Tetiana Hrytsun - Head of Inter-budgetary Relations and Local Budgets Planning, Inter-budgetary Policy and Local Budgets Department, Ministry of Finance; (ii) Ms. Svitlana Olshanska, Zhytomyr First Deputy City Mayor, ably supported by Ms. Dina Prokhorchuk, Head of Finance and Budget Department of the Zhytomyr City Council. The main donors on the oversight team include: (i) Mr. Thomas Stauffer, Programme Manager, Macroeconomics SECO; (ii) Ms. Ilona Postemska, Senior National Programme Officer, Embassy of Switzerland in Ukraine; (iii) Natalia Starostenko, Sector Manager, Local development, EU Delegation to Ukraine; and (iv) Iryna Shcherbyna, Senior Public Sector Specialist, Governance Europe and Central Asia, World Bank. Ms. Valentyna Tymoshchuk, Deputy Head of Finance and Budget Department – Head of Division for Interbudgetary Relations and Local Debt Management of Zhytomyr City Council was the focal person; she facilitated all the meetings.

### PEFA Check

The quality assurance framework has been reinforced as of January 1, 2018 (see PEFA Secretariat Note: PEFA Check: Quality endorsement of PEFA assessments from January 1, 2018, [www.pefa.org](http://www.pefa.org)). The quality assurance process of this report is shown in Box 1.1 below. The first draft report was submitted for peer review on the 17<sup>th</sup> of December, 2021.

Box 1.1: Assessment management and quality assurance arrangements

#### PEFA Assessment Management Arrangements

- Oversight Team Chair & Members:

Name, position, and organization	Role
<b>Tatiana Hrytsun</b> , Head of Interbudgetary Relations and Local Budgets Planning, Interbudgetary Policy and Local Budgets Department, <b>Ministry of Finance of Ukraine</b>	Chairperson
<b>SECO</b> <b>Ilona Postemska</b> , Senior National Programme Officer, Embassy of Switzerland in Ukraine	Oversight team member
<b>EU Delegation to Ukraine</b> <b>Natalia Starostenko</b> , Sector Manager, Local development, EU Delegation to Ukraine	Oversight team member
<b>World Bank</b> <b>Iryna Shcherbyna</b> , Senior Public Sector Specialist, Governance Europe and Central Asia, World Bank	Oversight team member

- Assessment Manager: **Dr. Boris Petkov**, Overall Team Leader
- Assessment Leaders: **Göran Steen**, Team Leader (Sub-Team 2)
- Assessment Team members: **Yuliia Ostrishchenko**, PEFA Expert (Team 2)

#### Review of Concept Note

- Concept Note was circulated to peer reviewers on **7<sup>th</sup> August 2021**.
- Invited Reviewers:
  - Julia Dhimitri**, PEFA Secretariat;
  - Guillaume Brule**, PEFA Secretariat;
  - Tetiana Hrytsun**, Ministry of Finance of Ukraine;
  - Stefan Bruni**, SECO;
  - Natalia Starostenko**, EU Delegation to Ukraine;
  - Iryna Shcherbyna**, World Bank;
  - Svitlana Olshanska**, Zhytomyr First Deputy City Mayor.
- Reviewers who provided comments and did not: **all reviewers responded and provided comments**.
- Date of final concept note sent to PEFA Secretariat: **29<sup>th</sup> August 2021**

#### Review of the Assessment Report

- Draft circulated: December 17, 2021
- Invited reviewers and date they provided comments:
  - Julia Dhimitri**, PEFA Secretariat – 1<sup>st</sup> draft - January 21, 2022; 2<sup>nd</sup> draft 15<sup>th</sup> March 2022
  - Tetiana Hrytsun**, Ministry of Finance of Ukraine – January 31, 2022;
  - Stefan Bruni**, SECO – January 11, 2022;
  - Natalia Starostenko**, EU Delegation to Ukraine – December 19, 2021;
  - Iryna Shcherbyna**, World Bank – January 6, 2022;
  - Svitlana Olshanska**, Zhytomyr First Deputy City Mayor – January 21, 2022.

#### PEFA CHECK

- The two stages of the PEFA CHECK process were complied with the Concept Note and the response to comments on the draft report

# Table of Contents

Table of Contents .....	5
<b>Rationale and purpose .....</b>	<b>10</b>
<b>Main strengths and weaknesses of the PFM systems .....</b>	<b>11</b>
<b>Impact of PFM performance on budgetary and fiscal outcomes .....</b>	<b>12</b>
<b>Impact of PFM performance on service delivery .....</b>	<b>13</b>
<b>Performance changes since the previous assessment.....</b>	<b>14</b>
1. COUNTRY AND SNG BACKGROUND INFORMATION .....	16
1.1 Economic situation.....	16
1.2 Fiscal and budgetary trends in the SNG.....	17
1.3 Intergovernmental fiscal arrangements .....	18
1.4 Institutional arrangements for PFM.....	19
1.5 Arrangements for service delivery .....	23
2. ASSESSMENT OF PFM PERFORMANCE .....	26
SNG PILLAR: Intergovernmental fiscal relations .....	26
PILLAR 1: Budget reliability .....	31
PILLAR 2: Transparency of public finances .....	35
PILLAR 3: Management of assets and liabilities.....	48
PILLAR 4: Policy-based fiscal strategy and budgeting.....	60
PILLAR 5: Predictability and control in budget execution.....	69
PILLAR 6: Accounting and reporting .....	86
PILLAR 7: External scrutiny and audit .....	93
3. CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS.....	96
3.1 Integrated assessment across the PIs .....	96
3.2 Strengths and weaknesses of the PFM systems .....	100
3.3 Performance changes since a previous assessment .....	102
3.4 Conclusions on service delivery .....	102

4. GOVERNMENT PFM REFORMS .....	105
4.1 National approach to PFM reforms .....	105
4.2 Recent and ongoing PFM reform actions impacting sub-national governments.....	105
4.3 Institutional consideration .....	107
4.4 Key aspects of the SNG specific PFM reforms .....	108
<b>Annex 1. Performance indicator summary .....</b>	<b>109</b>
<b>Annex 2. Summary of observations on the internal control framework .....</b>	<b>122</b>
<b>Annex 3.1 Evidence for scoring indicators .....</b>	<b>133</b>
<b>Annex 3.2 List of persons interviewed .....</b>	<b>141</b>
<b>Annex 4. Calculation of budget outturns for HLG-1, PI-1, PI-2 and PI-3 .....</b>	<b>143</b>
<b>Annex 5. Gender-responsive PFM Assessment.....</b>	<b>153</b>
<b>Annex 6: Service Delivery Assessment .....</b>	<b>175</b>

## ABBREVIATIONS AND ACRONYMS

ATO	Antiterrorist Operation
ACU	Accounting Chamber of Ukraine
BCU	Budget Code of Ukraine
CPI	Consumer Price Index
EBU	Extrabudgetary Unit
FY	Fiscal Year
GDP	Gross Domestic Product
GRB	Gender-responsive Budgeting
GRPFM	Gender-responsive Public Finance Management
KSU	Key Spending Unit
LLC	Limited Liability Company
MoF	Ministry of Finance of Ukraine
MTBF	Medium-term Budget Framework
NA	Not Applicable
PC	Public Corporation
PE	Private Enterprise
PFM	Public Finance Management
PPP	Public Private Partnership
SAS	State Audit Service of Ukraine
SD	Service Delivery
SRDF	State Regional Development Fund
TSA	Treasury Single Account
Zhytomyr CTC	Zhytomyr City Territorial Community

## METHODOLOGY

The Swiss State Secretariat for Economic Affairs (SECO) has identified Oblast Capitals (OCs) as the most suitable beneficiaries for ELocFin. Expenditures of OCs amount to almost 50% of total sub-national expenditures and 20% of total public expenditures. At sub-national level, they also have the highest share of revenues at around 6.5% of GDP. In its selection of target municipalities for the present PEFA assessments, SECO has given priority to OCs with which SECO is already cooperating in the areas of energy efficiency and integrated urban development.

Therefore, the selection criteria for SNGs for this project were based on the existing relationship between SECO (and other development partners) and the oblast cities; these oblast cities have already had experiences in managing development partner grants, including building technical capacity for its public servants. Additionally, the oblast cities expressed their interest to conduct a PEFA assessment in order to identify PFM strengths and weaknesses for future improvements. The Oblast Capitals being assessed are: (i) Chernivtsi City, (ii) Zhytomyr City, (iii) Lviv City, and (iv) Vinnytsia City.

**Type of assessment:** The assessment was conducted in line with the PEFA 2016 Framework, as developed by the PEFA Secretariat and the October 2020 guidance for sub-national PEFA assessments. These documents as well as other guidance documents available from the PEFA website ([www.pefa.org](http://www.pefa.org)), such as the 2<sup>nd</sup> edition of the PEFA Handbook – Volume II dated December 2018, were used to conduct the assessment. The assessment adhered to the requirements for PEFA CHECK quality process as of January 2018. The PEFA indicators were assessed covering data for a time period, as specified in the PEFA 2016 Framework and with focus on the most up-to-date information possible. In addition to the standard PEFA, the assessment team also assessed the gender-responsiveness of the PFM systems in Zhytomyr City and the service delivery implications of budget policies, using the October 2020 pilot framework for service delivery and the January 2020 guidance for gender-responsive PFM.

**Number of indicators used:** The assessment covered 32 performance indicators. The October 2020 guidance on SNG PEFA assessment has introduced two new indicators (HLG-2<sup>1</sup> and PI-9bis<sup>2</sup>) to the existing HLG-1<sup>3</sup> for SNG assessments, and it reformulated PI-14 to include some elements of the standard PEFA PI-15 and PI-16. The reformulated SNG guidance dated October 2020 now excludes the standard PI-15 and PI-16. Thus, the new (pilot) SNG guidance now has 98 dimensions in total. It is important to clarify that some performance indicators/dimensions were not applicable for this SNG PEFA assessment, including but not limited to:

- (i) PI-7 (i.e., transfers to sub-national governments) – because there is no lower-tier government below Zhytomyr City Council;
- (ii) dimensions 10.2 and 10.3 (i.e., monitoring of sub-national government and contingent liabilities respectively) – because there is no sub-national first-tier of government below Zhytomyr City Council and also no contingent liabilities and PPP arrangements;
- (iii) PI-19 (i.e., tax administration) – because the State Fiscal Service of Ukraine administer all taxes;
- (iv) PI.26.2, PI-26.3, and PI-26.4 are all not applicable, because there is no functional internal audit;

---

<sup>1</sup> HLG-2 is “fiscal rules and monitoring of fiscal position”.

<sup>2</sup> PI-9bis is “public consultation”.

<sup>3</sup> HLG-1 is “transfer from higher levels of government”.



(v) PI.27.2 is not applicable, because there are no suspense accounts.

**Assessment coverage:** The SNG PEFA assessment covered Zhytomyr City Council and City Government budget units (specifically Executive Committee of the City Council, Finance and Budget Department, Education Department, Economic Development Department, Communal Property Department, extra-budgetary units, municipal (public) corporations/enterprises, the State Audit Service of Ukraine, the Accounting Chamber of Ukraine, territorial offices of State Fiscal Service and State Treasury Service of Ukraine). Currently, there are *twenty-four (24) public corporations* and *seven (7) healthcare communal non-profit enterprises*, but there are no social security funds in Zhytomyr CTC.

**Assessment timing:** The FYs for the assessment are 2018, 2019, and 2020. The last budget submitted to the City Council is that of FY2021. Some indicators/dimensions were assessed at the time of the fieldwork in September/October 2021 (June 2021 as cut-off period in accordance with the concept note).

**Fieldwork:** The field mission began on September 6, 2021, and ended on September 22, 2021, with a debriefing and discussion of preliminary scores with SNG officials. The team launched a PEFA training workshop on September 6 and 7, 2021. The workshop was organized to train and to prepare key government officials of Zhytomyr City Council on PEFA methodology and its application. The workshop was carried out by the PEFA assessment experts recruited by SECO for this assignment. The workshop provided a practical approach to PEFA assessment, using exercises, participative discussion, and case studies to build and/or strengthen knowledge on the planning, implementation, and the use of PEFA 2016 framework and its application at SNG level. Additionally, the PEFA experts provided training on Gender-responsive PFM as well as the Service Delivery Modules.

The meetings were organized based on a draft meeting schedule submitted by the assessment team to the SNG ahead of the proposed field mission in September 2021. Ms. Valentyna Tymoshchuk, Deputy Head of Finance and Budget Department of Zhytomyr City Council, was responsible for organizing and coordinating all the meetings; she ensured that all of the planned meetings were honoured by the SNG officials, including follow-up meetings. The PEFA experts also submitted a list of data requirements (in English and Ukrainian) in advance of the fieldwork. All responsible SNG officials gathered the requested data prior to the arrival of the assessment team. Where data gaps were identified, the PEFA experts explained all specific requirements to the data, and they were obtained during the field mission. Ms. Iryna Milash provided interpretation and translation services.

**Sources of information:** Annexes 3.1 and 3.2 outline a detailed list of information used for this assessment and a list of stakeholders interviewed respectively. There were no other related surveys and/or analytical work specifically linked to Zhytomyr City that were used for this assessment.

**Country fiscal year:** 1<sup>st</sup> January to 31<sup>st</sup> December.

**Exchange rate:** Currency unit = Ukrainian hryvnia (UAH).

EUR1 = UAH31.59647 (as of September 2021).

# EXECUTIVE SUMMARY

## Rationale and purpose

Ukraine's macroeconomic growth remained on track since 2016, following the 2014-2015 economic crisis; this was partly due to the first IMF's Stand-By Arrangement (SBA) approved in December 2018 and the second 18-month COVID-19 related SBA request of USD5 billion approved in June 2020, coupled with sound fiscal and monetary policies, which culminated into the reduction of public debt. The country was not spared by the global COVID-19 pandemic; the humanitarian and economic crisis have derailed efforts towards a stronger and all-inclusive growth.

Several years ago, Ukraine adopted a very bold and elaborate decentralization agenda which became the top reform priority of the Government. The reform included the shift of fiscal responsibilities to local governments, which was adequately being followed by the decentralization of the delivery of key public services such as education, health, and social welfare. As decentralization gains momentum, sub-national government levels are taking up an increasing share of the overall public expenditure.

In accordance with the Budget Code of Ukraine, the main sources of revenue of the Oblast Capitals include: 60% of the personal income tax, excise tax, rent and fees for use of natural resources, corporate income tax from communal enterprises, and local taxes (first of all, flat tax, property tax and land tax). Meanwhile, the expenditure responsibilities of the Oblast Capitals include: education (pre-school education, secondary education, high-school communal institutions, extra curriculum education, professional education), healthcare, local fire department, housing and communal services, transport and road infrastructure, mass media, social services, physical education, culture development, libraries, museums, and communal zoos.

The bold decentralization drive of the Government led to the first sub-national PEFA assessment of Starosynnyavska Amalgamated Territorial Community in 2019, followed by other SNG PEFA assessments for Khmelnytsky Oblast, Khmelnytsky Oblast Capital, and Iziaslavskyy Rayon between 2019 and 2020. At the national level, three PEFA assessments have been conducted: in 2012, 2016 and 2019.

This PEFA assessment in selected cities (including Zhytomyr city) is part of a preparatory phase of the "Effective Local Public Financial Management in Ukraine" Project (ELocFin), which is planned to be implemented between 2022-2025 with the financial support of the Swiss State Secretariat for Economic Affairs (SECO).

## Overall Objectives

The overall objectives of this sub-national PEFA assessment are to:

- (i) Contribute to an up-to-date picture of the quality of sub-national PFM system at Oblast Capital level in Ukraine;
- (ii) Enable the relevant central and local governments to identify reform priorities based on the findings of the PEFA assessment;
- (iii) Provide the basis for PFM capacity development initiatives in local governments of Ukraine;
- (iv) Inform possible adjustments to relevant ongoing reforms in the country.

Based on this information, the local governments would be in a stronger position to prepare a list of PFM improvement proposals for submission to the Ministry of Finance (the proposals may include amendments to the budgetary legislation or additional reform initiatives/measures to the PFM Strategy and/or its Action

Plan). The assessment results will be used for identification of the PFM strengths and weaknesses in the respective city and consequently for determination of the underlying causes of the PFM performance. On the other hand, as the Ministry of Finance is directly involved in this PEFA assessment both as member of the Oversight committee and as peer reviewer, the results can be directly used by the ministry for further adjustments (if needed) in PFM or in decentralization reform.

### **Specific Objectives**

The specific objective of this PEFA assessment is to improve public service delivery through supporting PFM reforms at the sub-national level (oblast capital level) in line with Swiss SECO's ELocFin project. Following an evidence-based approach, this preparatory stage assesses the strengths and weaknesses of PFM in the pre-selected Oblast Capitals using the PEFA 2016 methodology, including gender and service delivery modules. On the one hand, the ensuing assessment reports will provide the basis for the final selection of participating Oblast Capitals as well as for the development of individual reform action plans (including baselines) during the inception stage of the first project phase. On the other hand, they will contribute to an increasingly granular understanding of PFM in Ukraine, which is the basis for the dialogue on PFM reform strategies and priorities both among local stakeholders and with international development partners.

The primary beneficiaries of this PEFA assessment are Ministry of Finance of Ukraine and the Zhytomyr City Council. Key officials involved in the assessment were trained on the use of the PEFA methodology, gender-responsive PFM, and the service delivery module as part of internal capacity building to facilitate the assessment and communication of results.

## **Main strengths and weaknesses of the PFM systems**

### **PFM strengths**

PFM laws, regulations, and guidelines established by the central government are strong; they form the basis of a strong PFM system. Not only the laws are strong, but also the compliance levels are high.

The good performance of budget classification and documentation included in the budget proposal enhances transparency. Transparency and publication of fiscal data (budget, execution reports, procurement information, performance information for service delivery, etc.) encourage financial accountability. There is also citizens engagement during the budget formulation and preparation process through public consultations, which further improves transparency.

The debt management system is well-regulated and supported by the Government in terms of ensuring local debt approval and monitoring by the Ministry of Finance on the regular basis. This is an efficient instrument for managing risks and increasing efficiency of local investments.

The public procurement system is solid. The Prozorro online portal provides a lot of information on procurement, including procurement plans, bids, contract awards, procurement complaints resolution, and procurement statistics. This information is made available to the public promptly. Transparent procurement systems contribute to reducing service delivery costs, leading to efficiency and effectiveness.

There is a strong cash management framework coupled with a good revenue reporting mechanism which ensures a timely release of funds to key spending units for payment of expenditure, thereby eliminating expenditure arrears. The cash management system is effective thanks to TSA, which allows the City Government to properly track its cash/bank balances.

## **PFM weaknesses**

The huge expenditure reallocations for both economic and functional classifications, resulting from higher level government transfers originally not budgeted for, have a negative impact on the execution of planned sub-national government policies and programmes. The good news, however, is that these activities are predetermined by the central government and therefore cannot be altered.

Though annual financial statements are comprehensive, they are not directly comparable with the approved budget (in part of administrative classification). This makes it difficult to properly track City Government budget.

External oversight carried out by the Accounting Chamber of Ukraine is partial; it fails to provide a comprehensive independent overview of the operations of the City Government. This is because of the limitations of the legal framework that governs the activities of ACU – meaning that the independence of ACU is severely undermined. The City Council also cannot scrutinise external audit reports because these reports are not prepared and submitted to the council for scrutiny.

## **Impact of PFM performance on budgetary and fiscal outcomes**

### **Aggregate fiscal discipline**

Aggregate fiscal discipline is strengthened by the existence of strong PFM laws promulgated by the state government for all levels of the government. There is also a high compliance with payment rules and procedures, which strengthens the fiscal discipline. Fiscal discipline is also strengthened by the reliability of aggregate revenues. Nonetheless, it is weakened by the variances in revenue composition. The expenditure budget is reliable at the aggregate level but unreliable at both economic and functional classification levels because of unpredictable and unbudgeted higher level government transfers; this has a negative impact on fiscal discipline.

At this stage, revenues and expenditures outside the City Government budget and reports are not a threat to fiscal discipline since they represent less than 2% of the City Government operations. They could, however, affect fiscal discipline in the future if they are allowed to expand and if the city is not establishing a proper internal audit function that can monitor the development. In fact, good practice suggests a threshold of not more than 1% of the revenue and/or expenditure budget. However, operations outside the City Government are monitored and reported timely.

The city public corporations are fairly monitored, with the majority of them being audited annually; this reduces the risk of providing additional funding to unprofitable corporations. That said, public enterprises with poor performance could be a pointer in terms of strengthening the oversight responsibilities of public corporations. Payroll controls are satisfactory to the extent that they provide reasonable assurance for strengthening fiscal discipline.

The ineffectiveness of the external oversight roles by the ACU and the City Council - mainly due to legal limitations of the former – as well as the consequential lack of auditing and submitting external audit reports of the local government for legislative review have the potential to weaken the internal control framework with a consequential negative impact on fiscal discipline.

### **Strategic allocation of resources**

The City Government's budget classification meets international standards. This good practice coupled with comprehensive budget documentation information enhances the strategic allocation of resources. Resources allocated can be easily traced.

The underlying assumptions for forecasting the budget set the tone for resource allocation in a strategic manner. The insufficient time allocation for key spending units to meaningfully prepare their budget proposals reduces KSUs' ability to effectively prioritise their programmes and expenditure requirements. That said, the approval of the annual budget promptly allows key spending units to commence their annual programmes and activities in time to ensure the full utilisation of allocated resources for improved service delivery.

The adequacy of resources available to the City Government for the execution of its policies and programmes through transfers from higher level government, though unpredictable, supports the provision of service delivery. The concern, however, is about the frequency and significance of budget reallocations within the year; this defeats the purpose of strategic resources allocation. Nevertheless, this negative effect is minimised by pre-determined activities to be funded, meaning that funds can only be used for these activities. Strategic resource allocation is strengthened by a good revenue accounting framework and an efficient cash management system, together with ensuring the availability of resources promptly for improved service delivery.

### **Efficient use of resources for service delivery**

The efficiency in the use of resources for service delivery has been positively impacted by a good budget classification which allows strategic allocation of resources. That said, in-year budget virements are significant and frequent. This has a negative impact on strategic resource allocation, leading to inefficient service delivery. However, the negative impact is reduced by the availability of cash for payment of expenditures/services.

Procurement management systems are good with most procurement activities going through open tender, leading to cost reduction and, consequently, improved service delivery. There is good public access to service delivery information, both planned and achieved. This has led to citizen engagement for more accountability, resulting in the efficiency of the use of resources for service delivery. Approach to public consultation should be revised and strengthened, yet there is some experience in conducting consultation in design of the SD program over the period under assessment; more public engagement in the design of public service means improvement in the efficient use of resources for service delivery. The existence of proper accountability for resources received in cash and kind has led to an improvement in the delivery of primary services.

The efficiency in the use of resources for service delivery is negatively affected by the low internal and external audit coverage. Improved audit coverage ensures that the performance of service delivery is assessed to evaluate its efficiency and effectiveness. The timely preparation and publication of fiscal data (in-year budget execution reports) has led to improvement in public accountability, thereby leading to an efficient use of resources for service delivery. Fixed assets that are needed for the delivery of service are well kept, accounted for and monitored; this has a positive impact on the efficiency of service delivery since resources are not wasted.

### **Impact of PFM performance on service delivery**

Service delivery process is a ground for formulating one of the key principles of the budgetary system that is the principle of subsidiarity. It implies the distribution of different groups of expenditure between the state budget and local budgets, as well as different levels of local budgets, based on the need to bring public services closer to citizens.

Improvement of the quality of public services and consequent increase in citizens' welfare were among the main tasks of the Government's budget and decentralization reform which has started in 2014. These also constituted a basis for gradual transferring of powers and responsibility of public service delivery from the central level to local governments.

As a result of the recent implementation of the decentralization reform, a lot of administrative services are currently being implemented at the local level, such as: residence registration, ID issuance, state registration of entities, entrepreneurs, associations of citizens, registration of civil status, property rights, and land issues regulation. This contributes to the improvement of citizens' accessibility to the public services, as well as shortening the time required for services delivery.

### Performance changes since the previous assessment

Since this is the first PEFA assessment, there is no tracking of performance changes. This assessment therefore forms the baseline for future assessments.

Table 1 below provides a **summary of PFM performance** of each dimension and indicator. Chapter 2 provides a detailed analysis and assessment of PFM performance of each dimension and indicator. Chart 1 shows a **graphical presentation of PFM performance** at the indicator level.

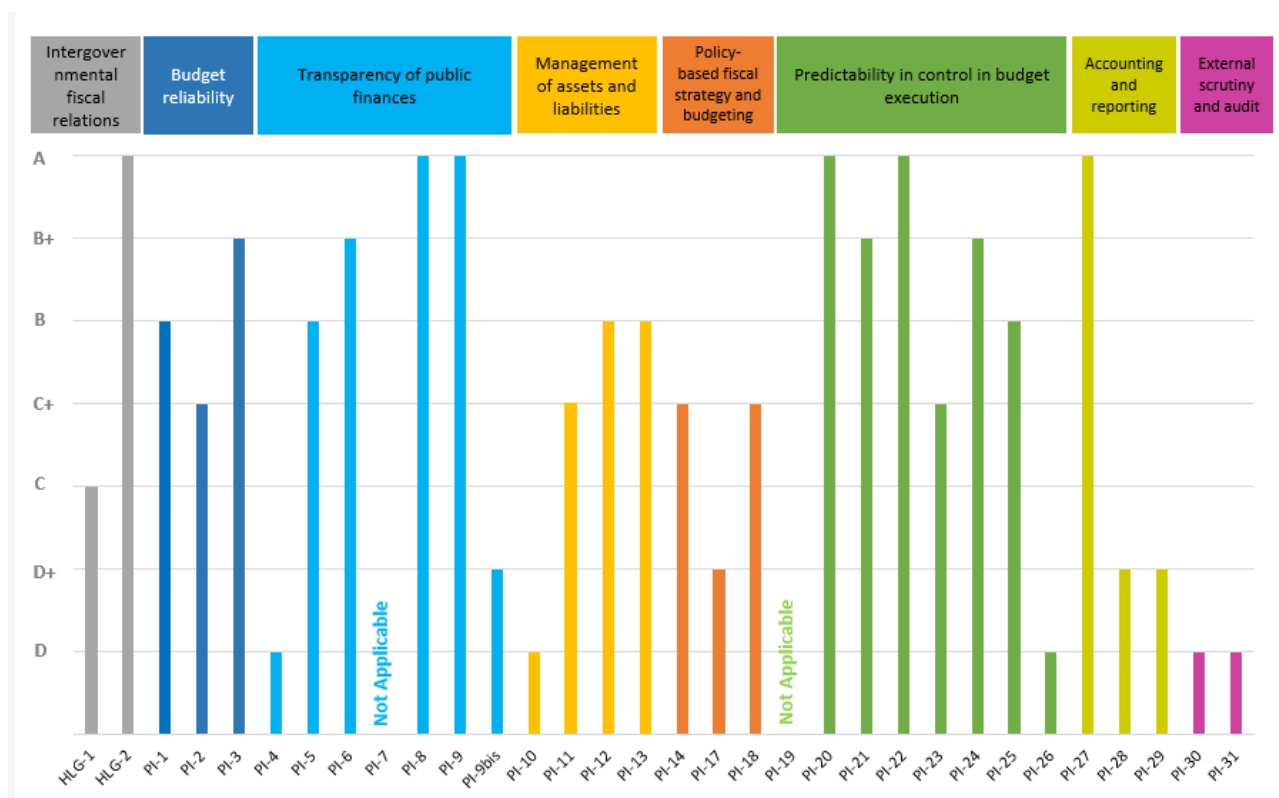


Chart 1: Graphical presentation of PFM performance at the indicator level.

**Table 1: Overall summary of PFM Performance Scores 2021**

PFM Performance Indicator (PI)		Scoring Method	Dimension Ratings				Overall Rating
			i	ii	iii	iv	
<b>SNG Pillar: Intergovernmental fiscal relations</b>							
HLG-1	Transfer from a higher level government	M2	C	D	A	D	<b>C</b>
HLG-2	Fiscal rules and monitoring of fiscal position	M1	A	A	A		<b>A</b>
<b>Pillar I: Budget reliability</b>							
PI-1	Aggregate expenditure outturn	M1	B				<b>B</b>
PI-2	Expenditure composition outturn	M1	C	C	A		<b>C+</b>
PI-3	Revenue outturn	M2	A	B			<b>B+</b>
<b>Pillar II. Transparency of public finances</b>							
PI-4	Budget classification	M1	D				<b>D</b>
PI-5	Budget documentation	M1	B				<b>B</b>
PI-6	Central government operations outside fiscal reports	M2	B	B	A		<b>B+</b>
PI-7	Transfers to sub-national governments	M2	NA	NA			<b>NA</b>
PI-8	Performance information for service delivery	M2	A	A	A	B	<b>A</b>
PI-9	Public access to key fiscal information	M1	A				<b>A</b>
PI-9 bis	Public consultation	M2	D	C	D		<b>D+</b>
<b>Pillar III. Management of assets and liabilities</b>							
PI-10	Fiscal risk reporting	M2	D	NA	NA		<b>D</b>
PI-11	Public investment management	M2	C	C	C	A	<b>C+</b>
PI-12	Public asset management	M2	C	C	A		<b>B</b>
PI-13	Debt management	M2	A	A	D		<b>B</b>
<b>Pillar IV. Policy-based fiscal strategy and budgeting</b>							
PI-14	Medium-term budget strategy	M2	A	D	B	D	<b>C+</b>
PI-17	Budget preparation process	M2	C	C	D		<b>D+</b>
PI-18	Legislative scrutiny of budgets	M1	A	C	A	B	<b>C+</b>
<b>Pillar V. Predictability and control in budget execution</b>							
PI-19	Tax administration	M2	NA	NA	NA	NA	<b>NA</b>
PI-20	Accounting for revenues	M1	A	A	NA		<b>A</b>
PI-21	Predictability of in-year resource allocation	M2	A	A	A	C	<b>B+</b>
PI-22	Expenditure arrears	M1	A	A			<b>A</b>
PI-23	Payroll controls	M1	B	A	A	C	<b>C+</b>
PI-24	Procurement	M2	A	C	A	B	<b>B+</b>
PI-25	Internal controls on non-salary expenditure	M2	A	C	B		<b>B</b>
PI-26	Internal audit	M1	D	NA	NA	NA	<b>D</b>
<b>Pillar VI. Accounting and Reporting</b>							
PI-27	Financial data integrity	M2	A	NA	A	B	<b>A</b>
PI-28	In-year budget reports	M1	D	A	C		<b>D+</b>
PI-29	Annual financial reports	M1	D	D	B		<b>D+</b>
<b>Pillar VII. External Scrutiny and Audit</b>							
PI-30	External audit	M1	D	D	NA	D	<b>D</b>
PI-31	Legislative scrutiny of audit reports	M2	D	NA	NA	NA	<b>D</b>

# 1. COUNTRY AND SNG BACKGROUND INFORMATION

## 1.1 Economic situation

### 1.1.1. Country economic situation

1. With a developing economy and a 41.9 million population of which more than 30% is rural, Ukraine has been battered by the COVID-19 global pandemic. Economic growth was about 3.5% in 2018 and then decreased slightly to 3.2% in 2019. In 2020, there was a sharp decline to -4% due to the pandemic. Unemployment figures stood at 8.8% in 2018 but declined by 0.6% in 2019 - to 8.2%. Although there was a strong expectation of a very high-level of unemployment rate by the end of 2020 due to effects of COVID-19, the Government's preventive measures led to the actual level to remain at 9.5%. Inflationary pressure slowed down in 2019 to 4.1% from a high rate of 9.8% in 2018. The inflation increased by only 0.9% to 5.0% in 2020. Fiscal balance appears to be widening; in 2018, it was negative UAH75.1 billion. Negative fiscal balance increased further to UAH84.5 billion and UAH237.1 billion in 2019 and 2020 respectively. The economic imbalances resulted in the central government requesting for an IMF facility in 2018, with an extension in 2020 to help stabilize the economy. Public debt as a share of GDP declined by 10.7% in 2019 against 2018 and stood at 50.2%. However, debt reduction halted due to the pandemic in 2020, and the amount of debt returned to the level of 2018 - 60.9%. Table 2 below provides some key national economic indicators.

Table 2: Selected national economic indicators (UAH billion)

Economic indicators	2018	2019	2020
GDP	3,560.3	3,977.2	4,191.9
GDP per capita (UAH thousand)	84.0	94.4	100.0
Real GDP growth, at constant market prices (%)	3.5	3.2	-4.0
Unemployment rate (%)	8.8	8.2	9.5
Inflation (consumption price index,%)	109.8	104.1	105.0
<b>Public finance (% of GDP)</b>	<b>41.9</b>	<b>41.6</b>	<b>45.7</b>
<b>Central government budget (GPB)</b>			
Revenues	1,417.7	1,569.0	1,677.0
Expenditures	1,492.8	1,653.6	1,914.0
Fiscal balance (official)	- 75.1	- 84.5	- 237.1
<b>Debt (% of GDP)</b>	<b>60.9</b>	<b>50.2</b>	<b>60.9</b>

Data source: State Statistics Service of Ukraine (<http://www.ukrstat.gov.ua/>), including:

Unemployment rate: [http://www.ukrstat.gov.ua/operativ/vidkryti\\_dani/menu/rp\\_vd.htm](http://www.ukrstat.gov.ua/operativ/vidkryti_dani/menu/rp_vd.htm)

GDP: [http://ukrstat.gov.ua/operativ/operativ2003/vvp/vvp\\_kv/vvp\\_kv\\_u/arh\\_vvp\\_kv.html](http://ukrstat.gov.ua/operativ/operativ2003/vvp/vvp_kv/vvp_kv_u/arh_vvp_kv.html)

CPI: [http://www.ukrstat.gov.ua/operativ/menu/menu\\_u/cit.htm](http://www.ukrstat.gov.ua/operativ/menu/menu_u/cit.htm)

Public finance: [https://mof.gov.ua/storage/files/2\\_Budget\\_of\\_Ukraine\\_2020\\_\(for\\_website\).pdf](https://mof.gov.ua/storage/files/2_Budget_of_Ukraine_2020_(for_website).pdf)



### 1.1.2. Main facts and economic indicators of the SNG

2. Main facts and selected economic indicators for Zhytomyr city territorial community are summarized in the Tables 3 and 4 below.

Table 3: Summary of main facts of Zhytomyr CTC

SNG	Detail
Tier of government	2 <sup>nd</sup> tier
Population	263,507
Main characteristics	Oblast capital city
Economy	Manufacturing (more than 60% of total output), food industry (22%), rubber and plastic products (14.3%), metallurgical industry (7.5%).
Services provided by the SNG	Public administration, education, healthcare, physical training, culture development, public transport, road infrastructure, housing, and communal infrastructure

Data source: State Statistics Service of Ukraine (<http://www.ukrstat.gov.ua/>);  
Economic Development Department of Zhytomyr City Council.

Table 4: Selected economic indicators for Zhytomyr CTC (2018-2020)

Economic indicators	2018	2019	2020
Number of newly registered business entities*, including:	2800	2799	2092
<i>Private enterprise</i>	2455	2330	1670
<i>Legal entities</i>	345	469	422
Industrial product sales (UAH million)	17,082.6	18,100.4	18,506.6
Industrial product sales per capita (UAH thousand)	148.4	150.1	164.0
Foreign Trade Balance (USD million)	-11.7	-31.5	-29.2

Data source: \* Information of Economic Development Department of Zhytomyr City Council;  
\*\* Information of General Statistics Department in Zhytomyrska Oblast.

## 1.2 Fiscal and budgetary trends in the SNG

3. Table 5 below outlines the sub-national government's fiscal and budgetary trends. Actual total revenues decreased only by 1% in 2019 against 2018. In 2020, the total revenue decline was 15% in comparison with 2019, whereas grants from the state budget reduced by twice. This decrease was a result of the negative impact of COVID-19 on global economic activities, which also impacted Ukraine's economic outlook. On the other hand, own revenues increased by 22.0% in FY2019 in relation to FY2018 figures; they further increased marginally by 4.8% in FY2020 compared with FY2019 despite the negative impact of COVID-19. At the expenditure side, total expenditure was almost the same in 2018 and 2019, but it increased by 15.4% in FY2020 compared with FY2019.

Table 5. Aggregate fiscal data of the sub-national government (UAH million)

	2018	2019	2020
<b>Total revenue</b>	<b>3,154.3</b>	<b>3,186.3</b>	<b>2,722.7</b>
Own revenue	1,649.7	2,016.4	2,112.6
Grants	1,504.5	1,169.9	610.1
<b>Total expenditure</b>	<b>3,147.1</b>	<b>3,156.7</b>	<b>2,669.9</b>
Noninterest expenditure	3,141.6	3,152.3	2,666.1
Interest expenditure	5.5	4.4	3.8
<b>Total lending</b>	<b>1.7</b>	<b>2.1</b>	<b>16.7</b>
Aggregate deficit (incl. grants)	5.4	27.4	36.1
<b>Primary deficit</b>	<b>5.4</b>	<b>27.4</b>	<b>36.1</b>
<b>Net financing</b>	<b>-5.4</b>	<b>-27.4</b>	<b>-36.1</b>
External	-8.6	-15.4	-17.0
Domestic	3.2	-12.0	-19.1

Data source: Treasury reports on Zhytomyr city budget performance in 2018-2020.

### 1.3 Intergovernmental fiscal arrangements

4. The main piece of the budget legislation prescribing key principles and rules for intergovernmental fiscal relations is the Budget Code of Ukraine (BCU). Article 81 of the BCU suggests a definition of “intergovernmental relations,” that is relations between the state and territorial communities aimed at providing budgets with financial resources sufficient to perform functions delegated to respective government by the Constitution of Ukraine and other laws.

#### 1.3.1. Assignment of expenditure responsibility

5. Local budget expenditures are specified and detailed in Articles 89, 90 and 91 of the BCU. As per Article 89, expenditure responsibilities of Zhytomyr City Government include: education (pre-school education, secondary education, high-school communal institutions, extra curriculum education, professional education), healthcare, local fire department, housing and communal services, transport and road infrastructure, mass media, social services, physical education, culture development, libraries, museums, and communal zoos.

6. According to Article 85 of the BCU, the central government may delegate to the local governments its expenditure responsibility, simultaneously providing SNGs with adequate financial resources. These financial resources may be transferred to the local level in the form of shared revenues and/or budget transfers. The same approach is applicable to expenditure powers delegation from one tier of SNG to another.

#### 1.3.2. Tax revenue sharing

7. Tax revenue is administered and collected by the State Fiscal Service of Ukraine. The City Government of Zhytomyr and all local governments in Ukraine have a revenue-sharing arrangement with the central government. In accordance with Article 64 of the BCU, the main sources of revenue of city budget include: 60% of the personal income tax, excise tax, rent and fees for use of natural resources, corporate income tax from communal enterprises, and local taxes (firstly, flat tax, property tax, and land tax).

### **1.3.3. Intergovernmental transfer**

8. Budget transfers (block and earmarked grants) are instruments to implement intergovernmental fiscal relations. The BCU stipulates the legal right for national and sub-national governments to provide budget transfers between state budget and local budgets as well as between different local budgets.

9. Prior to FY2021, a three-tier intergovernmental fiscal transfer framework was applied. The central government transferred subventions and grants to oblasts, rayons and cities of oblast significance (including Oblast Capitals), and then rayons transferred grants to villages and cities of rayon significance. The budget transfer mechanism was reformed and became operational as communities' amalgamation process progressed. This means that a two-tier transfer framework has now been adopted, where the Government transfers subventions and grants straight to all municipalities (cities and villages). The reform is intended to improve budget efficiency, to reduce delays in transfers to beneficiary local governments, and to as reduce dependency of respective municipalities from rayon governments.

10. As for Zhytomyr city budget, grants and subventions from higher level government (state and oblast budgets) as a share of total city budget revenue have dropped significantly from 42.8% in 2018 to 22.1% in 2020. This was partially due to the elimination of social security subventions and the inclusion of relevant expenditure to the state budget programs. The main types of budget transfers for the Zhytomyr city budget are: education and health care earmarked grants, subventions for socio-economic development of territories, families and children subvention, subvention for housing for ATO fighters, and road infrastructure subvention (detailed information on structure and value of budget transfers of Zhytomyr city budget in 2018-2020 is presented in Annex 4).

### **1.3.4. Sub-national borrowing**

11. Articles 16, 17, 18 and 74 of the BCU prescribe the debt rules for SNGs which are allowed to attract local borrowings (oblast and city councils). The rules set borrowing limits (no more than 200% of the average annual estimated development budget revenues for the next two budget periods defined in the local budget forecast) and limits for debt service costs (no more than 10% of expenditure of the general fund of local budget). The debt limits are strictly monitored by the Ministry of Finance. Though the BCU allows sub-national government borrowing, the Ministry of Finance's approval is still required.

## **1.4 Institutional arrangements for PFM**

### **1.4.1. Overall institutional arrangements for PFM**

12. The responsibilities and functions of public finance management are defined and clearly assigned in accordance with the law. The first among the main legislative and regulatory acts in this field is the Constitution of Ukraine, which defines the duties and functions of the executive, legislative and judicial branches of the government in the process of PFM. According to the Constitution, local self-government is recognized and guaranteed in Ukraine, and it is carried out by territorial communities of villages, towns, and cities, all directly and through rural village, town and city councils and their executive bodies, in accordance with the Law of Ukraine "On Local Self-Governance in Ukraine" (dated 21.05.1997 No. 280/97-VR).

13. The city council is the legislative body of the community. The powers of a city council are determined by the law "On Local Self-Governance in Ukraine" (Articles 27-40) and include powers in the following areas:

- socio-economic and cultural development, planning and accounting;
- budget and finances;

- management of communal property;
  - housing and utility services, household, trade services, public catering, transport and communication;
  - construction;
  - education, healthcare, culture, physical education and sports;
  - regulation of land relations and environmental protection;
  - social protection of citizens;
  - foreign economic activity;
  - defence activities;
  - governance of administrative and territorial structure;
  - administrative services.
14. Zhytomyr City Council is autonomous in approving its own budget. The City Council enacts decrees, resolutions and regulations for the municipality. However, these legal acts must be in line with the central government’s laws and regulations.
15. The executive power in the city is ensured by the **executive committee** of the city council, with the city mayor as the chairperson. The executive committee reviews budget proposals of key spending units. Once approved, the estimates are submitted to the city council for scrutiny and approval.
16. Local self-governments have the power to hire their own officials, budget officers and accountants. The hiring process is governed by the law “On Local Self-Governance in Ukraine”.
17. Since 2001, the **Budget Code of Ukraine** has been a major piece of legislation, governing processes related to:
- drafting, review, approval, performance of local budgets, reporting on budget implementation, monitoring compliance with budget legislation;
  - taking responsibility for budget legislation violation;
  - public debt management.
18. Issues on local budgets indicators preparation, their approvals and implementations, intergovernmental relations, and local borrowing are governed by Chapter III (Articles 63-108) of the BCU.
19. The **public procurement** process is governed by the law “On Public Procurement” (dated 25.12.2015 No. 992-VIII), which regulates the responsibilities and obligations of all its parties, sets list of information required to be published, and prescribes the procurement complaint system (Antimonopoly Committee of Ukraine).
20. The Tax Code of Ukraine primarily regulates the issues of **collecting** and **administering taxes and levies**, the procedure of their transfers to the budgets of different levels including city budgets, and specifics of implementation of tax policy at the local level. The Customs Code of Ukraine regulates issues related to the customs policy and to the administration of customs duties.
21. The functions, duties, and procedures performed by the territorial bodies of the **State Fiscal Service of Ukraine** are defined in the Order of the State Fiscal Service dated 19.10.2016 No. 875 “On Functional authority of Territorial Bodies of the State Fiscal Service of Ukraine”.
22. The **public financial control** arrangements in Ukraine, including internal control, are regulated by:
- the BCU, which defines the general regulatory environment for internal control and internal audit accountability within KSUs’ operation (in particular, Chapter 17 of the BCU, Articles 109-

- 115, stipulates the obligation of all budget process players to ensure compliance with the budget legislation, including following the timelines for drafting, approval and performance of local budgets, and oversight of effective and transparent budget program implementation);
- the Law of Ukraine “On Fundamental Principles of Public Financial Control in Ukraine” (dated 26.01.1993 No. 2939-XII), which prescribes functions and powers of the State Audit Service of Ukraine;
  - Cabinet Decree dated 28.09.2011 No. 1001 “On some issues on internal audit establishment”;
  - the law “On Accounting and Financial Reporting in Ukraine” (dated July 16, 1999, No. 996-XIV), which delegates internal control responsibility to accounting structural units of SNGs.
23. In Ukraine, public financial control including internal control is provided by:
- authorized central government’s bodies (State Audit Service and Accounting Chamber) and their territorial divisions;
  - internal audit units (or individual officials) operating within the local governments.
24. As per Article 43 of the BCU, the treasury servicing of budget funds is applied for local budget performance. The procedure for treasury servicing is approved by the Ministry of Finance Order dated 23.08.2012 No. 938. It governs the interactions between the Treasury and local governments in the process of local budget performance. All transactions are provided through treasury accounts opened for respective local budgets, spending units, and local budget funds beneficiaries.
25. Accounting and reporting on local budgets performance is also competence of the Treasury (part one of Article 43 of the BCU). Furthermore, Articles 56 and 78 of the BCU prescribe the Treasury’s obligation to provide accounting and reporting on local budgets performance in line with the procedure established by the Ministry of Finance.
26. At the same, time, in line with Article 78 of the BCU, local councils are allowed to make decisions on servicing their budgets in part of development (investment) fund and own revenues of budgetary institutions in banks of public sector.
27. **Information on all PFM functions can be consolidated as follows:**
- *Payment* – local governments commit and pay for their expenditure without the central government’s interference;
  - *Revenue administration* – it ensures timely and full receipt of local taxes, fees and other local budget revenues (in fact these revenues go to the TSA) in line with the Budget and Tax Code of Ukraine; as per the Budget Code of Ukraine, the State Fiscal Service is responsible for tax and non-tax revenue collection at both central and local levels;
  - *Monitoring of lower-tier SNGs* – is provided by oblast state administration with respect to budgets of municipalities (including review of their budget decrees approved by respective local councils);
  - *Public investment* – public investment management is operated by respective executives of local councils responsible for economic policy development;
  - *Management, monitoring, and recording of assets* is decentralized, with each budgetary unit responsible for managing and keeping its assets’ registers. Disposal of fixed assets requires a resolution/decision of local council to be issued;
  - *Debt management* – oblast and city councils are allowed to borrow in line with the BCU; Oblast Capitals like Zhytomyr city have borrowing powers but subject to the Ministry of Finance approval;

- *Macroeconomic forecasting* – all local governments ought to prepare three years’ macroeconomic forecasts of some indicators related to the local economy;
- *Cash monitoring and forecasting* – annual cash balance forecast (with monthly allocations) is prepared by the Treasury and submitted to local finance bodies;
- *Payroll* – payroll system is decentralized, with each budgetary unit managing its own payroll; however, the human resource management system is centralized;
- *Procurement* – each budget unit prepares procurement plans; all data on procurements is available on the website: <https://prozorro.gov.ua/>;
- *Internal audit* – internal audit is decentralized and there is a cabinet recommendation for each budgetary unit to have either an internal audit unit or an official responsible for internal audit. They prepare annual and midterm internal audit plans. Annual reports are prepared but conformity to international standards is low. Zhytomyr City Council does not have any internal audit arrangements;
- *Financial reporting* – annual financial reports are prepared, however not submitted for external audit;
- *External audit* – the Accounting Chamber is responsible for conducting an audit of expenditure and revenue accounts of the local budgets, but only in relation to the central government’s transfers to local budgets as well as expenditure and revenue delegated by the central government to the local level;
- *The State Audit Service* which is subordinated by the Ministry of Finance has a responsibility to audit local budget revenue and expenditure.

#### 1.4.2. Sub-national institutional arrangements for PFM

28. According to Article 7 of the BCU, all local budgets are independent, and this independency is ensured by: 1) the allocation of financial resources to provide budget revenue; 2) the right of SNGs to decide on budget expenditure; 3) the right of local councils to debate and approve their local budgets in line with existing legislation.

29. The structure of the budget system of Ukraine, including at the local level, is strictly prescribed in the BCU. Article 5 of the BCU indicates that state budget and local budgets (which are oblast budgets, rayon budgets, and budgets of municipalities) constitute the budget system of Ukraine. At the same time, considering the complexity of the budget process where every and each budget administrator is assigned with numerous duties and responsibilities, the system of institutional arrangements for PFM is presented as follows.

30. **Ministry of Finance of Ukraine (Local Budget Department)** – provides SNGs with the guidelines for budget preparation; estimates budget transfers and changes in intergovernmental fiscal relations expected in the next budget periods; employs organizational and methodological approaches to and requirements for drafting local budgets to stay consistent with the draft Budget Law.

31. **Territorial units of the Treasury** (play the same role as the State Treasury at the central government level) – provide Treasury servicing of budget funds; have control over budget revenue receipts; comply KSU’s transactions with budget allocation plans (cash-balance forecast); have control over the compliance of budget commitments with budget allocations and information included in budget program passports.

32. **Territorial units of the STS** – implement tax revenue administration and have control over tax revenue collection.

33. **Accounting Chamber of Ukraine** – is responsible for both central and local governments’ external audit, but with respect to SNGs – only part of the budget transfers from the state budget and expenditures delegated by the central government to local governments.
34. **State Audit Service of Ukraine** – provides control over appropriate, effective, and transparent use of budget funds, timeliness of local debt repayments, local budget decisions, and budget program passports compliance, following requirements for public accounting and reporting on budget execution.
35. **Oblast State Administration** – ensures control over the budget legislation compliance, including consistency of local budget decision, budget allocation plans, and other budget documents used in the budget process. As per Article 115 of the BCU, oblast state administration implements control powers in relation to rayon budgets and municipalities’ budgets (the last one includes Oblast Capital budgets).
36. **Local council** – debates and approves local budget decisions and provides an oversight on their implementations.
37. **Local financial body (Finance and Budget Department)** – provides local budget preparation, develops local budget forecast for medium-term perspective, approves the draft local budget and the draft budget forecast before submission to the local council; implements control over the budget legislation and compliance at every stage of the budget process.
38. Based on the information presented above, the Executive Committee of Zhytomyr City Council bears a dual institutional accountability. On the one hand, there is accountability to the Ministry of Finance, which develops budget transfer indicators to be considered in the city budget preparation and ensures control over the budget legislation compliance at every stage of the budget process. On the other hand, there is accountability to Zhytomyr Oblast state administration, which provides review and verification of the city budget approved by the City Council and other documents used in the budget process.
39. Table 6 below outlines the units of the Zhytomyr City Council and the number of entities.

Table 6: Units of the Zhytomyr City Council – number of entities (FY2020)

	Budgetary units	Budgetary units	Extra budgetary units	Public corporations
Number		183	7	24
Expenditure, UAH million		2,669.9	676.5	1,784.4

Data source: Treasury reports on Zhytomyr city budget performance in 2020; Finance and Budget Department; Economic Development Department of Zhytomyr City Council.

## 1.5 Arrangements for service delivery

40. One of the key principles of the budgetary system (the most relevant to service delivery process) is the principle of subsidiarity - Article 7 of the BCU -, which implies that the distribution of different groups of expenditure between the state budget and local budgets, as well as different levels of local budgets, is provided based on the need to bring public services closer to service consumers (citizens).
41. To provide public service delivery in the most efficient way, budget expenditures are differentiated as follows (Article 82 of the BCU):
- expenditures on providing state integrity and sovereignty, which cannot be delegated to local self-governments;

- expenditures that are prescribed by the central government's function and delegated to local self-governments to ensure the most effective service delivery based on the principle of subsidiarity;
- expenditures derived from the local self-governments' function and responsibility that are to be implemented at the local level.

42. Implementation of the decentralization reform and the Government's "Concept for Reformation of Local Self-Governance and Administrative-Territorial Structure in Ukraine" (approved by the Cabinet Resolution dated 01.04.2014 No. 333-r) was a basis for gradual transferring powers and responsibility of public service delivery from the central level to local governments. The main purpose of this delegation was to improve the quality of public services and consequently to increase citizens' welfare.

43. Amendments to the Budget Code approved by the Parliament in 2014 (law dated 28.12.2014 No.79-VIII) established a new model of financial support to local budgets and intergovernmental relations. The main areas of fiscal reform in the context of decentralization were the following:

- Budget autonomy and financial capacity of local budgets, particularly with reference to SNGs legal right to develop their local budgets independently on a basis of fixed stable long-term revenue sources and expenditures, as well as basic parameters set out in the draft Budget Law approved by the Government and submitted by the Parliament;
- Ensuring stable sources of revenues for local budgets - including the transfer from the state budget of payments for administrative services - state duty, 10% of the corporate income tax on private sector enterprises (for oblast budgets only), and also extension of the real estate tax base;
- Introduction of a new mechanism for horizontal fiscal equalization which is more progressive than the previous "balancing" system and aims at encouraging SNGs to attract extra budget revenues and expand the existing tax base;
- Decentralization of expenditure powers by transferring more than 360 budget institutions in the field of education, healthcare, culture development, physical training, and sports from the state budget to local budgets;
- Two-tier budget system introduction (will be explained in more details in Chapter 4).

44. As a result of the recent implementation of the decentralization reform, a lot of administrative services are currently being implemented at the local level, such as: residence registration, ID issuance, state registration of entities, entrepreneurs, associations of citizens, registration of civil status, property rights, and land issues regulation. This contributes to the improvement of citizen's accessibility to the public services and shortens the time required for services delivery.

45. With regards to education services, SNGs obtained more expenditure responsibilities in these budget areas that were accompanied with the transferring of adequate financial resource to cover the respective expenditure. Although the teachers' salaries have been funded from the state budget (by means of educational subvention), the responsibility to maintain educational infrastructure is fully delegated to the city council.

46. The rest of the **legal framework for decentralization reform** in Ukraine is presented by:

- Respective amendments to the Budget Code and the Tax Code of Ukraine adopted by the Parliament;
- Law "On Voluntary Amalgamation of Territorial Communities";



- Methodology for capacity building in territorial communities (Cabinet Decree dated 08.04.2015 No.214);
- Law “On Territorial Community Cooperation”;
- Law “On the Principles of the State Regional Policy”;
- “Concept for Reformation of Local Self-Governance and Administrative-Territorial Structure in Ukraine” (Cabinet Decree mentioned above);
- Draft law on “Adjustments to the Constitution of Ukraine” that are aimed at the establishment of new administrative-territorial structure (where rayon level is eliminated).

## 2. ASSESSMENT OF PFM PERFORMANCE

### SNG PILLAR: Intergovernmental fiscal relations

#### HLG-1. Transfers from higher levels of government (HLG)

47. This indicator assesses the extent to which the transfers to the sub-national government from higher levels of government are consistent with the original approved high-level government budgets and are provided according to agreed time frames. The indicator contains four dimensions: HLG-1.1, HLG-1.2 and HLG-1.3 covers last three completed fiscal years (2018-2020), HLG-1.1 – last completed fiscal year (2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>HLG-1. Transfers from higher levels of government (M2)</b>	<b>C</b>	
<b>HLG-1.1. Outturn of transfers from higher levels of government</b>	C	Table HLG.1 shows that in two of the last three years under assessment, actual transfers were between 92% and 116% of the original budget estimates. Actual deviation stood at: 2018 – 112.5%; 2019 – 95.1%; 2020 – 122.7%
<b>HLG-1.2. Transfers composition outturn</b>	D	Variance in transfer composition was more than 15% in each of three years under assessment: 2018 – 15.8%; 2019 – 17.6%; in 2020 – 18.3%
<b>HLG-1.3. Timeliness of transfers from higher levels of government</b>	A	Transferring grants from state budget to local budgets, including the budget of Zhytomyr city, is provided in accordance with the Procedure developed at the central level and approved by Cabinet Decree No. 1132 <sup>4</sup> . Before the start of the next budget period, the Finance and Budget Department prepares an annual budget allocation plan (cash flow forecast) that defines the schedule of transferring grants from state budget to local budgets. In each of the years under assessment (2018, 2019 and 2020), more than 90% of all budget grants were transferred timely to the city budget according to the period restriction governed by the law
<b>HLG-1.4. Predictability of transfers</b>	D	2021 was the first year when the Ministry of Finance of Ukraine provided the SNG with information on budget transfers forecast for the fiscal year and the two following fiscal years (2022-2024)

#### Dimension HLG-1.1. Outturn of transfers from higher levels of government

48. The results of the analysis of transfers (grants and subventions) provided from the state budget and Zhytomyr Oblast budget to the budget of Zhytomyr city are presented in Table HLG.1. In 2020, the deviation between the approved and actual transfers were more than 116%; in 2018 and 2019, it was between 92% and 116% and stood at 112.5% and 95.1% respectively. Thus, on the one hand, in 2018 and 2020 the Zhytomyr city budget received more financial resources (against the amount initially approved) for covering its expenditure. On the other hand, this practice highlights the shortcomings in the budget planning and leads to budget funds distribution when the medium-term perspective is not considered.

49. The main reasons for the significant deviation in transfer outturn are the delay from central government to notify SNGs of their approved annual transfers and the BCU regulation that does not allow SNGs to account unknown revenue and expenditure that are not prescribed by the State Budget Law when preparing annual draft local budget.

<sup>4</sup> Cabinet Decree dated 15.12.2010 No. 1132 “On approval of Procedure for transferring budget grants”.

Table HLG.1: Outturn of transfers from the HLG

Aggregate expenditure	2018	2019	2020
Approved budget	1,283.4	1,174.2	476.2
Outturn	1,444.3	1,116.3	584.2
Outturn as percentage of budget	<b>112.5</b>	<b>95.1</b>	<b>122.7</b>
Composition variance of earmarked grants, percent	<b>15.8</b>	<b>17.6</b>	<b>18.3</b>

Data source: Treasury reports on Zhytomyr city budget performance in 2018-2020.

50. Furthermore, the State Budget Law may be amended during the budget execution period to allocate new grants to SNG. Thus, before the start of the new budget period, SNGs do not usually have the legal ground for local budget drafting based on the full list of grants expected to be received from the higher level government's budget.

51. **The score for this dimension is C.**

### Dimension HLG-1.2. Transfers composition outturn

52. To assess this dimension, earmarked grants from the state budget to Zhytomyr city budget were nominally divided into the following groups: education subventions, healthcare subvention, subvention for socio-economic development of territories, subvention for housing for ATO fighters, road infrastructure subvention, election subvention, COVID subvention, and other grants. Information on the structure and value of earmarked grants in 2018-2020 is presented in detail in Annex 4.

53. The data of the Table HLG.1 reflect quite a high-level of transfers composition outturn in each year of the period under assessment: in 2018 – 15.8%, in 2019 – 17.6%, in 2020 – 18.3%. The reasons of these deviations are described above under the assessment of HLG.1 dimension, and usually, they do not depend on SNGs' policy.

54. **The score for this dimension is D.**

### Dimension HLG-1.3. Timeliness of transfers from the HLG

55. Transferring grants from state budget to local budgets, including the budget of Zhytomyr city, is provided in accordance with the procedure developed at the central level and approved by Cabinet Decree No. 1132<sup>5</sup>. This Decree establishes the following deadlines for transferring grants: medical and educational subventions – every month, two times per month before 10<sup>th</sup> and 25<sup>th</sup>; other grants – every month within two operational days after the day of submission of financial authority payment directive to the Treasury.

56. After the city budget is approved by the City Council, the Finance and Budget Department prepares an annual budget allocation plan (cash flow forecast) which establishes the schedule of transferring grants from state budget to local budgets. Daily Treasury information on budget transfers income provided by the Finance and Budget Department presents actual dates of transfers receipts. Based on this information, the team made the conclusion that in each of the years under assessment (2018, 2019 and 2020), more than 90% of all budget grants were transferred timely to the city budget according to the period restriction governed by the law. For instance, education grants were disbursed twice a month on the 10<sup>th</sup> and 25<sup>th</sup> days of the month, while subvention for socio-economic development of territories was disbursed once a month within two days after submission of transfer request.

57. **The score for this dimension is A.**

<sup>5</sup> Cabinet Decree dated 15.12.2010 No. 1132 "On approval of Procedure for transferring budget grants".

#### Dimension HLG-1.4. Predictability of transfers

58. The Ministry of Finance of Ukraine did not provide SNGs with any information on transfers forecast for the fiscal year and the two following fiscal years in 2020.

59. FY 2021 became the first year when the medium-term transfer forecast for 2022-2024 (by transfer types and territorial communities) was developed by the Ministry of Finance and submitted to SNGs for further developments in budget forecast preparation at the local level.

60. **The score for this dimension is D.**

#### HLG-2. Fiscal rules and monitoring of fiscal position

61. HLG-2 indicator assesses the extent to which the central government sets fiscal rules framing the budget and granting sub-national governments the right to borrow. It also assesses the extent to which the central government monitors the financial position of sub-national governments. It contains the following three dimensions and uses the M1 (WL) method for aggregating dimension scores.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>HLG-2. Fiscal rules and monitoring of fiscal position (M1)</b>	<b>A</b>	
<b>HLG-2.1. Fiscal rules for sub-national governments</b>	A	Basic rules and procedures (budget rules) used in local budgets preparation, consideration, approval and implementation as well as local budgets reporting are governed by the BCU, which contains prescribes restrictions on local budgets adoption with deficit/surplus
<b>HLG-2.2. Debt rules for sub-national governments</b>	A	Debt policy rules for SNGs are regulated in the BCU. According to Article 16 of the Code, city councils have the right to carry out local internal borrowings, local external borrowings by obtaining credits (loans) from international financial organizations, and other local external borrowings (city councils of city territorial communities with the administrative centre in the city of oblast significance). Article 18 of the BCU stipulates that the maximum amount of local debt and debt guaranteed by the city territorial community at the end of the budget period may not exceed 200% of the average annual estimated development budget revenues for the next two budget periods defined in the local budget forecast. To ensure compliance with the limits of local debt and local guarantees, the Ministry of Finance maintains a register of local borrowings and local guarantees
<b>HLG-2.3. Monitoring of sub-national governments</b>	A	The Budget Code of Ukraine (Articles 60 and 61) mandates all SNGs to prepare and submit annual financial statements to the Treasury before the 31 <sup>st</sup> of March of the year following the previous budget period. Evidence provided by the Zhytomyr City Office of the State Treasury Service indicates that all SNGs submit their annual financial statements within the timelines prescribed under the law.

#### Dimension HLG-2.1. Fiscal rules for sub-national governments

62. Basic rules and procedures (budget rules) used in local budgets preparation, consideration, approval, and implementation, as well as local budgets reporting, are governed by the BCU that prescribes restrictions on local budgets adoption with deficit/surplus.

63. As per Article 72 of the Budget Code of Ukraine, the approval of deficit local budget is prohibited. Indeed, the deficit may occur separately for the general or special fund of local budget, but such a deficit is “conditional,” since it is required and obligatory to approve simultaneously the sources of the deficit funding, namely: for general fund of local budget – it is free balance of budget funds that is distributed during the budget period; for special fund – it’s local borrowings, receipts from sale of securities or general fund resource which are transferred to the special fund (the Budget Code stipulates such a mechanism for the local budget deficit financing).

64. Thus, the general fund deficit is always compensated by free cash balance while the special fund deficit by the local borrowings or the general fund surplus. Hence, the overall local budget is always well-balanced; in other words, a ceiling on the primary fiscal balance is zero.

65. The local budget may be approved with a surplus: for the general fund, in the case of allocation to the budget of funds from the general fund of such local budget, fulfilment of obligations on outstanding loans, and to ensure the established amount of working capital balance; for a special fund, in case of repayment of local debt and purchase of securities.

66. Furthermore, Article 116 of the BCU specifies the cases of the budget legislation violation that includes violation of the Code’s requirements in part of local budget fiscal balance. Article 117 governs the enforcement mechanisms that are applied in case of the budget violation. One of these mechanisms is suspending local budget allocations and local budget transactions. In case of the law violation, respective representatives of SNG are subject to civil, disciplinary, administrative, or criminal responsibility.

67. The BCU (Article 79) also defines the peculiarities of the formation of revenues and expenditures of the local budget in case of late decision-making on the local budget. Also, some kinds of exemptions are referred to the basic information related to budget transfers to be used by SNGs, if the state budget is not approved in time (Article 77).

68. The budget of Zhytomyr CTC was prepared, approved, and executed in compliance with the requirements and rules of budget legislation, including following budget deficit rules.

69. **The score for this dimension is A.**

## **Dimension HLG–2.2. Debt rules for sub-national governments**

70. Debt policy rules for SNGs are regulated in the BCU. According to Article 16 of the Code, city councils have the right to carry out local internal borrowings, local external borrowings by obtaining credits (loans) from international financial organizations, and other local external borrowings (city councils of city territorial communities with the administrative centre in the city of oblast significance).

71. The right to attract local borrowings within the limits prescribed by the decision on the local budget belongs to the city territorial community, in the person of the head of the local financial body on behalf of the city council.

72. Article 18 of the BCU stipulates that the maximum amount of local debt and debt guaranteed by the city territorial community at the end of the budget period may not exceed 200% of the average annual estimated development budget revenues for the next two budget periods defined in the local budget forecast.

73. As it is prescribed by the BCU (Article 18), in order to ensure compliance with the limits of local debt and local guarantees, the Ministry of Finance maintains a register of local borrowings and local guarantees. Information from the relevant registers is published monthly on the official website of the Ministry. The

procedure for maintaining the register of local borrowings and local guarantees is approved by the Ministry of Finance Order dated 25.07.2012 No.866.

74. The same article allows exemption to the local debt ceilings when it is agreed with the Ministry of Finance. It provides for SNG an opportunity for temporarily exceeding (within the budget period) the local debt limit as well as a requirement to submit to local council an action plan on how to bring actual local debt amount in line with the Budget Code.

75. Regarding sanctions and enforcement mechanisms – in addition to the articles 116 and 117 of BCU mentioned above under HLG-2.1 - the Cabinet Decree No. 110 dated 16.02.2011 stipulates the following: inconsistency of local borrowing decision and the borrowing terms prescribed by the law is the reason for the Ministry of Finance to apply to the court in order to invalidate this decision.

76. Monitoring of local debt is carried out by SNGs and the Ministry of Finance. Information on local debt is submitted to the Ministry of Finance, which is updated in case of changes.

77. The assessment team verified the compliance the Zhytomyr city debt stocks evolution with the BCU's and other normative documents' rules.

**78. The score for this dimension is A.**

### **Dimension HLG–2.3. Monitoring of sub-national governments**

79. The Budget Code of Ukraine (Articles 60 and 61) mandates all SNGs to prepare and submit annual financial statements to the Treasury before the 31<sup>st</sup> of March of the year, following the previous budget period. Evidence provided by the Zhytomyr City Office of the State Treasury Service indicates that all SNGs submit their annual financial statements within the timelines prescribed under the law.

**80. The score for this dimension is A.**

## PILLAR 1: Budget reliability

81. Pillar One measures whether the government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

### PI-1. Aggregate expenditure outturn

82. This performance indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in the government budget documentation and fiscal reports. There is one dimension to this indicator. The assessment covers the SNG budgetary units and looks at the budgeted and actual expenditure for last three completed FYs (2018, 2019 and 2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-1: Aggregate expenditure outturn (M1)</b>	<b>B</b>	
<b>1.1. Aggregate expenditure outturn</b>	B	Actual aggregate expenditure outturn stood at 111.1%, 105.2% and 104.4% in 2018, 2019 and 2020 respectively. That indicates less than 10% deviation in two of the last three completed FYs.

83. Table 1.1 presents approved and actual aggregate expenditure of Zhytomyr city budget and respective deviations in 2018-2020.

Table 1.1: Aggregate expenditure outturn (UAH million)

Aggregate expenditure	2018	2019	2020
Approved budget	2,832.6	3,001.5	2,556.2
Outturn	3,147.1	3,156.7	2,669.9
Outturn as a percentage of budget	<b>111.1</b>	<b>105.2</b>	<b>104.4</b>

Data source: Treasury reports on Zhytomyr city budget performance in 2018-2020.

84. Having analysed the norms of the budget legislation on certain issues of local budget planning, approval and implementation, and considering the information provided by the Finance and Budget Department of Zhytomyr City Council, we can conclude that such deviations are due to external factors that are not under the control of SNGs. Such factors are: 1) distribution of transfers from the state budget to local budgets at the central level after local budgets approval; 2) legal authority to distribute free balances at the beginning of the year, but only after approval of the annual report on local budget performance, which is submitted to the local council within two months after the end of the previous budget period (i.e., before March 1).

85. **The score for this dimension is B.**

## PI-2. Expenditure composition outturn

86. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. This indicator has three dimensions. The assessment covers budgetary units over the last three completed FYs (2018-2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-2. Expenditure composition outturn (M1)</b>	<b>C+</b>	
<b>2.1. Expenditure composition outturn by function</b>	C	Variance in expenditure composition by functional classification was less than 15% in each of the last three FYs: 8.2%, 12.4% and 10.7% in 2018, 2019 and 2020 respectively
<b>2.2. Expenditure composition outturn by economic type</b>	C	Variance in expenditure composition by economic categories was significantly higher in 2019 comparing with the function criteria. However, it was less than 15% in 2018 and 2020. As it is presented in Table 2.1 and Annex 4, actual variances were 8.5%, 30.6% and 14.3% in 2018, 2019 and 2020 respectively
<b>2.3. Expenditure from contingency reserves</b>	A	There were no actual expenditures from contingency reserves over 2018-2020, however such expenditures were planned in amount no more than 1% of the general fund of the city budget

### Dimension PI-2.1. Expenditure composition outturn by function

87. Table 2.1 below (and Annex 4 in a more details) presents variance in expenditure composition by functional and economic classification in the last three completed FYs (2018-2020). The analysis verifies that expenditure redistribution between budget allocations was less than 15% in each of the three years under assessment. The actual variance in expenditure composition were 8.2%, 12.4%, and 10.7% in 2018, 2019, and 2020 respectively. Over the period under assessment, the highest deviations occurred in health care and public administration (in 2018 and 2020), also in social security and economic affairs (in 2019).

Table 2.1: Aggregate composition expenditure outturn

Variance	2018	2019	2020
Functional classification,%	8.2	12.4	10.7
Economic classification,%	8.5	30.6	14.3

Data source: Treasury reports on Zhytomyr city budget performance in 2018-2020.

88. Among the reasons of significant variance in city budget expenditure composition was the distribution and the use of transfers from the state budget and the oblast budget, which were received by the Zhytomyr city budget in the process of budget execution. Among such transfers were subventions for socio-economic development of territories, road infrastructure development, and local council election. In addition, variance in expenditures composition was due to the over-fulfilment of the budget revenue and further allocation of the respective funds for the budget expenditure. As per Article 78 of the BCU, such revenues are allowed to be distributed and consumed based on the budget performance in the first two quarters of the current FY, and they also need to be officially verified by the Finance and Budget Department.

89. **The score for this dimension is C.**



### Dimension PI-2.2. Expenditure composition outturn by economic type

90. Variance in expenditure composition by economic categories was significantly higher in 2019 comparing with the function criteria. However, it was less than 15% in 2018 and 2020. As it is presented in Table 2.1 and Annex 4, actual variances were 8.5%, 30.6%, and 14.3% in 2018, 2019, and 2020 respectively.

91. **The score for this dimension is C.**

### Dimension PI-2.3. Expenditure from contingency reserves

92. There were no actual expenditures from contingency reserves within the last three years under assessment as shown in Table 2.1. Still, such expenditures were planned for the city budget in 2018-2020 in the amount of 0.8%, 0.7%, and 0.8% of general fund expenditures (that meets the requirement of the BCU - no more than 1% of the general fund).

Table 2.2: Expenditure from contingency reserves

Variance	2018	2019	2020
Contingency expenditure share of budget,%	0.00	0.00	0.00

Data source: Treasury reports on Zhytomyr city budget performance in 2018-2020.

93. **The score for this dimension is A.**

## PI-3. Revenue outturn

94. This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores. The assessment covers the SNG budget over the last three completed FYs (2018-2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-3. Revenue outturn (M2)</b>	<b>B+</b>	
<b>3.1. Aggregate revenue outturn</b>	A	Actual aggregate revenue outturn by years: 105.4%, 109.1% and 101.8% in 2018, 2019 and 2020 respectively
<b>3.2. Revenue composition outturn</b>	B	Actual revenue composition outturn by years: 9.7%, 6.6% and 7.4% in 2018, 2019 and 2020 respectively

### Dimension PI-3.1. Aggregate revenue outturn

95. Based on actual city budget revenue outturn (105.4%, 109.1%, and 101.8% in 2018, 2019 and 2020 respectively), an approach to budget revenue planning in Zhytomyr city is considered as stable and predictable.

96. **The score for this dimension is A.**

Table 3.1: Aggregate revenue outturn (UAH million)

<b>Total revenue</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Approved budget	1,564.8	1,848.9	2,075.2
Outturn	1,649.7	2,016.4	2,112.6
Variance (as a% of original budget)	<b>105.4</b>	<b>109.1</b>	<b>101.8</b>
Composition variance (%)	<b>9.7</b>	<b>6.6</b>	<b>7.4</b>

Data source: Treasury reports on Zhytomyr city budget performance in 2018-2020.

### **Dimension PI-3.2. Revenue composition outturn**

97. Based on data presented in Table 3.1 and Annex 4, variance in revenue composition was less than 10% in each of the last three completed FYs: 9.7%, 6.6%, and 7.4% in 2018, 2019 and 2020 respectively. Thus, variance in revenue composition outturn was less than variance in budget expenditure.

98. Over the period under assessment, the highest deviation occurred: in 2018 – in non-tax revenues from sales of goods and services, and fines and penalties; in 2019 – in property income; in 2020 – in taxes on goods and services as well as property income.

99. **The score for this dimension is B.**

## PILLAR 2: Transparency of public finances

100. Pillar Two assesses whether information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance, and ready access to fiscal and budget documentation.

### PI-4. The budget classification

101. This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator. The assessment covers the SNG budgetary units in FY 2020.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-4. The budget classification</b>	<b>D</b>	
<b>4.1. Budget classification</b>	D	Budget preparation and execution are based on administrative, economic, functional, and program classification using GFS/COFOG standards. However, budget reporting is based only on economic, functional, and program classification. The classification follows GFS 2001.

#### Dimension PI-4.1. The budget classification

102. Budget classification is approved by the Ministry of Finance Order dated 14.01.2011 No. 11 "Budget Classification". The Ministry of Finance also approved the local budget program classification (Order dated 20.09.2017 No. 793). The budget classification follows the IMF Government Finance Statistics (GFS) Manual of 2001. The budget classification is unified and applied at both national and local levels in line with the COFOG standards. When developing budget requests, expenditures are detailed by codes of administrative, functional, program, and economic classification. The same approach is used under the local budgets' performance process with reference to all budget documents preparation. However, budget reporting is based only on functional, economic, and program classification. Administrative classification is not used in budget reports.

103. **The score for this dimension is D.**

### PI-5. The budget documentation

104. This indicator assesses the comprehensiveness of information provided in the annual budget documentation as measured against a specified list of four basic and eight additional elements. The assessment covers the SNG budgetary units and looks at the most recent budget submitted to legislature (that is Zhytomyr city budget for 2021).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-5. The budget documentation</b>	<b>B</b>	
<b>5.1. Budget documentation</b>	B	Budget documentation submitted to Zhytomyr City Council in 2020 fulfils three (3) out of four basic elements and four (4) out of eight additional elements as shown in Table 5.1.

## Dimension PI-5.1. The budget documentation

105. Table 5.1 presents information on what basic and additional elements were included in the 2021 annual budget documentation submitted to the Zhytomyr City Council in 2020.

Table 5.1: Budget documentation

Item		Included (Y/N)	Source of evidence and comments
<b>Basic elements</b>			
1	Forecast of the fiscal deficit or surplus or accrual operating result.	Y	This information is included in the narrative section of the Local Budget Decree and in its Annex 2 ("Local budget financing").
2	Previous year's budget outturn, presented in the same format as the budget proposal.	N	The budget originally approved by the local council is not the same format as financial statements on budget execution in previous years (the last one isn't based on administrative classification).
3	Current FY's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Y	The current year's budget has the same format as the budget proposal.
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Y	Budget documentation includes aggregate budget data for both revenue and expenditure for the next budget period. At the same, time, a detailed breakdown of such indicators is provided. Annual budget's annexes present data for only the next budget period (inclusion of data for previous FY is not required by the local budget template established by the Ministry of Finance). At the same, time, Zhytomyr city budget forecast, which is a part of the budget documentation, provides relevant data for previous, current, next, and two following FYs.
<b>Additional elements</b>			
5	Deficit financing, describing its anticipated composition.	Y	This information is included in the narrative section of the Local Budget Decree and in its Annex 2 ("Local budget financing").
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	NA	GDP, inflation, and interest rate are forecasted by the central government.
7	Debt stock, including details at least for the beginning of the current FY presented in accordance with Government Financial Statistics (GFS) or another comparable standard.	Y	Relevant information is included in Annex 2 to the budget decision and Annex 4 to the budget forecast of Zhytomyr CTC.
8	Financial assets, including details at least for the beginning of the current FY presented in accordance with the GFS or other comparable standard.	Y	Information on financial assets is included in the annual treasury reports on budget execution. At the same, time, this information is a part of annual Treasury reports on local budget execution.
9	Summary information of fiscal risks, including contingent liabilities such	NA	Element 9 is NA, since dimensions PI-10.2 and PI-10.3 are NA.

	as guarantees, and contingent obligations embedded in structure financing instruments such as PPP contracts, and so on.		
10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	N	Such explanations were not provided in the budget documentation submitted to the City Council in 2020.
11	Documentation on the medium-term fiscal forecasts.	Y	According to Article 75 <sup>1</sup> of the BCU, local budget forecast is a midterm budget planning document, which defines local budget indicators for the medium term and serves as a basis for annual budget preparation. Zhytomyr city budget forecast for 2022-2023 (includes indicators for 2021-2023) was approved by the Executive committee of Zhytomyr City Council on December 16, 2020 (Decree No. 1481).
12	Quantification of tax expenditures.	N	Information on land tax exemptions for the two public corporations is included in the explanatory note to the city budget for FY2021, but there is no quantification of the exemptions.

106. The score for this dimension is B.

## PI-6. Sub-national operations outside financial reports

107. This indicator measures the extent to which government revenue and expenditure are reported outside financial reports. It contains three dimensions. The assessment of this indicator is based on the information and reports available for FY 2020.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-6. Sub-national operations outside financial reports (M2)</b>	<b>B+</b>	
<b>6.1 Expenditure outside financial reports</b>	B	The ratio of extra-budgetary expenditure of healthcare institutions to total expenditures of Zhytomyr city budget stood at 1.9% in FY2020. These expenditures were not included in the budget reports of Zhytomyr City Council.
<b>6.2 Revenue outside financial reports</b>	B	Share of total extra-budgetary revenues outside the Zhytomyr city budget reports was 1.8% of total City Government revenue for FY2020.
<b>6.3 Financial Reports of Extrabudgetary Units</b>	A	Annual financial statements were prepared by all budget and extra-budgetary units and submitted to their respective supervisory KSUs within two months after the end of the previous budget period as it is prescribed by the law. The annual financial statements contain full information on revenues, expenditures, financial and tangible assets, liabilities, and reconciled cash flow.

## Background

108. Article 13 of the BCU prescribes that extra-budgetary funds of national and local governments are not allowed to be established. The same applies to the opening of extra-budgetary accounts, except for the cases when such accounts are opened to service local budgets in terms of development budget and own receipts of budgetary institutions in public sector banks (part two of Article 78 of the BCU) and placement of temporarily free local budget means on deposits (part eight of Article 16 of the BCU).

109. Based on the above, the Ministry of Finance Order dated 24.01.2012 No. 44 mandates KSUs and recipients of budget funds to report on the balance of funds in extrabudgetary accounts mentioned above and submit the reports to local financial bodies and Treasury. At the same time, communal health care institutions are not budgetary units but are communal non-profit enterprises which receive extrabudgetary own revenues, and consequently, they provide for extrabudgetary expenditure along with funds received from the city budget and state budget (National Health Care Service of Ukraine).

110. List of communal healthcare enterprises of Zhytomyr City Council, which have been considered in the assessment of PI-6.1, PI-6.2 and PI-6.3, includes:

- 1) Primary healthcare centre;
- 2) Zhytomyr city clinic hospital No.1;
- 3) Zhytomyr city clinic hospital No.2;
- 4) Zhytomyr city children hospital;
- 5) Zhytomyr city dental clinic No.1;
- 6) Zhytomyr city dental clinic No.2;
- 7) Zhytomyr city dental children clinic.

111. Table 6.1 below presents revenue and expenditure outside FY2020 financial reports for the seven (7) communal healthcare institutions mentioned above.

Table 6.1: Analysis of revenues and expenditures outside financial reports (FY2020)

Analysis of own revenues (consolidated)		Analysis of respective expenditures (consolidated)	
Revenues of extra-budgetary units (UAH million) <i>outside financial reports</i>	49.4	Expenditures of extra-budgetary units (UAH million) <i>outside financial reports</i>	49.4
Total actual City Government revenue (UAH million)	2,722.7	Total City Government expenditure (UAH million)	2,669.9
% of total	<b>1.8%</b>	% of total	<b>1.9%</b>

Data source: Treasury reports on Zhytomyr city budget performance in 2020; financial statements of communal healthcare enterprises.

### Dimension PI-6.1. Expenditure outside financial reports

112. Extra-budgetary funds are derived from city healthcare facilities. As shown in Table 6.1 above, the ratio of extra-budgetary expenditure of healthcare institutions to total expenditures of Zhytomyr city budget stood at 1.9% in FY2020. These expenditures were not included in the budget reports on budget performance. Rest of city budget expenditures are part of the budget reports.

113. **The score for this dimension is B.**

### Dimension PI-6.2. Revenue outside financial reports

114. As indicated in Table 6.1 above, the share of total extra-budgetary revenues outside the City Government budget reports was 1.8% of the total City Government revenue for FY2020.

115. **The score for this dimension is B.**

### Dimension PI-6.3. Financial Reports of EBU

116. Cabinet Decree dated 28.02.2000 No. 419 prescribes the timelines (within two months after the end of the previous budget period) for preparation and submission of annual financial statements by all budget and extra-budgetary units to their respective supervisory departments/agencies. Based on the evidence provided by the Healthcare Department of Zhytomyr City Council, this deadline was adhered to. The annual financial statements contain full information on revenues, expenditures, financial and tangible assets, liabilities, and reconciled cash flow. Since it is not allowed for healthcare institutions to issue guarantees on behalf of other institutions, there is no information on guarantees included into the financial reports.

117. **The score for this dimension is A.**

## PI-7. Transfers to SNGs

118. This indicator assesses the transparency and timeliness of transfers to lower levels of SNG with direct financial relationships to the sub-national governments. It considers the basis for allocating transfers and whether lower-level SNGs receive information on their allocations in time to facilitate budget planning. It contains two dimensions. The time period assessed is the last completed FY (2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
PI-7. Transfers to SNGs	NA	
7.1 System for allocating transfers	NA	This dimension is not applicable since there is no lower-tier government of Zhytomyr City Council.
7.2. Timeliness of information on transfers	NA	This dimension is not applicable since there is no lower-tier government of Zhytomyr City Council.

### Dimension PI-7.1. System for allocating transfers

119. This dimension is not applicable since there is no lower-tier government of Zhytomyr City Council.

120. **The score for this dimension is NA.**

### Dimension PI-7.2. Timeliness of information on transfers

121. This dimension is not applicable since there is no lower-tier government of Zhytomyr City Council.

122. **The score for this dimension is NA.**

## PI-8. Performance information for service delivery

123. This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation and in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. It contains four dimensions. Under dimension PI-8.1, PIs are assessed for planned outputs and outcomes for the next FY (2021); under dimension PI-8.2, PIs are assessed for outputs and outcomes of the last completed FY (2020). Under dimensions PI-8.3 and PI-8.4, the last three completed FYs (2018-2020) are examined.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-8. Performance information for service delivery (M2)</b>	A	
<b>8.1. Performance plans for service delivery</b>	A	All fourteen (14) KSUs develop passports (annual performance plans) for all the budget programs they are responsible for. Passports specify purpose, tasks, and performance indicators of respective budget program and are to be developed separately for each budget program according to the budget legislation. The budget program passports that include KPIs, output to be produced, and planned outcomes for all (100% by value) KSUs are published on the website of Zhytomyr City Council.
<b>8.2. Performance achieved for service delivery</b>	A	All KSUs prepare and submit reports on budget program passport implementation to the Finance and Budget Department in line with requirements prescribed by the budget legislation. Reports, which present outputs and outcomes (quality performance indicators) of each budget program, are available on the Zhytomyr City Council website for all (100% by value) KSUs.
<b>8.3. Resources received by service delivery units</b>	A	All KSU and budgetary institutions are obliged to report quarterly on resources received in-kind, and monthly on resources received in cash. These monthly and quarterly reports are submitted by KSUs to the Finance and Budget Departments and the Treasury. Information on resources received in-kind is quantified in monetary terms and included in the annual financial statements. Documentary evidence received from the City Council verifies that information on resources received by KSUs for budget program implementation is disaggregated by source of funds. Therefore, all resources received by service delivery units (i.e., 100% by value) are compiled into a report by the Treasury each year.
<b>8.4. Performance evaluation for service delivery</b>	B	Budget program effectiveness evaluation is provided by KSUs, hence there is no independent evaluation of service delivery programs. Evaluation results by budget programs as well as consolidated results are published on the Zhytomyr City Council website. Budget program evaluation includes: analysis of compliance of a budget program with national and local priorities of socio-economic development as well as legal requirements established by the budget legislation; assessment of the budget program efficiency by establishing correlation between the results achieved and the amount of budget funds used; analysis of variance in planned and actual performance indicators; identification of factors hindering budget programs implementation; development of proposals to improve the efficiency of a budget program.



## Background

124. Annual action plans (budget program passports) and reports on budget program performance are developed in accordance with the Ministry of Finance Order dated 26.08.2014 No. 836 that stipulates the following: budget program passport is a document that specifies purpose, tasks, and performance indicators of respective budget program implementation, and it is to be developed separately for every budget program according to the budget legislation. Thus, all performance indicators and results of service delivery are disaggregated by budget programs.

125. As per the BCU and Minfin Order mentioned above, budget program passport is to be prepared by the relevant key spending unit. Based on this and given that communal healthcare institutions (which were considered as EBUs under PI-6) do not have a status of KSU but spending unit of a lower-tier, they do not develop separate passports yet are still covered in the passports of KSUs which they are subordinated to.

### Dimension PI-8.1. Performance plans for service delivery

126. All fourteen (14) KSUs of Zhytomyr city budget develop passports (annual performance plan) for all their budget programs they are responsible for, in line with the Ministry of Finance Order dated 26.08.2014 No. 836.

127. These fourteen (14) KSUs are: Executive Committee of the Zhytomyr City Council; Education Department; Department for Family, Youth and Sports Affairs; Healthcare Department; Social Policy Department; Cultural Development Department; Communal Property Department; Department of Public Utilities; Capital Construction Department; Department for Urban Planning and Land Affairs; Land Relations Department; Finance and Budget Department; Department for Emergency and Civil Protection.

128. As it was already indicated, budget passports specify purpose, tasks, and performance indicators of budget programs. Furthermore, the assessment team has analysed sampled budget programs of all the KSUs mentioned above, especially the programs that are mostly related to service delivery, and has ascertained that every KSU had at least two budget passports with outputs to be produced and outcomes planned. For instance, budget program developed for high-specialised medical institutions includes the average cost of the specialized medical service and increase in capital costs as planned output; outcomes are defined as a reduction in mortality and increasing the level of disease detection in the early stages.

129. Budget program passports which include KPIs, outputs to be produced and planned outcomes for all (100% by value) KSUs (budget and extra-budgetary units) are published on the website of Zhytomyr City Council: <https://zt-rada.gov.ua/passports>.

130. **The score for this dimension is A.**

### Dimension PI-8.2. Performance achieved for service delivery

131. The same Order of the Ministry of Finance No. 836 prescribes legal and methodological framework for preparation of reports on budget program performance. According to the Order, all KSUs are obliged to:

- prepare and submit reports on budget program implementation to Finance and Budget Department - within the timelines set for consolidated annual budget reports preparation;
- publish reports on passports implementation on the official websites of KSUs - within three working days after submission reports to Finance and Budget Department.

132. Evidence available suggests that all fourteen (14) KSUs (indicated under PI-8.1 dimension) have been complying with the Ministry of Finance's directives. The annual performance reports, indicating outputs and outcomes (quality performance indicators) for each budget program, are published on the Zhytomyr City Council website (<https://zt-rada.gov.ua/reports>) for all (100% by value) KSUs.

**133. The score for this dimension is A.**

### **Dimension PI-8.3. Resources received by service delivery units**

134. The Ministry of Finance Order dated 08.08.2012 No. 938 stipulates the Procedure for Treasury servicing of local budgets, which mandates KSUs to report quarterly on resources received in-kind. Furthermore, the BCU establishes requirements for all KSUs to prepare monthly reports on resources received in cash. Documentary evidence received from the City Council verifies that information on resources received by KSUs for budget program implementation is disaggregated by source of funds – resource received in kind and those received in cash.

135. Monthly and quarterly reports are submitted by KSUs to the Finance and Budget Department and the Treasury.

136. The annual financial report prepared by the Treasury includes a section on all resources received in-kind quantified in monetary terms as well as cash resources received. This report is supported by certificates of receipts (good receipt notes), which clearly describe specific items (goods, services) received in-kind, their donors, and recipients. Therefore, all resources received by service delivery units (i.e., 100% by value) are compiled into a report by the Treasury each year.

**137. The score for this dimension is A.**

### **Dimension PI-8.4. Performance evaluation for service delivery**

138. According to Article 20 of the BCU, at all stages of the budget process, its participants ensure evaluation of the budget programs effectiveness which includes measures for monitoring, analysis, and control of budget funds implementation. Evaluation is done on a basis of information retrieved from performance indicators analysis, budget requests, budget passports, reports on their implementation, and other relevant budget documentation.

139. The Guidelines for budget programs effectiveness evaluation are prescribed in the Ministry of Finance Order dated 17.05.2011 No. 608<sup>6</sup>. As per the Guidelines evaluation is provided by KSUs, hence there is *no independent evaluation of service delivery programs*.

140. Another approach used by local budget KSUs to assess their budget programs is based on the Methodology of comparative analysis of local budget programs effectiveness, approved by the Ministry of Finance.<sup>7</sup>

141. The budget program evaluation includes an analysis of compliance of a budget program with national and local priorities of socio-economic development as well as legal requirements established by the budget legislation. Furthermore, the evaluation covers: the assessment of the budget program efficiency by establishing correlation between the results achieved and the amount of budget funds used; the analysis

---

<sup>6</sup> <https://mof.gov.ua/uk/mbo-at-the-local-level>.

<sup>7</sup> [https://www.ibser.org.ua/sites/default/files/metodyka\\_zdiysnennya\\_porivnyalogo\\_analizu.pdf](https://www.ibser.org.ua/sites/default/files/metodyka_zdiysnennya_porivnyalogo_analizu.pdf).

of variance in planned and actual performance indicators; the identification of factors hindering budget programs implementation; the development of proposals to improve the efficiency of budget programs.

142. Consolidated information on local budget program effectiveness and efficiency evaluation are published on the Zhytomyr City Council website: <https://zt-rada.gov.ua/results>.

143. Based on information available on the website and received from the City Government, all KSUs ensured annual budget program evaluation at least once within 2018-2020: most of them in 2019 and 2020, while Finance and Budget Department, Cultural Development Department, and Communal Property Department in each of the last three completed FYs.

144. The evaluation results can be used, in particular to: 1) identify reasons of variance in actual performance indicators outturn; 2) compare various service delivery programs based on their efficiency level; 3) develop proposals on how to increase budget program efficiency and transparency.

145. **The score for this dimension is B.**

## PI-9. Public access to fiscal information

146. This indicator assesses the comprehensiveness of fiscal information available to the public based on nine specified elements (five basic and four additional elements) of information to which public access is considered critical. The assessment covers the last completed FY (2020), and the budgetary units of the SNG.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-9. Public access to fiscal information</b>	<b>A</b>	
<b>9.1 Public access to fiscal information</b>	A	Local governments of Zhytomyr CTC provide the public with wide and free access to fiscal information. In particular, it is true for four (4) basic elements and one (1) additional element, as indicated in Table 9.1 below. Elements 5 and 7 are NA since the legislation does not require external audits of local budgets.

### Background

147. Article 28 of the BCU stipulates that local governments ensure public access to fiscal information, including decision on local budget approval and quarterly reports on its performance. Decisions on local budget approval must be published in a local official newspaper designated by the local council within ten days after it is adopted.

148. At the same time, the executive ensures publication of the following documents on the official website of the City Council in line with the Law of Ukraine "On Access to Public Information": 1) local budget forecast – within five days after its approval; 2) draft decision on the local budget – during three working days after its submission to the local council; 3) enacted decision on local budget approval – within ten days after its adoption; 4) information on local budget performance – after relevant reporting period (month, quarter, year) is completed.

### Dimension PI-9.1. Public access to fiscal information

149. Local governments of Zhytomyr CTC provide the public with wide and free access to fiscal information. In particular, it is true for four basic elements and one additional element, as indicated in Table 9.1 below. Elements 5 and 7 are NA since the legislation does not require external audits of local budgets.

Table 9.1: Public access to fiscal information, FY 2020

Item	Criteria met (Y/N)	Explanation	Source of evidence	
<b>Basic elements</b>				
1	<b>Annual executive budget proposal documentation.</b> A complete set of executive budget proposal documents (as presented in PI-5) is available to the public within one week from the executive's submission of them to the legislature.	Y	Based on the City Government's words, it was published within three working days after its submission to the local council. The document is available on the city council website, however there is no possibility to identify the date of publication.	<a href="https://zt-rada.gov.ua/files/upload/sites/efiles/doc1578928718.pdf">https://zt-rada.gov.ua/files/upload/sites/efiles/doc1578928718.pdf</a>
2	<b>Enacted budget.</b> The annual budget law approved by the legislature is publicized within two weeks from the passage of the law.	Y	Based on the City Government's words, it was published within ten days after its approval. The document is available on the city council website, however there is no possibility to identify the date of publication.	<a href="https://zt-rada.gov.ua/?3398%5B0%5D=10029">https://zt-rada.gov.ua/?3398%5B0%5D=10029</a>
3	<b>In-year budget execution reports.</b> The reports are routinely made available to the public within one month from their issuance, as assessed in PI-28.	Y	Based on the City Government's words, the reports were published within two months after the end of the reporting period (a quarter). Quarterly reports on the city budget performance are available on the city council website, however there is no possibility to identify the dates of publication.	<a href="https://zt-rada.gov.ua/?3398%5B0%5D=1225">https://zt-rada.gov.ua/?3398%5B0%5D=1225</a>
4	<b>Annual budget execution report.</b> The report is made available to the public within six months from the FY's end.	Y	Based on the City Government's words, the reports were published within two months after the end of the reporting period (FY2020). Annual report on 2020 city budget performance is available on the city council website, however there is no possibility to identify the date of publication.	<a href="https://zt-rada.gov.ua/?3398%5B0%5D=1225">https://zt-rada.gov.ua/?3398%5B0%5D=1225</a>
5	<b>Audited annual financial report,</b> incorporating or accompanied by the external auditor's report. The reports are made available to the	NA	The legislation does not provide for an external audit of reports on local budgets performance.	

	public within twelve months from the FY's end.			
<b>Additional elements</b>				
6	<b>Prebudget statement.</b> The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the FY.	N	Prebudget statement was broadcasted live on the city council website, but it was not published.	
7	<b>Other external audit reports.</b> All nonconfidential reports on CG consolidated operations are made available to the public within six months from submission.	NA	The budget and other relevant legislation do not require an external audit of local budget reports.	
8	<b>Summary of the budget proposal.</b> A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts - often referred to as a "citizens' budget" and where appropriate translated into the most commonly spoken local language - is publicly available within two weeks from the executive budget proposal's submission to the legislature and within one month from the budget's approval.	N	The Citizens Draft Budget of Zhytomyr CTC was published on the city council website, however there is no possibility to identify the date of publication. It was not updated after the budget's approval by the City Council.	<a href="https://zt-rada.gov.ua/files/upload/sitefiles/doc1608106249.pdf">https://zt-rada.gov.ua/files/upload/sitefiles/doc1608106249.pdf</a>
9	<b>Macroeconomic forecasts.</b> The forecasts, as assessed in PI-14.1, are available within one week from their endorsement.	Y	Zhytomyr local budget forecast for 2022-2023 (includes indicators for 2021-2023) was published immediately after its approval by the executive – on December 16, 2020 (in 2020 it was approved by the City Council together with the annual city budget, see basic element No.1). Macroeconomic forecast for 2021-2023 was included to the Explanatory note to the annual 2021 city budget submitted to the City Council.	<a href="https://zt-rada.gov.ua/files/upload/sitefiles/doc1608305146.pdf">https://zt-rada.gov.ua/files/upload/sitefiles/doc1608305146.pdf</a> <a href="https://zt-rada.gov.ua/files/upload/sitefiles/doc1607951113.pdf">https://zt-rada.gov.ua/files/upload/sitefiles/doc1607951113.pdf</a>

150. The score for this dimension is A.

## PI-9bis. Public consultation

151. This indicator assesses the extent to which SNG conducts public consultation in preparing the budget, designing service delivery programs, and planning investments.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-9bis. Public consultation (M2)</b>	<b>D+</b>	
<b>9bis.1. Public consultation in budget preparation</b>	D	The City Government uses “citizens budget” as an instrument for considering public view in the budget preparation, however it does not envisage public discussion of the whole budget proposal. It deals with a certain part (share) of the city budget funds, determined by the City Council, which can be allocated for implementation of the projects proposed and developed by citizens of Zhytomyr CTC.
<b>9bis.2. Public consultation in the design of SD programs</b>	C	The City Government reported on the consultation for <i>secondary education budget program</i> in 2020. Inputs received from citizens are included in the annual reports of the schools’ principals, which are published on the websites of the respective educational institutions.
<b>9bis.3. Public consultation in investment planning</b>	D	Public consultation on investment projects were not conducted in 2020.

### Dimension PI-9bis.1. Public consultation in budget preparation

152. The City Government uses “citizen’s budget” as an instrument for considering public view in the budget preparation (<https://zt-rada.gov.ua/budgetgromad>), however it does not envisage public discussion of the whole budget proposal. It deals with a certain part (share) of the city budget funds, determined by the City Council, which can be allocated for implementation of the projects proposed and developed by citizens of Zhytomyr CTC.

153. **The score for this dimension is D.**

### Dimension PI-9bis.2. Public consultation in the design of service delivery programs

154. According to the information received from the City Council and based on the analysis of data available on the city council website, to involve citizens in public consultation in design of service delivery programs there is “citizens budget” mechanism on the city council website. This mechanism goes through the online portal which allows citizens to submit their view of potential benefits from SD budget programs and proposals on services provided by the City Government. These proposals are further voted by the citizens of Zhytomyr city and “winners” (depending on the funds allocated for “citizens budget” by the City Council) are implemented during the budget period.

155. The City Government reported on the consultation for *secondary education budget program* in 2020. Inputs received from citizens are included in the annual reports of the respective schools’ principals which are published on the websites of the educational institutions.

156. As an example, the report of secondary school No.28 can be found on:  
[https://docs.google.com/document/d/1uIPqQt5oqJwy8x\\_cwNnlANSvapfhQC8K/edit/](https://docs.google.com/document/d/1uIPqQt5oqJwy8x_cwNnlANSvapfhQC8K/edit/)

157. **The score for this dimension is C.**

**Dimension PI-9bis.3. Public consultation in investment planning**

158. The City Government has not provided any information supported by respective evidence on conducting public consultation on investment projects in 2020.

159. **The score for this dimension is D.**

## PILLAR 3: Management of assets and liabilities

160. Pillar Three measures the effectiveness of the government’s management of assets and liabilities and the extent to which this ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

### PI-10. Fiscal risk reporting

161. This indicator measures the extent to which fiscal risks to the SNG are reported. Fiscal risks can arise from adverse macro-economic situations, financial positions of SNGs, PCs, and contingent liabilities from SNG's own programs and activities, including PPPs. The assessment of this indicator is based on information available for the most recent FY (2020). For dimension 10.1, it covers the SNG-controlled PCs. For dimension 10.2, it should be the SNG entities that have direct fiscal relations with the SNG. For Dimension 10.3, the explicit contingent liabilities arising from the financing of public investment projects are assessed.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-10: Fiscal risk reporting (M2)</b>	<b>D</b>	
<b>10.1. Monitoring of public corporations</b>	D	FY2020 annual audited financial statements of the three largest PCs were published on the city council website within nine months from the end of the fiscal year. These three audited PCs constitute 65.7% by their value. Annual financial statements for FY2020 for all PCs of Zhytomyr City Council were submitted to the Finance and Budget Department by the 1 <sup>st</sup> of March of the year next to the reporting period. This is the deadline prescribed in the Procedure approved by Decree of the Executive Committee of Zhytomyr City Council dated 19.08.2015 No. 541 (see Table 10.1 below).
<b>10.2. Monitoring of sub-national governments</b>	NA	This dimension is not applicable since there is no lower-tier government of Zhytomyr City Council.
<b>10.3. Contingent liabilities and other fiscal risks</b>	NA	This dimension is not applicable since there are neither PPP nor contingent liabilities among the fiscal risk of Zhytomyr City Council.

### Dimension PI-10.1. Monitoring of public corporations

162. There are 24 PCs which are 100% communal property of the Zhytomyr City Council. Information on the ten largest PCs (in terms of their total expenditures) is presented in Table 10.1.

163. The Procedure for preparation, approval and monitoring of financial plans of municipal property public corporations (hereinafter - the Procedure) is approved by decision of the Executive Committee of Zhytomyr City Council dated 19.08.2015 No. 541.

164. In accordance with the Procedure, public corporations submit their financial statements (including form No.1 “Balance sheet” and form No.2 “Statement of financial performance”) to the relevant executive body of the City Council on a quarterly basis. When the reports are verified by the sectoral executive bodies, they are submitted to the Finance and Budget Department for further consideration within the following timelines: report for the first quarter – by the 1<sup>st</sup> of May; for six months – by the 1<sup>st</sup> of July; for nine months – by the 1<sup>st</sup> of November; annual report – by the 1<sup>st</sup> of March.



165. After processing the reports by the Finance and Budget Department, they are to be approved by the Executive committee of the City Council. Approved reports are published on the City Council 's website.

166. FY2020 annual audited financial statements of three largest PCs were published on the city council website within nine months from the end of the fiscal year. These three audited PCs constitute 65.7% by their value.

167. **The score for this dimension is D.**

Table 10.1: Financial reports of public corporations of Zhytomyr City Council

No.	Ten largest PCs	Expenditure (UAH million)	Government -held assets	Percentage of ten largest PCs	Date of audit of the financial report	Date of submitting financial report to govt.	Consolidated report (Y/N)
1.	PC "Zhytomyr City TeploCommunalEnergy"	629,9	100%	35,3	30.06.2021	25.02.2021	Y
2.	PC "Zhytomyr Water Supply"	282,7	100%	15,9	23.04.2021	25.02.2021	Y
3.	PC "Zhytomyr City Tram and Trolley Department"	258,5	100%	14,5	13.05.2021	01.03.2021	Y
4.	PC "Zhytomyr City Road Department"	100,0	100%	5,6	Not audited	01.03.2021	Y
5.	PC "Zhytomyr City Motor transport enterprise 0628"	39,6	100%	2,2	Not audited	01.03.2021	Y
6.	PC "Social and Housing Service Manufactory"	31,8	100%	1,8	Not audited	25.02.2021	Y
7.	PC "City Light"	25,1	100%	1,4	Not audited	25.02.2021	Y
8.	PC "Zhytomyr City ZelenBud"	22,0	100%	1,2	Not audited	25.02.2021	Y
9.	PC "Artificial Construction Utilization"	13,0	100%	0,7	Not audited	25.02.2021	Y
10.	PC "Zhytomyr City Housing Inspection"	11,8	100%	0,7	Not audited	25.02.2021	Y

Data source: 2020 annual financial statements of PCs of Zhytomyr City Council; Economic Development Department.

#### Dimension PI-10.2. Monitoring of sub-national governments

168. This dimension is not applicable since there is no lower-tier government of Zhytomyr City Council.

169. **The score for this dimension is NA.**

### Dimension PI-10.3. Contingent liabilities and other fiscal risks

170. This dimension is not applicable since there are neither PPP nor contingent liabilities among the fiscal risk of Zhytomyr City Council.

171. **The score for this dimension is NA.**

### PI-11. Public investment management

172. This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the Government. It also assesses the extent to which the Government publishes information on the progress of the projects, with an emphasis on the largest and most significant projects. It contains four dimensions. The time period assessed is the last completed FY (2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-11 Public investment management (M2)</b>	<b>C+</b>	
<b>11.1. Economic analysis of investment proposals</b>	C	There are no guidelines established/approved by the local authority for the economic analysis of public investment projects. However, an economic analysis of four (4) major investment projects (No. 1, 2, 3 and 4 in Table 11.1) was conducted in line with the terms of reference template established by the Ministry for Regional Development (Order dated 24.04.2015 No.80 <sup>8</sup> ). The template is used to select projects that can be funded by means of the SRDF and includes the following elements of economic analysis: area (territory) of a project impact; number of citizens that benefit from a project implementation; expected quantitative and qualitative outcomes of a project implementation, including the economic efficiency of the project; public investment projects' key measures and total cost. Results of the economic analysis of the four major investment projects under SRDF funding were published on the Ministry for Regional Development website and reviewed by the regional (oblast) commission under selection process. Such a commission is an entity other than the sponsoring entity.
<b>11.2. Investment project selection</b>	C	The four major investment projects (66% by value) funded by means of SRDF were selected according to standard criteria defined (published) in the Cabinet Decree dated 18.03.2015 No. 196. <sup>9</sup>
<b>11.3. Investment project costing</b>	C	The total life-cycle cost of all investment projects (including major ones), as well as projected cost for the planning budget period is included in the annual budget of Zhytomyr CTC. However, the budget documents do not contain such information for the next three years.
<b>11.4. Investment project monitoring</b>	A	In line with the City Program on Economic and Cultural Development all the executives of the City Council, responsible for investment project implementation, are obliged to submit quarterly reports on the program implementation (including investment projects) to the Economic

<sup>8</sup> <https://zakon.rada.gov.ua/laws/show/z0488-15#Text>.

<sup>9</sup> Cabinet Decree dated 18.03.2015 No. 196 "Some issues of State Regional Development Fund": <https://zakon.rada.gov.ua/laws/show/196-2015-%D0%BF#Text>.

	<p>Development Department, which provides investment projects monitoring and its results publication on the city council website.</p> <p>Furthermore, monitoring of the four (4) major investment projects implemented by means of SRDF was provided by relevant project contractors with respect to both financial component and physical progress of the project implementation in accordance with the Cabinet Decree dated 18.03.2015 No. 196.</p> <p>Zhytomyr SOA has ensured monitoring results publication on the website of the Ministry for Regional Development (see Table 11.3) on a quarterly basis before the 10<sup>th</sup> day of the month following the reporting quarter. The monitoring reports include evidence (pictures) presenting the physical progress of the projects and consolidated analytical information on the results achieved over the reporting period.</p>
--	--

## Background

173. Investment projects' development and implementation is the responsibility of the Economic Development Department of Zhytomyr City Council. Public investment projects can be co-financed by means of SRDF, transfers from the state budget to local budgets, including subvention for socio-economic development of territories.

174. Table 11.1 below presents the ten major investment projects implemented in Zhytomyr CTC in 2020 and met the following PEFA criteria for "major investment projects": 1) the total investment cost of the project amounts to 1% or more of total annual budget expenditure; and/or 2) the project is among the largest 10 projects (by total investment cost) of the sub-national government.

### Dimension PI-11.1. Economic analysis of investment proposals

175. Among the projects presented in Table 11.1 four of them have been implemented by means of State Regional Development Fund (SRDF).

176. The terms of reference template for public investment projects that can be implemented by means of SRDF is established by the Ministry for Regional Development Order dated 24.04.2015 No.80. The template includes the following elements of economic analysis: area (territory) of a project impact; number of citizens that benefit from a project implementation; expected quantitative and qualitative outcomes of a project implementation, including the economic efficiency of the project; public investment projects' key measures and total cost.

177. An economic analysis of the four (4) major investment projects (No. 1, 2, 3 and 4 in Table 11.1) was conducted in line with established template. Results of investment projects expertise are published on the Ministry for Regional Development website and are reviewed by the regional (oblast) commission under the selection process which is described in more detail within dimension PI-11.2. Such a commission is an entity other than the sponsoring entity.

178. A share of the total cost of these four investment projects amounts 66.0% of the overall cost of all ten major projects listed in Table 11.1.

179. **The score for this dimension is C.**

Table 11.1: Economic analysis and project selection of the ten major investment projects approved in FY 2020

No	Investment project	Total investment cost of project (mln UAH)	% Share of 10 major investment projects	Data for PI-11.1 Economic analyses				Data for PI-11.2 Project selection	
				Completed (Y/N)?	Consistent with national guidelines (Y/N)	Published (Y/N)	Reviewing entity	Prioritized by central entity (Y/N)	Consistent with standard selection criteria
1	Rebuilding of the Teteriv river embankment, Zhytomyr	35.4	10,6	Y	Y	Y	Zhytomyr SOA	Y	Y
2	Reconstruction of the premises of the preschool educational institution No.32, Zhytomyr	41.4	12,4	Y	Y	Y	Zhytomyr SOA	Y	Y
3	Reconstruction of the Spartak Stadium, Zhytomyr	64.0	19,2	Y	Y	Y	Zhytomyr SOA	Y	Y
4	Reconstruction of the administrative building of the Koroliovka rayon council of Zhytomyr city	79.4	23,8	Y	Y	Y	Zhytomyr SOA	Y	Y
5	Rebuilding of the Velyka Berdychivska Street, Zhytomyr	28.2	8,5	N	N	N	NA	N	N
6	Construction of the gym hall at the secondary school No.10, Zhytomyr	18.5	5,6	N	N	N	NA	N	N
7	Rebuilding of the Peremohy Street, Zhytomyr	14.5	4,3	N	N	N	NA	N	N
8	Rebuilding of the Kooperatyvna Street, Zhytomyr	9.9	3,0	N	N	N	NA	N	N
9	Rebuilding of the road surface in the Veresivskyi way and Zhytomyr - Veresy highway	25.9	7,8	N	N	N	NA	N	N
10	Rebuilding of the Kyivska Street, Zhytomyr	16.4	4,9	N	N	N	NA	N	N

Data source: Economic Development Department of Zhytomyr City Council.

### Dimension PI-11.2. Investment projects selection

180. Selection of investment projects to be funded by means of SRDF is carried out in accordance with the published criteria set by the Guidelines for preparation, evaluation, and selection of the projects (hereinafter – the Guidelines) approved by the Cabinet Decree dated 18.03.2015 No.196.

181. As per the Guidelines, the projects are selected in two stages.

182. The first stage was carried out by the regional (oblast) commission in accordance with the established and published criteria. The regional commission should publish the announcement on the selection for the next planning year on the official website of the oblast state administration (hereinafter – OSA) and the SRDF's page on the official website of the Ministry for Regional Development. The Order of the Ministry for Regional Development dated 24.04.2015 No. 80 established a form for evaluation of investment programs and regional development projects that can be implemented under SRDF, which provides for the evaluation by the members of the regional commission following standardized criteria. The evaluation also involves a point scale and the number of points given by each member of the commission under each criterion. According to the selection results, the OSA submits a list of winning projects to the Ministry for Regional Development.

183. At the second stage, the interagency commission established by the Ministry for Regional Development assesses the compliance of investment projects with legal requirements. Based on the

assessment results, the Ministry for Regional Development provides the Government with the projects selected for funding by means of SRDF.

184. The four (4) major investment projects implemented in Zhytomyr in 2020 under SRDF were selected using standard criteria. A share of the total cost of these four investment projects amounts 66.0% of the overall cost of all ten major projects listed in Table 11.1.

185. **The score for this dimension is C.**

### Dimension PI-11.3. Investment projects costing

186. The total life-cycle cost of all investment projects (including major ones), as well as the project cost for the planning budget period, is included in the annual budget of Zhytomyr CTC. However, the budget documents do not contain such information for the next three years.

187. **The score for this dimension is C.**

Table 11.2: Investment project costing and monitoring of ten major investment projects in FY 2020

No	Investment project	Data for PI-11.3 Investment project costing			Data for PI-11.4 Investment project monitoring				
		Life cycle cost in budget documents (Y/N)	Capital cost breakdown in budget documents (Annual/Three-year)	Recurrent costs included in budget documents (Annual/Three-year)	Monitoring of total cost (Y/N)	Physical progress monitoring (Y/N)	Standard rules and procedures exist (Y/N)	High-level of compliance with procedures (Y/N)	Information on total cost and physical progress published annually (Y/N)
1	Rebuilding of the Teteriv river embankment, Zhytomyr	Y	Annual	Annual	Y	Y	Y	Y	Y
2	Reconstruction of the premises of the preschool educational institution No.32, Zhytomyr	Y	Annual	Annual	Y	Y	Y	Y	Y
3	Reconstruction of the Spartak Stadium, Zhytomyr	Y	Annual	Annual	Y	Y	Y	Y	Y
4	Reconstruction of the administrative building of the Koroliovka rayon council of Zhytomyr city	Y	Annual	Annual	Y	Y	Y	Y	Y
5	Rebuilding of the Velyka Berdychivska Street, Zhytomyr	Y	Annual	Annual	N	N	N	N	N
6	Construction of the gym hall at the secondary school No. 10, Zhytomyr	Y	Annual	Annual	N	N	N	N	N
7	Rebuilding of the Peremohy Street, Zhytomyr	Y	Annual	Annual	N	N	N	N	N
8	Rebuilding of the Kooperatyvna Street, Zhytomyr	Y	Annual	Annual	N	N	N	N	N
9	Rebuilding of the road surface in the Veresivskiy way and Zhytomyr - Veresy highway	Y	Annual	Annual	N	N	N	N	N
10	Rebuilding of the Kyivska Street, Zhytomyr	Y	Annual	Annual	N	N	N	N	N

Data source: Economic Development Department of Zhytomyr City Council;

Minregion website: <https://new.dfr.minregion.gov.ua/regions/zhitomirsk-oblast>.

#### Dimension PI-11.4. Investment projects monitoring

188. All investment projects funded from the city budget are included in the city target Program on Construction (reconstruction, rebuilding) of communal property of Zhytomyr CTC and in the Program on Economic and Cultural Development. The last one is approved by the City Council Decree as of 18.12.2019 No. 1713.

189. This Decree mandates all the executives of the City Council, responsible for investment project implementation, to submit quarterly reports on the program implementation (including investment projects) to the Economic Development Department, which provides investment projects monitoring and its results publication on the city council website: [https://zt-rada.gov.ua/?3398\[0\]=9961](https://zt-rada.gov.ua/?3398[0]=9961).

190. Furthermore, monitoring of the four (4) major investment projects implemented by means of SRDF was provided by relevant project contractors with respect to both financial component and physical progress of the project implementation in accordance with the Cabinet Decree dated 18.03.2015 No. 196. The Zhytomyr SOA has ensured monitoring results publication on the website of the Ministry for Regional Development (see Table 11.3), on a quarterly basis before the 10th day of the month following the reporting quarter. The monitoring reports include evidence (pictures) presenting the physical progress of the projects and consolidate analytical information on the results achieved over the reporting period.

Table 11.3: Evidence of publication of information on investment projects implementation

No	Investment project	Evidence of publication of information
1	Rebuilding of the Teteriv river embankment, Zhytomyr	<a href="https://dfrr.minregion.gov.ua/Project-annotation?PROJT=22054">https://dfrr.minregion.gov.ua/Project-annotation?PROJT=22054</a>
2	Reconstruction of the premises of the preschool educational institution No.32, Zhytomyr	<a href="https://dfrr.minregion.gov.ua/Project-annotation?PROJT=21961">https://dfrr.minregion.gov.ua/Project-annotation?PROJT=21961</a>
3	Reconstruction of the Spartak Stadium, Zhytomyr	<a href="https://dfrr.minregion.gov.ua/Project-annotation?PROJT=17783">https://dfrr.minregion.gov.ua/Project-annotation?PROJT=17783</a>
4	Reconstruction of the administrative building of the Koroliovka rayon council of Zhytomyr city	<a href="https://dfrr.minregion.gov.ua/Project-annotation?PROJT=21919">https://dfrr.minregion.gov.ua/Project-annotation?PROJT=21919</a>

Data source: Economic Development Department of Zhytomyr City Council.

191. **The score for this dimension is A.**

#### PI-12. Public asset management

192. This indicator assesses the management and monitoring of SNG assets and the transparency of asset disposal. The time period is the last completed FY (2020), while coverage is narrowed by focusing on the budgetary units of the SNG.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-12. Public asset management (M2)</b>	<b>B</b>	
<b>12.1. Financial asset monitoring</b>	C	All budget institutions of Zhytomyr City Council maintain their individual records of all items of financial assets that are recognized at fair value. Information on financial assets performance portfolio is not published.

<b>12.2. Nonfinancial asset monitoring</b>	C	All budget institutions of Zhytomyr City Council maintain their individual registers on all items of tangible assets (buildings, vehicles, facilities, equipment) including information on their usage and age. The land register is maintained at the national level by the State Cadastre. Information on nonfinancial assets is not subject to disclosure.
<b>12.3. Transparency of asset disposal</b>	A	Procedures and rules for asset disposal are established. Any asset disposal requires an individual local council decision. Information on communal property disposal is included in the budget reports as budget revenues. Furthermore, the Communal Property Department of Zhytomyr City Council issues an annual analytical report on assets disposal, which is published on the city council website.

### Dimension PI-12.1. Financial asset monitoring

193. The law on Accounting and Financial Reporting in Ukraine<sup>10</sup> and National Public Sector Accounting Standards are the main legal bases regulating public (financial and nonfinancial) asset management in Ukraine.

194. Public asset management for all local governments, with specific reference to financial and non-financial assets management, is governed by Cabinet Decree dated 10.05.2018 No. 351 "On Approval of the Procedure for Monitoring the Effectiveness of Asset Management."

195. Evidence received from the budgetary units interviewed – Finance and Budget Department, Education Department and Executive Committee of the City Council – indicate that every single KSU develop its own Regulation on Accounting Policy Implementation. In accordance with the regulation, each budget institution of Zhytomyr City Council maintains individual accounting records for all the categories of financial assets that are recognized at fair value. The City Government holds 100% shares in public corporations, but there are no records of their number and value. Information on performance of the financial assets' portfolio is not published.

196. According to the annual financial statements of the Treasury, main financial assets of Zhytomyr City Council are cash and receivables.

Table 12.1: Financial asset monitoring – check list of record of holdings, FY 2020

Asset Type	Holdings of financial assets maintained (Y/N)	Acquisition cost recorded (Y/N)	Fair value recognized (Y/N)	In line with international accounting standards (Y/N)	Information on performance published annually. (Y/N)
Equity	N	NA	NA	NA	NA
Bank Dep.	Y	Y	Y	Y	N
Leases	Y	Y	Y	Y	N
Receivables	Y	Y	Y	Y	N
Guarantees on loans to PCs	Y	Y	Y	Y	N

Data source: Records and financial statements of budgetary units; budget performance reports for FY2020.

<sup>10</sup> The Law of Ukraine "On Accounting and Financial Reporting in Ukraine" dated 16.07.1999 No. 996-XIV: <https://zakon.rada.gov.ua/laws/show/996-14#Text>.

197. **The score for this dimension is C.**

### Dimension PI-12.2. Nonfinancial asset monitoring

198. All budget institutions and public (communal) corporations of Zhytomyr City Council maintain their individual registers on all items of fixed assets (buildings, vehicles, facilities, equipment), including information on their usage and age by years, amortization, and net book value. The asset registers also include information on assets' life service and balance holders.

199. The land register is maintained by the central government (State Cadastre Service).

200. The Land Cadastre was established in 2003. It was acknowledged as a national single public geographic and informational system in 2011. At the same time, local governments keep their own records of land resources based on the Land Cadastre data.

201. There are no natural resources registered in Zhytomyr CTC.

202. Information on non-financial assets is not subject to disclosure.

Table 12.2: Non-financial asset monitoring – check list of record of holdings

Register of fixed assets (Y/N)	Information on usage and age (Y/N)	Register of land assets (Y/N)	Register of subsoil assets (if applicable) (Y/N/NA)	Information on performance published annually (Y/N)
Y	Y	NA	NA	N

Data source: Registers and financial statements of KSU and Zhytomyr City Council for 2020.

203. **The score for this dimension is C.**

### Dimension PI-12.3. Transparency of asset disposal

204. Privatization of communal property is provided in line with the Law of Ukraine of January 18, 2018, No. 2269-VIII "On privatization of state and communal property."

205. As per article 60 of the Law on Local Self-Governments in Ukraine, the local governments ensure legal use of communal property, including its disposal and purchase, on behalf of and in the interests of territorial communities.

206. The small-scale privatization is carried through an electronic bid system "Prozorro. Sales." The guidelines on conducting electronic auctions for the small-scale privatization are approved by Cabinet Decree dated 10.05.2018 No. 432.

207. The local council approves the Procedure for disposal of communal property (Decree dated 29.09.2005 No. 550<sup>11</sup>). It stipulates that the permission for assets disposal requires the city council decision.

208. Results of communal property disposal are reflected in the budget reports as budget revenues. The stand-alone Division for Communal Property Management and Privatization of Zhytomyr City Council issues

<sup>11</sup> <https://zt-rada.gov.ua/files/upload/sitefiles/doc1567494309.pdf>.



annual analytical reports on its operational results and assets disposal. The report for 2020 is published on the city council website.<sup>12</sup>

209. Based on the report, 4 communal property items were disposed in 2020 that brought UAH 6.3 million to the city budget.

Table 12.3: Transparency of asset disposal

Procedures for non-financial asset disposal established (Y/N)	Procedures for financial asset disposal established (Y/N)	Information included in budget documents, financial reports or other reports (Full/Partial specify)	Register of subsoil assets (if applicable) (Y/N/NA)	Information on asset disposal submitted to legislature (Y/N)
Y	Y	Full	NA	Y

Data source: laws and City Council Decrees indicated above.

210. The score for this dimension is A.

### PI-13. Debt management

211. This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-13. Debt management (M2)</b>	<b>B</b>	
<b>13.1. Recording and reporting of debt and guarantees</b>	A	The Finance and Budget Department of Zhytomyr City Council prepares and submits to the Treasury quarterly information on local debt and local guarantees following the template prescribed in the Ministry of Finance Order dated 17.01.2018 No.12. <sup>13</sup> This information is included in quarterly and annual budget reports on local budgets performance and contains data on internal and external debt liabilities of local governments. Information covers local debt stock and operations. Data on debt service is also included in the quarterly and annual budget reports however is presented in a separate form. Data on internal and external local debt and local guarantees are complete, accurate, updated, and reconciled on a monthly basis.
<b>13.2. Approval of debt and guarantees</b>	A	According to Article 16 of the BCU, the legal right to make local borrowings and issue local guarantees within the limits set by the local budget decision belongs to the head of the local financial body on behalf of the City Council. In accordance with Article 74 of the BCU, the scope and conditions of local borrowing and local guarantees need to be agreed with the Ministry of Finance. Procedural issues in the process of approving local borrowings and local guarantees are regulated by Cabinet Decree dated 16.02.2011 No. 110

<sup>12</sup> <https://zt-rada.gov.ua/files/upload/sitefiles/doc1620391734.pdf>.

<sup>13</sup> The Ministry of Finance Order dated 17.01.2018 No. 12 "On organizational issues related to preparation by the State Treasury Service of Ukraine budget reports local budget performance".

		“On approval of the Procedure for local borrowing.” Clause 4 of the Procedure requires the adoption of the local council decision on borrowings. Based on the evidence provided by the Finance and Budget Department, the latest approval of local guarantee, issued by Zhytomyr City Council, was done by the Ministry of Finance on April 08, 2019.
<b>13.3. Debt management strategy (DMS)</b>	D	Zhytomyr City Council annually approves the Local Debt Management Program of Zhytomyr CTC for the next budget period, which covers information on existing and projected local debt, local debt and local guarantees portfolio, interest rate limits, and potential risks assessment. Medium-term debt management strategy is not developed.

### Dimension PI-13.1. Recording and reporting of debt and guarantees

212. According to the Ministry of Finance Order dated 23.08.2012 No.938 "On approval of the Procedure for Treasury servicing of local budgets" (Clause 18.5 of the Procedure) and the Treasury Order dated 06.02.2018 No.36, which stipulates Instruction for local budget reports preparation (Clause 3.1 of the Instruction), the Finance and Budget Department of Zhytomyr City Council prepares and submits to the Treasury quarterly information on local debt and local guarantees.

213. This information is included in quarterly and annual budget reports on local budgets performance and contains data on internal and external debt liabilities of local governments which are detailed by the repayment period (long-term, medium-term, short-term) and source of financing (loans from banks and financial institutions, loans from TSA, etc.). Information covers local debt stock and operations. Data on debt service is also included in the quarterly and annual budget reports, but it is presented in a separate form.

214. Data on local debt and local guarantees are complete, accurate, updated, and reconciled on a monthly basis. All treasury transactions related to local debt management are carried out in line with payment directives of the Finance and Budget Department.

215. In accordance with Article 18 of the BCU, the Ministry of Finance maintains a register of local borrowings and local guarantees. Relevant information is updated on a monthly basis and published on the official website of the Ministry of Finance.<sup>14</sup>

Table 13.1: Recording and reporting of debt and guarantees

Domestic and foreign debt records maintained (Y/N)	Frequency of update of records (M/Q/A)	Records are complete and accurate (Y/N)	Frequency of reconciliation M=Monthly Q=Quarterly A=Annually N=Not done (Add whether All; Most: Some; Few)	Statistical reports (covering debt service, stock and operations prepared) M/Q/A/N	Additional information from reconciliation reported (if no statistical report) (Y/N)
Yes	M	Yes	M (All)	Q/A	NA

Data source: Finance and Budget Department of Zhytomyr City Council.

216. **The score for this dimension is A.**

<sup>14</sup> <https://mof.gov.ua/uk/miscevij-borg-ta-miscevij-garantovanij-borg>.

### Dimension PI-13.2. Approval of debt and guarantees

217. According to Article 16 of the BCU, the legal right to make local borrowings and issue local guarantees within the limits set by the local budget decision belongs to the head of the local financial body on behalf of the City Council.

218. In accordance with Article 74 of the BCU, the scope and conditions of local borrowing and local guarantees need to be agreed with the Ministry of Finance. Procedural issues in the process of approving local borrowings and local guarantees are regulated by:

- The Cabinet Decree dated 16.02.2011 No. 110 "On approval of the Procedure for local borrowing." Clause 4 of the Procedure requires the adoption of the relevant local council decision on borrowings;
- The Ministry of Finance Order dated 30.09.2021 No.532 "On the Guidelines for approval of the scope and conditions of local borrowing and local guarantees."

219. Based on the evidence provided by the Finance and Budget Department of Zhytomyr City Council, the latest approval of local guarantee, issued by Zhytomyr City Council, was done by the Ministry of Finance on April 08, 2019 (letter of the Ministry of Finance as of 10.04.2019 No.12010-22-10/10206).

Table 13.2: Approval of local debt and local guarantees

Primary legislation exists (Y/N; Name of Act)	Documented policies and guidance (Y/N, Name of regulation/policy)		Debt management responsibility (Y/N; Name and location of unit)		Annual borrowing approved by government or legislature (Y/N, specify last date of approval)
	Guidance to single debt management entity	Guidance to several entities	Authorization of debt granted to single responsible entity	Transactions reported to and monitored only by single responsible entity	
Yes, Budget Code of Ukraine	No	Guidance to all SNGs, Cabinet Decree dated 16.02.2011 No.110	Yes, Zhytomyr City Council	Yes, Finance and Budget Department	Yes, by the Ministry of Finance, April 08, 2019

Data Source: Budget Code of Ukraine, Cabinet Decree dated 16.02.2011 No.110.

220. **The score for this dimension is A.**

### Dimension PI-13.3. Debt management strategy

221. Zhytomyr City Council annually approves the Local Debt Management Program for the next budget period (hereinafter – the Program), which covers information on existing and projected local debt, local debt, and local guarantees portfolio, interest rate limits, potential risks assessment.

222. Based on the results of the Program implementation, the Finance and Budget Department prepares an annual report on its implementation (once a year). Both the Program and the Report are published on the Zhytomyr City Council website.<sup>15</sup>

223. Medium-term debt management strategy is not prepared.

224. **The score for this dimension is D.**

<sup>15</sup> <https://zt-rada.gov.ua/files/upload/sitefiles/doc1581079771.pdf>;  
<https://zt-rada.gov.ua/files/upload/sitefiles/doc1617195143.pdf>.

## PILLAR 4: Policy-based fiscal strategy and budgeting

225. This pillar assesses whether the government’s fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

### PI-14. Medium-term budget strategy

226. This indicator measures the ability of a sub-national government to develop robust macroeconomic and fiscal forecasts, which are crucial for developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government’s capacity to estimate the fiscal impact of potential changes in economic circumstances. The assessment of this indicator covered the budgetary units and the last budget submitted to the elected local legislature.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-14. Medium-term budget strategy (M2)</b>	<b>C+</b>	
<b>14.1. Underlying forecasts for medium-term budget</b>	A	The city budget forecast submitted to the City Council in 2020 includes estimates of revenue, expenditure, and budget transfers for the next budget period and two following fiscal years. These estimates are developed based on key demographic and macroeconomic indicators prescribed in the explanatory note to the annual 2021 city budget. The city budget forecast and the underlying assumptions were submitted to the City Council together with the annual city budget for FY2021.
<b>14.2. Fiscal impact of policy proposals</b>	D	Estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year of 2021 and the following two fiscal years were not provided in the city budget forecast.
<b>14.3. Medium-term expenditure and revenue estimates</b>	B	Medium-term estimates of budget expenditure and revenue for the budget year of 2021 and two following fiscal years are included in the local budget forecast submitted to the City Council in 2020. Revenues are presented by type. Expenditures are allocated by administrative and program (aggregated codes) classification. Expenditure allocation by economic classification is not provided.
<b>14.4. Consistency of budget with previous year estimates</b>	D	Budget documentation does not include explanation on changes to expenditure estimates between the last medium-term budget forecast and the current medium-term budget forecast.

#### Dimension PI-14.1. Underlying forecasts for medium-term budget

227. The Finance and Budget Department of Zhytomyr City Council prepares annually a local budget forecast for the budget year and two following fiscal years as it is prescribed by the BCU (Article 75<sup>-1</sup>).

228. The local budget forecast of Zhytomyr city, submitted to the City Council in 2020, includes estimates of budget revenue, expenditure, budget transfers for the next budget year (2021), and the two following fiscal years (2022 and 2023). These estimates are developed based on key demographic and macroeconomic indicators prescribed in the explanatory note to the annual 2021 city budget,<sup>16</sup> particularly the volume of retail turnover of enterprises and services sold, the volume of foreign direct investment per unit of population, the total export and import of goods, the average nominal wage per employee, and the number of small, medium, and large enterprises. Such macroeconomic indicators including GDP, CPI and

<sup>16</sup> <https://zt-rada.gov.ua/files/upload/sitefiles/doc1607951113.pdf>.

interest rate, considered for the city budget revenue and expenditure preparation, were produced by the central government.

229. The city budget forecast and the underlying assumptions were submitted to the City Council together with the annual city budget for FY2021 – on the 16<sup>th</sup> of December 2020 (after approval by the Executive Committee).

230. **The score for this dimension is A.**

#### Dimension PI-14.2. Fiscal impact of policy proposals

231. Estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year of 2021 and the following two fiscal years were not provided in the city budget forecast.

Table 14.1: Fiscal impact of policy proposals

Estimates of fiscal impact of ALL proposed changes prepared		
Budget year	Two following FYs	Submitted to legislature
No	No	No

Data source: Budget documentation of the Zhytomyr City Council for FYs 2020 and 2021.

232. **The score for this dimension is D.**

#### Dimension PI-14.3. Medium-term expenditure and revenue estimates

233. Medium-term estimates of budget expenditure and revenue for the budget year of 2021 and two following fiscal years are included in the local budget forecast submitted to the City Council in 2020. Revenues are presented by type. Expenditures are allocated by administrative and program (aggregated codes) classification. Expenditure allocation by economic classification is not provided.

Table 14.2: Medium-term expenditure estimates

Classification	Budget year (Y/N)	Two following FYs (Y/N)
Administrative	Yes	Yes
Economic	Yes (partially)	No
Program/Function	Yes	Yes

Data source: Budget documentation of the Zhytomyr City Council for FYs 2020 and 2021.

234. **The score for this dimension is B.**

#### Dimension PI-14.4. Consistency of budget with previous year's estimates

235. Budget documentation does not include explanations on changes to expenditure estimates between the last medium-term budget forecast and the current medium-term budget forecast.

236. **The score for this dimension is D.**

## Reform measures

237. Local budget forecast template and Instruction on its preparation were approved by the Ministry of Finance in 2021 (Order dated 02.06.2021 No.314<sup>17</sup>). It prescribes that local budget forecast is to be approved by the executive committee and submitted to local council before the 5<sup>th</sup> of September of the current year.

### PI-17. The budget preparation process

238. This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. The assessment of this indicator covers the budgetary units of the SNG. It comprises the last budget submitted to the elected local legislature (2021 city budget) for dimensions 17.1 and 17.2, and the last three completed FYs (that is city budgets for 2019, 2020, 2021) for dimension 17.3.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-17. The budget preparation process (M2)</b>	<b>D+</b>	
<b>17.1. The budget calendar</b>	C	The budget calendar is largely adhered to by the budget process players. Based on the measures and timelines defined in the budget calendar, KSUs have less than four weeks (actual period – up to 10 days) to meaningfully complete their budget requests and supporting calculations.
<b>17.2. Guidance on budget preparation</b>	C	The budget circular for FY 2021 was sent to KSUs on the 27 <sup>th</sup> of October 2020, and expenditure ceilings on the 2 <sup>nd</sup> of November. The ceilings covered total budget expenditure for the full fiscal year. However, expenditure ceilings were not approved by the Executive Committee prior to the circular’s distribution to KSUs. When budget estimates elaboration is complete, expenditure ceilings for all KSUs are included in the local budget forecast and approved by the Executive Committee.
<b>17.3. The budget submission to the legislature</b>	D	For all three years under assessment (2018-2020), the Executive Committee submitted the annual budget to the City Council (legislature) less than a month before the start of the next fiscal year. Actual submission dates were as follows: for FY2019 budget – 10.12.2018; for FY2020 budget – 17.12.2019; for FY2021 budget – 16.12.2020.

#### Dimension PI-17.1. The Budget Calendar

239. Table 17.1 below outlines the main steps and timelines for local budget preparation and approval (these steps are backed by BCU, articles 75, 75<sup>1</sup>, 76, 77, 78).

Table 17.1: Budget approval steps and timelines

<b>By 15 August</b>	Local financial bodies submit local budget forecasts to executive committees of local councils.
<b>By 1 September</b>	Executive committees of local councils examine and approve local budget forecasts.

<sup>17</sup> Local budget forecast template and Instruction on its preparation are approved by the Ministry of Finance Order dated 02.06.2021 No.314.

<b>By 6 September</b>	Executive committees of local councils submit local budget forecasts (accompanied with financial calculations and justification) to local councils.
<b>Within one week</b> after the Draft State Budget Law is approved by the Cabinet (latest by 22 September)	MoF issues to local governments an instructive letter which covers: <ul style="list-style-type: none"> <li>- indicative estimates of intergovernmental transfers;</li> <li>- the methodology used for intergovernmental transfers calculation;</li> <li>- organizational and methodical requirements to budget preparation;</li> <li>- template of Local Council Resolution on local budget approval.</li> </ul>
<b>Within one week</b> after the Draft State Budget Law is approved by the Parliament in the second reading (latest by 27 November)	The MoF submits to local governments updated budget information established by the draft Budget Law approved by the Parliament in the second reading, including: <ul style="list-style-type: none"> <li>- indicators of intergovernmental relations (including transfers);</li> <li>- textual legal provisions of the State Budget Law;</li> <li>- organizational and methodical requirements to budget preparation.</li> </ul>
<b>By 25 December</b>	Local budgets are adopted by local councils

Note. Developed by the authors based on the BCU.

240. The budget calendar of Zhytomyr City Council is approved by Executive Committee of the City Council (Decree dated 20.08.2020 No.707). The budget calendar covers in detail all steps and procedures under the budget preparation until its approval by the City Council and publication (Table 17.2 below). The budget calendar is largely adhered to.

Table 17.2: Budget calendar of Zhytomyr City Council for FY2021 annual budget and 2022-2023 budget forecast

No.	Activities	Responsible institution	Scheduled date
1.	Preparation of information on socio-economic development of Zhytomyr CTC in FY2020 and community development forecast for the planned budget period and the next two budget periods	Economic Development Department Executive bodies of the City Council	10.09.2020
2.	Projection of payroll and average number of employees for Zhytomyr CTC in FY2021 and medium-term (2022-2023)	Economic Development Department	10.09.2020
3.	Provide calculations of revenues of general and special fund the city budget for 2021 and 2022-2023 with a detailed justification of indicators which have direct impact on budget revenue	Finance and Budget Department in cooperation with Territorial city office of the Tax Fiscal Service of Ukraine	15.09.2020
4.	Preparation and submission to the Executive Committee of the City Council Draft Decree on approval of public corporations' financial plans for FY2021	Executive bodies of the City Council	01.12.2020
5.	Preparation and submission to the Executive Committee of the City Council Draft Decree on approval of projected network of educational SD units for 2021/2022 and 2022/2023 school year	Education Department	01.10.2020
6.	Submission to KSUs budget circular and expenditure ceilings required for budget request preparation for 2021 and 2022-2023	Finance and Budget Department	Within 5 days after receiving Instruction on budget request preparation from the Zhytomyr SOA

7.	Calculation of budget local debt and local guarantee expenditure and debt service payments for 2021-2023	Communal and Housing Department Transport and Infrastructure Department Finance and Budget Department	01.09.2020
8.	Stocktaking of the ongoing local target programs (in terms of revising their topicality and importance) and preparation of the new target programs to be implemented (if needed)	Economic Development Department Executive bodies of the City Council	25.09.2020
9.	Preparation of "list to do" required budget funds allocation in 2021 and 2022-2023	KSUs	15.09.2020
10.	Preparation of information and statistics with reference to indicators used for budget transfers and city budget expenditure calculation	Education Department Children Care Division Healthcare Division Social Policy Department	Within timelines established by the respective executive governments
11.	Development of budget request and submission to the Finance and Budget Department	KSUs	Within 10 working days after providing estimates (including expenditure ceilings) by the Finance and Budget Department
12.	Publication of budget requests after submission of draft budget to the City Council (in line with Article 28 of the BCU)	KSUs	Within 3 days after draft budget submission
13.	Consolidation of the KSUs' proposals to the draft budget and examination of the budget requests prepared by KSUs	Finance and Budget Department	Within 10 working days after proposals submission
14.	Publication of presentation and visualization materials on budget revenue and expenditure for 2021 and 2022-2023 on the city council website	Finance and Budget Department KSUs	October-December 2020
15.	Publication of the budget proposal documentation (draft budget for 2021 and budget forecast for 2022-2023) on the city council website	Finance and Budget Department	01.12.2020
16.	Preparation and publication of draft decision of the City Council on approval of the budget of Zhytomyr city territorial community for 2021 on the city council website	Finance and Budget Department	01.12.2020
17.	Submission of the draft budget approved by the Executive Committee to the City Council	Finance and Budget Department	01.12.2020
18.	Ensuring draft city budget examination in the meetings of sectoral commissions of the city budget	Support Office for Deputies of the City Council Finance and Budget Department KSUs	01.12.2020



241. Timelines for some measures indicated in Table 17.2 are quite short, which may affect the quality and timeliness of budget documents and indicators preparation. This concerns, in particular, preparation of budget requests by KSUs who have only 10 days maximum to develop their budget requests and supporting calculations to be submitted to the Finance and Budget Department of Zhytomyr City Council (items 6 and 11 of the budget calendar above).

Table 17.3: Budget calendar and guidance on budget preparation

Budget calendar exists (Y/N)	Date of budget circular (1) and expenditure ceilings (2)	Deadline for submission of estimates	Coverage	% of KSUs complying with deadline	Date of the Executive approved ceilings	Budget estimates are reviewed and approved by the Executive after completion (if ceilings not issued) (Y/N)
Yes	(1) 27.10.2020 (2) 02.11.2020	09.11.2020	100%	100%	16.12.2020	NA

Data source: the Finance and Budget Department of Zhytomyr City Council.

242. **The score for this dimension is C.**

#### Dimension PI-17.2. Guidance on budget preparation

243. Article 75, Part 3 of the BKU defines the guidance on budget preparation for SNGs. The law mandates the Finance and Budget Department (local financial body) to issue budget circular with expenditure ceilings calculated for each KSU. The budget circular for FY 2021 was sent to KSUs on the 27<sup>th</sup> of October 2020, and expenditure ceilings were sent on the 2<sup>nd</sup> of November. The ceilings covered total budget expenditure for the full fiscal year. However, expenditure ceilings were not approved by the Executive Committee prior to the circular's distribution to KSUs. When budget estimates elaboration is complete expenditure ceilings for all KSUs are updated (if needed) and included in the local budget forecast to be approved by the Executive Committee. In 2020, expenditure ceilings were approved on the 16<sup>th</sup> of December.

244. **The score for this dimension is C.**

#### Dimension PI-17.3. The budget submission to the sub-national council

245. As indicated in Table 17.4 below, for all three years under assessment (2018-2020) the Executive Committee submitted the annual budget to Zhytomyr City Council (legislature) less than a month before the start of the next fiscal year. Actual submission dates were as follows: for FY2019 budget – 10.12.2018; for FY2020 budget – 17.12.2019; for FY2021 budget – 16.12.2020.

Table 17.4: Budget submission to legislature

Draft budget for FY	Date of submission of budget proposal
2019	10.12.2018
2020	17.12.2019
2021	16.12.2020

Data source: Finance and Budget Department of Zhytomyr City Council.

246. **The score for this dimension is D.**

## PI-18. Legislative scrutiny of budgets

247. This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex ante approval by the legislature. The time period assessed for dimensions 18.1, 18.2 and 18.4 is the last completed FY (2020), and for dimension 18.3 are the last three completed FYs (2018-2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-18. Legislative scrutiny of budgets (M1)</b>	<b>C+</b>	
<b>18.1. Scope of budget scrutiny</b>	A	The City Council's review covers budget indicators for both annual and medium-term perspectives. Statements of the fiscal strategy are included in the local budget forecast as well. The review also covers detailed indicators of budget revenues and expenditures.
<b>18.2. Legislative procedures for budget scrutiny</b>	C	As of September 17, 2021, there were no budget regulations of the City Council. At the same time, some procedures to review budget proposal are prescribed by the City Council regulation on the sectoral commissions, which is approved in advance of budget hearings by the City Council Decree dated 21.07.2016 No. 261. These procedures are adhered to by all the budget process players. The procedures do not contain arrangements for conducting public consultation and arrangements for negotiation procedures.
<b>18.3. Timing of budget approval</b>	A	In each of three years under assessment (2018-2020), the budget of Zhytomyr CTC was approved by the City Council before the start of the next fiscal year (see Table 18.3 below).
<b>18.4. Rules for budget adjustments by the executive</b>	B	Although there are clear legal requirements and rules for in-year budget adjustments, they allow for extensive administrative reallocations (among KSUs) without any limits.

### Dimension PI-18.1. Scope of budget scrutiny

248. Zhytomyr City Council has five (5) sectoral commissions, one of them is Commission on budget planning and economic development (hereinafter – the Commission). The Commission's functions and responsibilities are approved by a City Council Decree.

249. Among the tasks assigned to the Commission is preliminary scrutinizing of draft city budget for the next period and city budget forecast for medium-term on behalf of Zhytomyr City Council.

250. KSUs are involved in this process as well. The Commission ensures review of both aggregated and detailed budget estimates and calculations provided by KSUs. The review covers budget revenue (by types), budget expenditure by economic and program classification, and trends in budget performance in previous periods.

251. Budget estimates review covers medium-term perspective through examining city budget forecast that is developed for the next budget year and two following fiscal years.

252. Based on the timelines indicated in Tables 17.4 and 18.2, the review has taken: in 2018 – 8 days; in 2019 – 1 day; in 2020 – 8 days. According to the words of the city governments, the late date of submission of the draft budget to the City Council in 2019 was due to amalgamation process (Veresy Village and

Zhytomyr city were combined in one amalgamated community) and late local election that took place in the end of September.

253. As per the regulation on the sectoral commissions approved by the City Council Decree dated 21.07.2016 No.261, materials of draft budget review by the Commission on budget planning and economic development are to be submitted to the city mayor before the budget scrutiny by the legislature.

Table 18.1: Scope of budget scrutiny

Legislature reviews budget (Y/N)	Coverage (specify)				
	Fiscal policies	Medium-term fiscal forecasts	Medium-term priorities	Aggregate expenditure and revenue	Details of expenditure and revenue
Yes	Yes	Yes	Yes	Yes	Yes

Data source: Budget documentation of Zhytomyr City Council; the Finance and Budget Department of Zhytomyr City Council.

254. **The score for this dimension is A.**

### Dimension PI-18.2. Legislative procedures for budget scrutiny

255. As of September 17, 2021, there were no budget regulations of the City Council. At the same time, some procedures to review budget proposal are prescribed by the City Council regulation on the sectoral commissions, which is approved in advance of budget hearings by the City Council Decree dated 21.07.2016 No. 261<sup>18</sup>. These procedures are adhered to by all the budget process players. The procedures do not contain arrangements for conducting public consultation and arrangements for negotiation procedures.

Table 18.2: Legislative procedures for budget scrutiny

Legislative procedures exist	Approved in advance of budget hearings	Procedures are adhered to	Procedures include organizational arrangements on public consultation
Yes	Yes	Yes	No

Data source: regulation on the sectoral commissions of Zhytomyr City Council.

256. **The score for this dimension is C.**

### Dimension PI-18.3. Timing of budget approval

257. As per the BCU, local budgets must be adopted by city councils before December 25 of the current year. Actual dates of Zhytomyr city budget approval by the City Council in 2018-2020 are presented in Table 18.3 and confirm the compliance with PEFA Methodology criteria (budget approval before the start of the next fiscal year).

<sup>18</sup> [https://zt-rada.gov.ua/?doc\\_id=28821](https://zt-rada.gov.ua/?doc_id=28821).

Table 18.3: Timing of budget approval

Budget for FY	Date of budget approval
2019	18.12.2018
2020	18.12.2019
2021	24.12.2020

Data source: Zhytomyr city budget documentation for FYs 2019, 2020, 2021.

258. **The score for this dimension is A.**

#### Dimension PI-18.4. Rules for budget adjustments by the executive

259. According to Article 23 of the BCU, local financial bodies (Finance and Budget Department) are permitted to adjust budget allocations during the budget period without local council approval as follows: 1) increase of own incomes (special fund) of budget institutions; 2) budget allocation redistribution among KSUs; 3) expenditure assignments reallocation by economic classification within the limits of budget program; 4) budget expenditure redistribution among the budget programs within the limits of overall budget assignments of respective KSU; 5) distribution of contingency fund and budget transfers, increase of investment expenditure by reducing operational ones.

260. All the cases mentioned above suggest that adjustments **by the executive are done within the amount of budget expenditure initially approved by the City Council.**

261. Some of these adjustments need to be approved by the City Council's sectoral commission responsible for budget preparation and execution.

262. The rules prohibit adjustments aimed at increasing wage (compensation) expenditure and expenditure for local self-governance by decreasing other expenditure.

263. The rules for in-year budget adjustments are clear and governed properly as well as fully adhered to by all budget process participants. However, they allow for extensive administrative reallocations without any limits in their quantity and volume.

264. **The score for this dimension is B.**

#### Reform measures

265. The Budget Regulation of the Zhytomyr City Council was adopted by the Executive Committee of the City Council on the 23<sup>rd</sup> of October, 2021 (Decree No. 1231). The Regulation is published on the city council website<sup>19</sup> and includes the procedures for budget preparation, scrutinizing, approval, debating, and adoption by the council, presenting budget performance reports. The Regulation also contains the procedural issues on the budget elaboration in the sectoral commissions of the City Council, as well as rules for conducting public consultations under the budget preparation.

<sup>19</sup> <https://zt-rada.gov.ua/files/upload/sitefiles/doc1635255340.pdf>.

## PILLAR 5: Predictability and control in budget execution

266. This pillar assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

### PI-19. Rights and obligations for revenue measures

267. This indicator focuses on the administration of the SNG core taxes. It assesses the procedures used to collect and monitor the core taxes of the SNG. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores. The assessment period for dimension 19.1 and 19.2 is at time of assessment, for dimension 19.3 and 19.4 – last completed fiscal year (2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-19. Revenue administration (M2)</b>	<b>NA</b>	
<b>19.1. Rights and obligations for tax measures</b>	NA	Core taxes and fees are administered and collected by central authority – the State Fiscal Service of Ukraine.
<b>19.2. Property tax register and valuation</b>	NA	Property tax, land tax and fees from rent are administered and collected by central authority – the State Fiscal Service of Ukraine.
<b>19.3. Tax risk management, audit and investigations</b>	NA	Administered by central authority – the State Fiscal Service of Ukraine.
<b>19.4. Tax arrears monitoring</b>	NA	Administered by central authority – the State Fiscal Service of Ukraine.

#### PI-19.1. Rights and obligations for tax measures

268. The Guidance on SNG PEFA Assessment indicates that this dimension is applicable to core taxes, if the sub-national government administers and collects them directly; and/or the sub-national government administers them, but a higher level government or agency collects them.

269. Since core tax revenues and fees are administered and collected by the State Fiscal Service of Ukraine on behalf of Zhytomyr City Council per the Tax Code of Ukraine and some other field laws, this dimension is not applicable.

270. **The score for this dimension is NA.**

#### PI-19.2. Property tax register and valuation

271. Property tax and land tax as well as fees from rent that are related to territorial communities are collected by the State Fiscal Service of Ukraine, which has sharing arrangements with Zhytomyr City Council.

272. **The score for this dimension is NA.**

#### PI-19.3. Tax risk management, audit and investigations

273. The Zhytomyr city tax office does not conduct any risk management, tax audit and investigations. These are responsibilities of the Oblast Tax Service that makes the dimension 19.3 not applicable.

274. **The score for this dimension is NA.**

#### PI-19.4. Tax arrears monitoring

275. This dimension is also not applicable due to the administration and collection of core taxes and fees by the State Fiscal Service of Ukraine.

276. **The score for this dimension is NA.**

#### PI-20. Accounting for revenue

277. This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling revenue accounts. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores. The assessment of this indicator comprises the SNG budgetary units and EBU's 'at time of assessment.'

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
PI-20. Accounting for revenue (M1)	A	
20.1. Information on revenue collections	A	The Finance and Budget Department receives monthly revenue reports from the city tax office, presenting information on total tax collections broken down into tax types. Furthermore, the city tax office provides for daily information on tax revenues (broken down also by taxpayers). The Finance and Budget Department prepares monthly consolidated report on both tax and non-tax revenue (broken down into revenue classification codes).
20.2. Transfer of revenue collections	A	All taxes are paid directly into the accounts registered in the Treasury – separately for each type of tax revenue. Therefore, all tax revenues are directly transferred to the Treasury within 24 hours.
20.3. Revenue accounts reconciliation	NA	Since Zhytomyr City Government does not administer and collect core taxes directly, this dimension is not applicable.

#### Dimension PI-20.1. Information on revenue collections

278. The Finance and Budget Department of Zhytomyr City Council receives monthly revenue reports from the city tax office presenting information on total tax collections broken down into tax types. Furthermore, the city tax office provides daily information on tax revenues (broken down also by taxpayers) to be submitted to Zhytomyr City Council. In addition, entities responsible for non-tax revenue collection submit respective revenue reports to the Finance and Budget Department on the monthly basis. The Finance and Budget Department prepares consolidated report on both tax and non-tax revenue (broken down into revenue classification codes) every month.

279. **The score for this dimension is A.**

#### Dimension PI-20.2. Transfer of revenue collections

280. All taxes are paid directly into the accounts registered in the Treasury – separately for each type of tax revenue. Therefore, all tax revenues are directly transferred to the Treasury within 24 hours.

281. **The score for this dimension is A.**

### Dimension PI-20.3. Revenue account reconciliation

282. As indicated under the PI-19, Zhytomyr City Government does not administer and collect core taxes directly. This is the competence of the State Fiscal Service of Ukraine.

283. **The score for this dimension is NA.**

### PI-21. Predictability of in-year resource allocation

284. This indicator assesses the extent to which the Finance and Budget Department of City Council is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. Coverage of the assessment includes the budgetary units of the SNG. The time period examined for 21.1, 21.2 and 21.4 is at 'time of assessment', and for 21.3, the last completed FY (2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-21. Predictability of in-year resource allocation (M2)</b>	<b>B+</b>	
<b>21.1. Consolidation of cash balances</b>	A	All cash balances on the city budget accounts are consolidated by the Treasury on a daily basis. As of July 1, 2021, the consolidated cash balance stood at UAH 34.9 million.
<b>21.2. Cash forecasting and monitoring</b>	A	After the budget is approved by Zhytomyr City Council, an annual cash flow forecast is prepared by the Finance and Budget Department before the start of the budget period. It is updated regularly (at least monthly) on the basis of actual cash inflows (revenue) and outflows (expenditure payments)
<b>21.3. Information on commitment ceilings</b>	A	After the city budget is approved by Zhytomyr City Council, the Finance and Budget Department issues reliable expenditure commitment ceilings to each KSU for a full fiscal year divided by 12 months. Based on this, KSUs set commitment ceilings to each subordinated budgetary unit. The expenditure ceilings allow budgetary units to take commitments for one full fiscal year within the limits of budget allocations approved by the City Council.
<b>21.4. Significance of in- year budget adjustments</b>	C	Analysis of Zhytomyr city budget for FY2020 demonstrates significant in-year budget adjustments. The city budget was amended <i>thirteen times</i> (13) within the FY2020 in line with the procedures and rules established by the Budget Code of Ukraine. The amendments, however, led to changes in commitment ceilings upwards.

### Dimension PI-21.1. Consolidation of cash balances

285. The local government cash management framework is based on the Treasury Single Account (TSA) that is a national system established by the Treasury and governed in line with the Treasury Order dated 26.06.2002 No. 122.

286. The number of accounts operated by the local government and its spending units depends on the number of spending units and budget programs (expenditure classification). All 1073 bank accounts opened for KSUs, and spending units of lower-tier and budget fund recipients in 2020 are linked to the TSA and maintained at the National Bank of Ukraine. Cash balances on the accounts are consolidated on a daily basis. As of July 1, 2021, the consolidated cash balance stood at UAH 34.9 million.

287. The score for this dimension is A.

#### Dimension PI-21.2. Cash forecasting and monitoring

288. A cash flow forecast is prepared by the Finance and Budget Department for each fiscal year before the start of the budget period (after the budget is approved by Zhytomyr City Council). The annual cash flow forecast broken down into twelve months is developed separately for budget revenue and budget expenditure. It is updated regularly (at least monthly) on the basis of actual cash inflows (revenue including grants from other budgets) and outflows (expenditure payments).

289. The score for this dimension is A.

Table 21.1: Consolidation of bank and cash balances (summary)

Extent of consolidation (All, Most, < Most)	Frequency of consolidation (D, W, M)
All	D

Data source: Finance and Budget Department of Zhytomyr City Council.

Table 21.2: Consolidation of bank and cash balances (by accounts)

Account	Frequency of consolidation	Time	Amount
Treasury	Every day (2 times per day)	July 1, 2021	UAH 34.9 million
Special accounts	NA	NA	NA
Percentage of daily consolidated bank balance(A/(A+B))			100%
Percentage of monthly consolidated bank balance			-

Data source: Finance and Budget Department of Zhytomyr City Council.

#### Dimension PI-21.3. Information on commitment ceilings

290. After the city budget is approved by Zhytomyr City Council, the Finance and Budget Department issues reliable expenditure commitment ceilings to each KSU for a full fiscal year divided by 12 months. Based on this, KSUs set commitment ceilings to each subordinated budgetary unit. The expenditure ceilings allow budgetary units to take commitments for one full fiscal year within the limits of budget allocations approved by the City Council. This prevents the accumulation of expenditure arrears, as evidenced in PI-22 below.

291. The score for this dimension is A.

#### Dimension PI-21.4. Significance of in-year budget adjustments

292. Fiscal rules for budget amendments are established in Article 78 of the Budget Code of Ukraine. Following these rules, the budget of Zhytomyr CTC was adjusted **thirteen times** within the FY2020 that, however, led to changes in commitment ceilings upwards. The most of adjustments were due to additional transfers from the state budget and oblast budget. The cumulative amendments to the city budget stood at 4.4% of the total budget originally approved (see PI-1.1). The adjustments significantly influenced



expenditure composition by function (10.7%) and economic items composition (14.3%) under PI-2.1 and PI-2.2 respectively. All these are the bases to conclude on significant in-year budget adjustments.

293. **The score for this dimension is C.**

## PI-22. Expenditure arrears

294. This indicator measures the extent to which there is a stock of arrears and the extent to which a systemic problem in this regard is being addressed and brought under control. It contains two dimensions and uses the M1 (WL) method for aggregating dimension scores. The time period assessed for 22.1 are the last three completed FYs (2018-2020), and for 22.2 is 'at time of assessment'.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-22. Expenditure arrears (M1)</b>	<b>A</b>	
<b>22.1. Stock of expenditure arrears</b>	A	In each of the last three completed fiscal years 2018, 2019, and 2020, there were no stock of expenditure arrears.
<b>22.2. Expenditure arrears monitoring</b>	A	Even though there are no stock of expenditure arrears, all budget institutions prepared, as part of the monthly financial reporting requirements, statements to show any commitment that is unpaid even if the arrears are nil. These statements of arrears from the budget institutions and KSUs are a basis for the City Treasury to prepare monthly consolidated reports within two weeks after the end of the previous month.

### Dimension PI-22.1. Stock of expenditure arrears

295. Expenditure arrears are defined as, according to “Order of the Ministry of Finance No. 372 dated 2 April 2014 “On Approval of the Procedure for Accounting of Certain Assets and Liabilities of Budget-Sustained Institutions and Amendment of Certain Regulatory Legal Acts on Bookkeeping of Budget-Sustained Institutions,” overdue commitments payable after the 30th day of the expiration of the mandatory payment deadline in accordance with the agreements entered into.

296. In each of the last three completed fiscal years (2018, 2019, 2020) there were no stock of expenditure arrears relating to employee remuneration/salary, budget transfers, pension payments, suppliers, contractors, or default on loans. The Treasury management framework strictly limits expenditure commitments to actual cash available for payment of expenditure; therefore, no expenditure commitments are made if there is no actual cash to pay for these commitments. The stock of total expenditure arrears of the last three fiscal years was far less than the required 2% of total expenditure to affect the scoring.

297. **The score for this dimension is A.**

### Dimension PI-22.2. Expenditure arrears monitoring

298. Expenditure arrears are calculated monthly, quarterly, and annually. Reports present the expenditure arrears as of the beginning and the end of the reporting year, in which the overdue arrears have been allocated, and the arrears whose due date has not occurred. This reporting allows tracking the

age of arrears. Moreover, the reports present the arrears written off since the beginning of the reporting year.

299. Even though there are no stock of expenditure arrears in Zhytomyr city budget, all budget institutions prepared monthly reports on outstanding expenditure commitments and submitted them to the City Treasury in accordance with “Form No.7m of Treasury reports.” Based on these reports, the City Treasury prepared consolidated monthly reports within two weeks after the end of the reporting period, which present information on expenditure arrears by budget programs and economic classification codes. Consolidated reports are to be submitted to the Finance and Budget Department of the Zhytomyr City Council no later than on the 25th of the month following the reporting period.

300. **The score for this dimension is A.**

### PI-23. Payroll controls

301. This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labour and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25. This indicator contains four dimensions and uses the M1 (WL) method for aggregating dimension scores. The time period assessed for 23.1, 23.2 and 23.3 is 'at time of assessment', and for 23.4 includes the last three completed FYs (2018, 2019, 2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-23. Payroll controls (M1)</b>	<b>C+</b>	
<b>23.1. Integration of payroll and personnel records</b>	B	The process of human resource management and payroll management is fully automatized. The human resource management software and payroll management software are both linked to the approved staff list to ensure internal control, data consistency and monthly data reconciliation. At the same, time, changes in the personnel database are not automatically reflected in the payroll management software. The total integration between personnel and payroll data is provided through manual intervention.
<b>23.2. Management of payroll changes</b>	A	Any changes to the personnel and payroll records are updated within 24 hours and reconciled every month before the monthly payroll is processed and paid. The basis for changing records is always the respective legal acts of the City Council as well as supporting documents. Due to this, there were no payroll arrears that would require retroactive adjustments.
<b>23.3. Internal control of payroll</b>	A	There are clear rules and procedures for making changes to the personnel and payroll database and records. They envisage digital signature authorization that consequently results in an audit trail. Only authorized HR staff, chief accountant, and deputy accountants of KSUs and budgetary units have access to the personnel and payroll management software for both review and changing relevant information. This is an instrument to ensure full data integrity
<b>23.4. Payroll audit</b>	C	The SAS, the Pension Fund and social security funds are empowered to conduct payroll audit (the Pension Fund and the social security funds – in part of respective salary deduction).

		Interviewing the Finance and Budget Department of Zhytomyr City Council, the evidence for five (5) payroll audits conducted in 2018-2020 was obtained, including 4 audits provided by the Pension Fund Department in Zhytomyr Oblast (one of them in 2018, two – in 2019, one – in 2020) and 1 audit carried out by the social security funds in 2019. Any payroll audit covering all entities of the Zhytomyr City Council has not been conducted in the last three completed fiscal years (2018-2020).
--	--	--

## Background

302. To assess this indicator, interviews were conducted with the Finance and Budget Department, and the Executive Committee of Zhytomyr City Council.

### Dimension PI-23.1. Integration of payroll and personnel records

303. There is a centralized human resource management software in Zhytomyr City Council with a decentralized payroll management software used at the level of budgetary units.

304. The staff list approved by city mayor is a base for the budget allocations. The human resource management software and payroll management software are both linked to the approved staff list. However, there is no direct linkage between the two of them. In other words, changes in the personnel database (affecting the payroll status of an employee) are not automatically (without human intervention) reflected in the payroll management software. The total integration between personnel and payroll data is provided through manual intervention.

305. The City Government’s staff sign attendance sheet every working day which is used to calculate monthly payroll. Before the monthly payroll is processed and paid, the head of each budgetary unit checks the current month’s payroll (using records from HR Department – for personnel, and records from Accounting Department – for payroll) against the previous month’s payroll for any variance to be detected. If the variance takes place, it must be supported by respective documentation (city council/mayor resolution, legal acts etc).

Table 23.1: Payroll controls

Function	Y/N	By whom	Frequency (if applicable)
Hiring and Promotion checked against approved staff list	Y	HR Department, Head of relevant budgetary unit	When any changes occur
Reconciliation of payroll and personnel database	Y	Accounting Department	Every month
Documentation maintained for payroll changes	Y	Accounting Department	On a regular basis
Payroll checked and reviewed for variances from last payroll	Y	Accounting Department	Before monthly payroll is processed
Updates to personnel records and payroll	Y	HR Department, Accounting Department	When any changes occur
Updates include validation with approved staff list	Y	HR Department, Accounting Department	When any changes occur

Audit trail of internal controls	Y	Accountants and other officials with access to the human resource management and payroll management software	On a regular basis
Payroll audits in last three years	Y	SAS, Pension Fund, Social Security Funds	According to legal requirements

Data sources: evidence received from the Executive Committee and Finance and Budget Department of Zhytomyr City Council.

306. **The score for this dimension is B.**

### Dimension PI-23.2. Management of payroll changes

307. Any changes to the personnel and payroll records are updated within 24 hours and reconciled every month before the monthly payroll is processed and paid. The basis for changing records is always respective legal acts of the City Council/Executive Committee and other supporting documents. Due to this, there were no payroll arrears that would require retroactive adjustments.

308. **The score for this dimension is A.**

### Dimension PI-23.3. Internal control of payroll

309. There are clear rules and procedures for making changes to the personnel and payroll database and records, which include digital signature authorization and consequently result in an audit trail.

310. Only authorized HR staff, chief accountants and deputy accountants of KSUs and budgetary units have access to the personnel and payroll management software for both review and changing the relevant information. This is an instrument to ensure the full integrity of data.

311. **The score for this dimension is A.**

### Dimension PI-23.4. Payroll audit

312. The SAS, the Pension Fund and social security funds (hereinafter – the SSF) are empowered to conduct payroll audit (the Pension Fund and social security funds – in part of respective salary deduction).

313. In particular, the Finance and Budget Department of Zhytomyr City Council provided the experts with the evidence for five (5) payroll audits conducted in 2018-2020 and covered accountant divisions of KSUs, including 4 audits provided by the Pension Fund Department in Zhytomyr Oblast (one of them in 2018, two – in 2019, one – in 2020) and 1 audit carried out by the SSF in 2019.

314. Any comprehensive payroll audit covering all entities of Zhytomyr City Council has not been conducted over the last three completed fiscal years (2018-2020).

315. **The score for this dimension is C.**

## PI-24. Procurement

316. This indicator examines key aspects of procurement management. It assesses the transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and

access to appeal and redress arrangements. The time period examined is the last completed FY, and the assessment covers the budgetary units and EBUs.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-24. Procurement (M2)</b>	<b>B+</b>	
<b>24.1. Procurement monitoring</b>	A	Data available on the ProZorro are accurate and complete for all procurement methods for goods, services and works. Information is presented in real time showing the purpose, subject, conditions, the value, winner(s) of the contract. The accuracy and completeness of the procurement information are assessed by SAS inspections and audits.
<b>24.2. Procurement methods</b>	C	The Public Procurement Law establishes the following public procurement methods: 1) open bidding; 2) competitive dialogue; 3) procurement under the framework contract; and 4) negotiation procurement procedure. As it is presented in Table 24.2, procurement bids conducted through competitive methods in 2020 total stood at 67%.
<b>24.3. Public access to procurement information</b>	A	Findings on public access to procurement information led to the conclusion that all six requirements to information accessibility were met by KSUs and budgetary institutions of Zhytomyr City Council. Information on procurements available for the public access is accurate and complete. It is assessed by SAS inspections and audits.
<b>24.4. Procurement complaints management</b>	B	Procurement complaints are managed by the Antimonopoly Committee of Ukraine (hereinafter – AMCU) as a body responsible for complaints management process at both national and sub-national level. There is no specific local government procurement complaint body. Complaints are submitted to the AMCU as an e-document through the ProZorro electronic procurement system. Procurement complaints framework for Zhytomyr city meets 5 out 6 criteria of the PEFA Methodology (see Table 24.4).

## Background

317. The National legal and regulatory framework for public procurement is applicable to both national and sub-national governments, and among others, it presented by the Public Procurement Law.

318. Ukraine public government purchases are held on the electronic platform "Public Procurement. Online," which is a part of the ProZorro Public Procurement system (hereinafter – ProZorro), where information on all public purchases is publicly accessible. It also provides an opportunity to participate in procurement bids, offer goods, services, and works to public institutions and public corporations, as well as to consume all the relevant services.

319. As per the Public Procurement Law of Ukraine, all procurement entities are obliged to publish procurements of all forms and methods of amount above UAH 50,000.

320. In the case of procurement of goods, works, and services under UAH 50,000, a procuring entity is allowed not to use the electronic procurement system. In this case, however, publishing a procurement report in the electronic procurement system is mandatory.

321. Electronic sales platforms integrated in the ProZorro portal are used by buyers and sellers for implementing procurements. Bidding information is identical and available on all electronic platforms and on the ProZorro portal. To participate in the procurements using the ProZorro, all participants including

SNGs (through their official representatives) need to be registered. All the participants have their individual electronic cabinets with password access to the system.

#### Dimension PI-24.1. Procurement monitoring

322. Data available on the ProZorro are accurate and complete for all procurement methods for goods, services, and works. Information is presented in real time showing the purpose, subject, conditions, the value, and the winner(s) of the contract. The accuracy and completeness of the procurement information are assessed by SAS inspections and audits.

323. **The score for this dimension is A.**

#### Dimension PI-24.2. Procurement methods

324. The Public Procurement Law establishes the following public procurement methods: 1) open bidding; 2) competitive dialogue; 3) procurement under the framework contract; and 4) negotiation procurement procedure. The thresholds for each of the methods are presented in Table 24.1.

325. Each KSU or budgetary unit is responsible for its own procurements. Consolidated information obtained from the ProZorro and verified by the City Council indicates that 67% (50.3% open bidding and 16.7% negotiation procedure) of total public procurements of Zhytomyr City Council went through competitive method in 2020. The remaining 33% of procurements are covered by non-competitive methods (see Table 24.2 below); reports on these procurements are available on the city council website (please, see table 24.3).

Table 24.1: Procurement threshold (applicable at all levels of governments)

Procurement method	Threshold			
	Normal activity in the economy		Other areas of economy <sup>20</sup>	
	Goods & Services	Works	Goods & Services	Works
Open bidding	Equal or above UAH200,000	Equal or above UAH1.5million	Equal or above UAH1.0 million	Equal or above UAH5.0 million
Competitive dialogue	Equal or above UAH200,000	Equal or above UAH1.5million	Equal or above UAH1.0 million	Equal or above UAH5.0 million
Framework contract	Equal or above UAH200,000	Equal or above UAH1.5million	Equal or above UAH1.0 million	Equal or above UAH5.0 million
Negotiation procurement procedure	Equal or above UAH200,000	Equal or above UAH1.5million	Equal or above UAH1.0 million	Equal or above UAH5.0 million

<sup>20</sup> Examples of other areas of the economy include: (i) gas production, transportation, supply and storage; (ii) production, transportation and supply of thermal energy; (iii) production, transmission, distribution, purchase and sale, supply of electric energy, centralized dispatch (operational-technological) management of the unified energy system of Ukraine; (iv) production, transportation and supply of drinking water, ensuring the functioning of a centralized water disposal system; (v) the services delivery for the use of public railway infrastructure, the functioning of urban electric transport and the operation of its facilities for the delivery of transportation services.

Table 24.2: Procurement methods and corresponding value in 2020

Total value of procurement (1)	Total value of contracts procured through non-competitive method (2)	Total value of contracts procured through competitive method (3)	Percentage of competitive method by value (3)/(1)
UAH 872.0 million	UAH 287.9 million	UAH 584.1 million	67%

Detailed information on procurement methods and respective procurement value undertaken by the local governments, public corporations and budget institutions of Zhytomyr city in 2020

Procurement method	Estimated value of contracts (UAH million)	Estimates%	Actual value of contracts (UAH million)	Actual%
Open bidding/competitive dialogue	496.0	51.8%	438.5	50.3%
Negotiation procedure	146.2	15.3%	145.5	16.7%
Negotiation procedure (shortened restricted tender)	40.0	4.2%	34.6	4.0%
Procurement under the framework contract	17.3	1.8%	4.5	0.5%
Procurement without ProZorro implementation	258.9	27.0%	248.8	28.5%
<b>TOTAL</b>	<b>958.3</b>	<b>100.0%</b>	<b>872.0</b>	<b>100.00%</b>

Source: prozorro.gov.ua; the Economic Development Department of Zhytomyr City Council.

326. The score for this dimension is C.

### Dimension PI-24.3. Public access to procurement information

327. Table 24.3 below summarizes the PEFA requirements for public access to procurement information. Findings presented in the table confirm that all six requirements are met by KSUs and budgetary institutions of Zhytomyr City Council. Information on procurements available for the public access is accurate and complete. It is assessed by SAS inspections and audits.

Table 24.3: Public access to procurement information

Type of procurement information	Findings	Public access
Legal and regulatory framework for procurement	the Public Procurement Law: <a href="https://zakon.rada.gov.ua/laws/show/922-19#Text">https://zakon.rada.gov.ua/laws/show/922-19#Text</a> Other procurement legislation and methodological base are regularly updated on ProZorro portal: <a href="https://infobox.prozorro.org/news-mert">https://infobox.prozorro.org/news-mert</a> on the city council website: <a href="https://zt-rada.gov.ua/?3398[0]=7913">https://zt-rada.gov.ua/?3398[0]=7913</a>	Yes
Government procurement plans	Published on ProZorro portal: <a href="https://www.dzo.com.ua/tenders/plans">https://www.dzo.com.ua/tenders/plans</a> on the city council website: <a href="https://zt-rada.gov.ua/onlineport">https://zt-rada.gov.ua/onlineport</a>	Yes
Bidding opportunities	Published on ProZorro portal:	Yes

	<a href="http://prozorro.org/">http://prozorro.org/</a> on the city council website: <a href="https://zt-rada.gov.ua/onlineport">https://zt-rada.gov.ua/onlineport</a>	
Contract award (purpose, contractor, value)	Published on ProZorro portal: <a href="https://www.dzo.com.ua/tenders/contracts">https://www.dzo.com.ua/tenders/contracts</a> on the city council website: <a href="https://zt-rada.gov.ua/onlineport">https://zt-rada.gov.ua/onlineport</a>	Yes
Data on resolution of procurement complaints	Published on ProZorro portal: <a href="http://prozorro.org/">http://prozorro.org/</a>	Yes
Annual procurement statistics	Published on ProZorro portal: <a href="https://bi.prozorro.org/sense/app/fba3f2f2-cf55-40a0-a79f-b74f5ce947c2/sheet/HbXjQep/state/analysis">https://bi.prozorro.org/sense/app/fba3f2f2-cf55-40a0-a79f-b74f5ce947c2/sheet/HbXjQep/state/analysis</a>	Yes

328. The score for this dimension is A.

#### Dimension PI-24.4. Procurement complaints management

329. Article 18 of the Public Procurement Law establishes the Procedure for Procurement complaints management, and it indicates the Antimonopoly Committee of Ukraine (hereinafter – AMCU) as an independent body responsible for complaints management process at both national and sub-national levels. There is no specific local government procurement complaint body.

330. Complaints are submitted to the AMCU as an e-document through the ProZorro electronic procurement system.

331. Table 24.4 below summarizes the procurement complaints framework for Zhytomyr city that meets 5 out of 6 criteria of the PEFA Methodology.

Table 24.4: Procurement complaints management

Criteria for the reviewing body	Findings	Met/ Not met
Not involved in any capacity in procurement transactions or in the process leading to contract award decisions	The AMCU does not participate in procurement procedures and awarding of the contracts.	Met
Does not charge fees that prohibit access by concerned parties	The fee rate is established by the Cabinet Decree dated 22.04.2020 No. 292 <sup>21</sup> and varies depending on the subject of complaint (qualification requirements to procurement parties, technical, quantitative and qualitative characteristics of the subject of procurement, tender documentation etc.). The fee rate cannot be less than UAH 2,000.0 and more than UAH 85,000.0. The fee is to be refunded to applicant if the complaint is upheld or complaint judging is terminated due to the elimination of violation.	Not met
Follows processes for submission and resolution of complaints that are clearly defined and publicly available	Complaints are submitted electronically through the Prozorro electronic procurement system.	Met

<sup>21</sup> <https://zakon.rada.gov.ua/laws/show/292-2020-%D0%BF#Text>.



Exercises the authority to suspend the procurement process	The electronic procurement system automatically suspends the procurement procedure until the determination of the appeal.	Met
Issues decisions within the timeframe specified in the rules/regulations	The timelines for consideration of a complaint does not exceed 10 business days from the date of its acceptance (in special cases it can be reasonably expanded by the Antimonopoly Committee up to 20 business days) – Clause 14, Article 18 of the Procurement Law.	Met
Issues binding decisions for each party (without precluding access to an external higher authority)	The AMCU’s decisions are binding but could be appealed in the court.	Met

332. The score for this dimension is B.

## PI-25. Internal controls on non-salary expenditure

333. This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries were discussed under PI-23. The present indicator contains three dimensions and uses the M2 (AV) method for aggregating dimension scores. The time period covered by the assessment is “at time of assessment,” and the coverage is SNG budgetary units and EBUs.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-25. Internal controls on non-salary expenditure (M2)</b>	<b>B</b>	
<b>25.1. Segregation of duties</b>	A	The city of Zhytomyr has established and documented a clear segregation of duties, which is in force for the PFM procedures. The procedures for segregation of duties are clear and appropriate, as they prescribe who is responsible for generating an expenditure (raising a local purchase order – LPO), who authorizes such expenditure, and who approves and pays expenditures. The rules/procedures also prescribe that the officers who provide financial transaction records cannot be the same approving such transactions. The Public Procurement Law delineates the roles and responsibilities of public officials in the procurement process; public officers who prepare procurement tenders are separate from those who evaluate the tenders, those approving tenders, and those who sign procurement contracts. The Accounting Manual also prescribes clear rules/procedures for segregation of duties including expenditure commitment, authorization, payment, and recording.
<b>25.2. Effectiveness of expenditure commitment controls</b>	C	In line with documented internal procedures and under supervision of the Internal Control Division, spending units have autonomy in exercising control to make sure that the commitments are kept only within the scope of budgets and monthly budget allocations. Furthermore, the Treasury Information System is applied to public administration bodies at all levels; it includes a module that provides for the registration of all budget commitments and this procedure ensures that commitments are effectively limited within the budget allocations of the relevant spending unit. However, the financial management system does not limit expenditure commitments to the unavailability of cash; this is the case for both budgetary and extra-budgetary units.

<b>25.3. Compliance with payment rules and procedures</b>	B	Presently, the absence of a functional internal audit unit as well as the non-existence of external audit reports as evidence limits the base for assessors' judgement on the effectiveness and the level of compliance with payment rules and procedures. However, the information from the Internal Control Division is, to a great deal, remedying this and shows good compliance, confirming that possible deviations are always observed and corrected. That said, the lack of independent external audit and an institutionalised internal audit in principle leaves a gap in the defence of financial integrity.
---	---	---

## Background

334. In 2016, the Zhytomyr City Council introduced a new structural subdivision into the organizational structure - the Control and Analytical Department of the City Council, which is endowed with the functions and powers inherent in internal control. The Division is directly subordinated to the mayor and is accountable to the City Council. The main purpose of the creation of this structural unit is to ensure control over the activities of the executive bodies of the council, utilities and institutions, and recipients of budget funds. The main tasks of the department are to carry out a set of control and analytical measures and to provide the mayor and council with independent conclusions on recommendations on:

- improvement of the financial and material resources management system;
- prevention of illegal and inefficient use of budget funds, communal property, etc.;
- prevention of errors, violations or other shortcomings in the activities of executive bodies of the council, utilities and institutions of the city, as well as enterprises and organizations that have been granted tax benefits to the city budget or received subsidy payments from the city budget.

335. The Order of the Mayor from 06.02.2018 No.87 approved the Code of ethical behaviour of officials of executive bodies of the Zhytomyr City Council. The document is published on the website of the Zhytomyr City Council. (<https://zt-rada.gov.ua/files/upload/sitefiles/doc1526030828.pdf> ).

336. In addition, appropriate conditions have been created for the executive bodies of the council to implement this element by concluding a collective agreement between the administration of the Zhytomyr City Council and the trade union committee of the primary trade union organization of the executive bodies of the Zhytomyr City Council. The coordination of interests of workers, owners and the bodies authorized by them as well. Such a document defines the rules of internal labour regulations of the executive bodies of the City Council.

337. It should be noted that for the implementation of this element, the decision of the Executive Committee of the Zhytomyr City Council approved the Regulations of the Executive Committee of the Zhytomyr City Council as well, as posted on the website of the city council.

## Dimension PI-25.1. Segregation of duties

338. The Ministry of Finance sets out the general principles of internal control across central government, local government budget institutions, and extra-budgetary units. These internal control practices are clearly defined in the Cabinet Decree No.1062 dated 12.12.2018 but became functional in FY2019. This resolution is also applicable at the sub-national level. Three key elements of the Decree No.1062 are fundamental to an effective internal control framework across central (and local) government; these are: (i) itemising of tasks and functions (job description) for each employee (heads of departments and subordinate staff); (ii)

creation of authorisation and approval mechanisms; and most importantly (iii) outlining clear segregation of duties for each staff especially for those with administrative and financial implications.

339. The city of Zhytomyr has established and documented a clear segregation of duties which is in force for the PFM procedures. Internal control practices and segregation of duties are clearly defined in the Cabinet Decree dated 12.12.2018 No.1062. This Decree applicable at the sub-national government level identifies three fundamental elements of effective internal control across central (and local) government, namely: (i) enumeration of tasks and functions (job description) for each employee - heads of departments and subordinate staff; (ii) creation of authorization and approval mechanisms; and (iii) outlining clear segregation of duties for each staff especially for those with administrative and financial implications.

The procedures for segregation of duties in Zhytomyr City Council are clear and appropriate, as they prescribe who is responsible for generating an expenditure (raising a local purchase order – LPO), who authorizes such expenditure, and who approves and pays expenditures. The rules/procedures also prescribe that the officers who provide financial transaction records cannot be the same approving such transactions. The Public Procurement Law delineates the roles and responsibilities of public officials in the procurement process; public officers who prepare procurement tenders are separate from those who evaluate the tenders, those approving tenders, and those who sign procurement contracts. The Accounting Manual also prescribes clear rules/procedures for segregation of duties. According to the Accounting Manual, different officials in the Finance Department are responsible for authorization and recording, including authorization and custody of public assets assigned to separate officials. Expenditure commitments and payments are subjected to compliance checks by the Finance Department of the City Administration, headed by the chief administrator who reports to the Executive Committee, headed by the city mayor.

340. **The score for this dimension is A.**

#### **Dimension PI-25.2. Effectiveness of expenditure commitment controls**

341. In line with documented internal procedures and under supervision of the Internal Control Division, spending units have autonomy in exercising commitment control to make sure that the commitments are kept only within the scope of budgets and monthly budget allocations. Furthermore, the Treasury Information System is applied to public administration bodies at all levels; it includes a module that provides for the registration of all budget commitments and this procedure ensures that commitments are effectively limited within the budget allocations of the relevant spending unit.

342. **The score for this dimension is C.**

#### **Dimension PI-25.3. Compliance with payment rules and procedures**

343. Presently, the absence of a functional internal audit unit as well as the non-existence of external audit reports as evidence limits the base for assessors' judgement on the effectiveness and the level of compliance with payment rules and procedures. However, the information from the Internal Control Division is to a great deal remedying this and shows good compliance, confirming that possible deviations are always observed and corrected. That said, the lack of independent external audit and an institutionalized internal audit in principle leaves a gap in the defense of financial integrity.

344. **The score for this dimension is B.**

## PI-26. Internal audit

345. This indicator assesses the standards and procedures applied in internal audit. The time period covered for 26.1 and 26.2 was at 'time of assessment', for 26.3 the last completed FY (2020), and for 26.4, the audit reports of the last three completed FYs (2018-2020) were examined. All SNG budgetary units were assessed.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-26. Internal audit (M1)</b>	<b>D</b>	
<b>26.1. Coverage of internal audit</b>	D	Budgetary institutions in the city of Zhytomyr have not established any internal audit divisions or appointed an official responsible for internal audit. Therefore, there is no functional internal audit unit in the City Council.
<b>26.2. Nature of audits and standards applied</b>	NA	As there is no functional internal audit unit, this dimension is not applicable.
<b>26.3. Implementation of internal audits and reporting</b>	NA	As there is no functional internal audit unit, this dimension is not applicable.
<b>26.4. Response to internal audits</b>	NA	As there is no functional internal audit unit, this dimension is not applicable.

## Background

346. According to Part 3 of Article 26 of the Budget Code, spending units represented by their heads must establish functional internal audit units and must also be responsible for such audits in their institution and subordinated budgetary and extra-budgetary institutions. Internal audit means the activities of an Internal Audit Division in a budgetary institution aimed at improving management system, preventing illegal, inefficient and ineffective use of budget funds, errors or other drawbacks arising in these institutions, and improving the internal control.

347. The basic principles for conducting internal audit and the procedure for setting up an Internal Audit Division are established by the Cabinet of Ministers of Ukraine (Resolution No. 1001 dated September 28, 2011, as amended by Decree 1062 on December 12, 2018). Internal audit divisions must be created in all budgetary institutions (Article 26 of the Budget Code). It is also recommended that governments establish internal divisions from January 1, 2012, audit. If it is not possible to create the Internal Audit Division, an official should be appointed, with responsibility for internal audit. According to these legal provisions, local governments in the process of organizing and implementing internal audit activities must be guided by the "Procedure approved by this Resolution and by normative legal acts, adopted the Ministry of Finance."

348. In order to strengthen the independence of internal audit divisions, paragraph 5-1 of Order No. 1001 introduced the signing by the head of the state body, its territorial body, budget institution with the head of the Internal Audit Division of the relevant body or institution, and an internal audit declaration. Such a declaration is a document comparable to the Internal Audit Charter used in international practice.

349. Internal Audit Standards, approved by MoF's Order No. 1247, dated October 4, 2011, (Chapter 3) sets the independence of internal audit. Organizational independence requires direct subordination and accountability of the Internal Audit Division to the head of the institution. Organizational independence is ensured through: (1) approval by the head of the institution of the regulation on the Internal Audit Division and the six-month internal audit activity plan; (2) informing the head of the institution by the head of the

Internal Audit Division about the status of the implementation of the internal audit plan and other tasks, as well as about the existence of restrictions in conducting the internal audit or resources.

350. Functional independence relates to preventing employees of the Internal Audit Division from performing functions not related to the implementation of internal audit plan.

351. MoF issues the methodological recommendations on internal audit in the public sector, based on international standards for the professional practice of internal auditing developed by the Institute of Internal Auditors (IIA).

#### **Dimension PI-26.1. Coverage of internal audit**

352. Budgetary institutions in Zhytomyr CTC have not established any internal audit divisions or appointed an official responsible for internal audit. Therefore, there is no functional internal audit unit in the local government administration per definition.

353. **The score for this dimension is D.**

#### **Dimension PI-26.2. Nature of audits and standards applied**

354. As there is no functional internal audit unit, this dimension is not applicable.

355. **The score for this dimension is NA.**

#### **Dimension PI-26.3. Implementation of internal audits and reporting**

356. As there is no functional internal audit unit, this dimension is not applicable.

357. **The score for this dimension is NA.**

#### **Dimension PI-26.4. Response to internal audits**

358. As there is no functional internal audit unit, this dimension is not applicable.

359. **The score for this dimension is NA.**

## PILLAR 6: Accounting and reporting

360. This pillar measures whether accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

### PI-27. Financial data integrity

361. This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains the following four dimensions and uses the M2 (AV) method for aggregating dimension scores. The assessment covers: the budgetary and extrabudgetary units of the SNG for PI-27.1; budgetary units of SNG – for PI-27.2, PI-27.3 and PI.27.4. Assessment period – at time of assessment covering the precedent year (2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-27. Financial data integrity (M2)</b>	<b>A</b>	
<b>27.1. Bank account reconciliation</b>	A	The government of Zhytomyr has 1073 bank accounts opened for KSUs, spending units of lower-tier, recipients of budget funds, including EBUs. All bank accounts are directly linked to the Treasury Single Account (TSA). The City Treasury and the Finance and Budget Department have on-line access to the system. The Finance and Budget Department receives daily transactional report on the cash inflows and outflows across each of the accounts, which are then reconciled through TSA. The Budget Code of Ukraine allows SD units to open their own bank accounts at the state-owned banks. These bank accounts are used for collecting own revenues of budget institution and add up to the Treasury bank accounts through which budget funds are transferred.
<b>27.2. Suspense accounts</b>	NA	Not applicable. There are no suspense accounts.
<b>27.3. Advance accounts</b>	A	Advances to staff for salary and operational activities are short term. Contractors receive up to 30% mobilization which is set-off against any future payment. All advances are reconciled every month when submitting budget arrears reports to the Treasury.
<b>27.4. Financial data integrity processes</b>	B	The Treasury keeps its records in the automated accounting and reporting system. Access is strictly restricted by a password system. Records cannot be created or modified without registration in the electronic checklist. There is an audit trail relating to usage. However, there is no internal audit unit which is responsible for verifying and controlling data integrity. There is a special division on internal control in the city administration which is reporting directly to the city mayor. To a certain extent, this body seems to work as internal audit also in relation to financial integrity, but without having that position.

#### Dimension PI-27.1. Bank account reconciliation

362. The government of Zhytomyr has 1073 bank accounts opened for KSUs, spending units of lower-tier and recipients of budget funds, including EBUs. Actual expenditure accounts are based on the expenditure classification approved by the Ministry of Finance. The number of bank accounts depends on number of spending units as well as each year's budget programs, approved by the local budget decision. Therefore,

the number of bank accounts will change from year to year, but even within a fiscal year, as unused accounts will be deleted.

363. The bank accounts are directly linked to the Treasury Single Account (TSA). Information is uploaded to the TSA centralized data storage system. Once the business day is closed for funds transfer and all the technological procedures determined by the requirements of the regulatory acts and technological regulations of Treasury are performed, the report, which includes accounting, operational, and management reports (daily trial balance, daily reports on execution of revenues and other receipts of state and local budgets, etc.) is produced.

364. The Budget Code of Ukraine allows SD units to open their own bank accounts at the state-owned banks. These bank accounts are used for collecting own revenues of budget institution and add up to the Treasury bank accounts through which budget funds are transferred.

365. **The score for this dimension is A.**

#### **Dimension PI-27.2. Suspense accounts**

366. There are no suspense accounts.

367. **The score for this dimension is NA.**

#### **Dimension PI-27.3. Advance accounts**

368. There are no specific accounts in the chart of accounts termed as advance account. Instead, such accounts are reported as accounts receivable by each spending unity. The balance of such (advance) accounts is analysed every month. The (advance) accounts are generally closed on time, with some exceptions, particularly if the case is complex. In such cases, the spending unities explain the main reasons for such delays in the notes to their financial statements

369. Advances to staff for salary and operational activities are short term and cleared in a short period.

370. Referencing infrastructure contracts, the local government pays contractors up to 30% mobilisation fee. This is set-off against future payments based on approved completion certificates received from contractors. The Treasury provides control over advance payments and accounts. All advances are reconciled every month when submitting budget arrears reports to the Treasury.

371. **The score for this dimension is A.**

#### **Dimension PI-27.4. Financial data integrity processes**

372. The Treasury keeps its records in the automated accounting and reporting system. Access is strictly restricted by a password system. Records cannot be created or modified without registration in the electronic checklist. There is an audit trail relating to usage. However, there is no internal audit unit which is responsible for verifying and controlling data integrity.

373. As noted for PI-25, there is a special division on internal control in the city administration which is reporting directly to the city mayor. To a certain extent, this body seems to work as internal audit also in relation to financial integrity but without having that position. The assessment team is judging that this body meets the requirement of the required operational body. Internal audit of the use of funds should be

verified by the SAS and the ACU. However, the ACU does not provide audits at this level, and the SAS does not make regular scheduled audits and no reports are available.

374. **The score for this dimension is B.**

## PI-28. In-year budget reports

375. This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow for monitoring of budget performance and, if needed, timely use of corrective measures. The assessment of this indicator covers the SNG budget unit and over the last completed FY (2020).

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-28. In-year budget reports (M1)</b>	<b>D+</b>	
<b>28.1. Coverage and comparability of reports</b>	D	Coverage and classification of financial report do not allow direct comparison between the originally approved expenditure budget and actual expenditure outturns for the main administrative headings. Only the revenues are directly comparable by detailed codes of classifications.
<b>28.2. Timing of in-year budget reports</b>	A	As indicated in Table 28.2 below, the local government prepares monthly in-year budget execution reports; these are issued within one week after the end of the previous month.
<b>28.3. Accuracy of in-year budget reports</b>	C	The in-year budget execution reports include planned and actual expenditures but do not cover expenditure at commitment stage. Data presented in the monthly and quarterly reports is consistent and sufficient for analysis of budget performance. At present, there is no functional independent internal audit to validate the accuracy of these reports. However, to a certain extent, the Internal Control Division seems to work as internal audit also in relation to financial integrity but without having that position. Also, external audit has not been conducted to equally authenticate the integrity of these reports.

### Dimension PI-28.1. Coverage and comparability of reports

376. Coverage and classification of revenue in Treasury's reports allow direct comparison to the original budget. Treasury's reports on expenditure are based on economic, functional, and program classifications, but not on administrative classification, which does not allow for their direct comparison with the original budget. Furthermore, Zhytomyr city prepares additional quarterly reports where expenditures are based on the administrative and functional classification, but those reports are neither presented in the format of original budget. In particular, they do not contain information on consumption and development expenditure, salary, utilities, and lending across the spending units. These do not allow direct comparison of reported expenditures with the original budget.



Table 28.1: In-year budget reports

Coverage and classification			Timeliness		Accuracy		
<b>Allows direct comparison to original budget</b> (Y/N)	<b>Level of detail</b> A=All budget items P= Partial aggregation M= Main administrative headings E=Main economic headings	<b>Includes transfers to de-concentrated units</b> (Y/N)	<b>Frequency</b> W/M/Q N= >Q'ly	<b>Within:</b> 2/4/8 weeks N=>8weeks	<b>Material concerns</b> (Y/N)	<b>H/Y Analysis prepared</b> (Y/N)	<b>Payment information</b> E=Exp C=Commit
N	P	N	M/Q	2 weeks	N	Y	E

Data source: FY2020 in-year Treasury reports on Zhytomyr city budget performance.

377. The reports indicate revenues by detailed codes of revenue classification and expenditure (recurrent and capital) by budget programs, detailed functional and economic classifications (administrative classification is not used), and the financing of budget. They allow direct comparison between approved revenue budgets and actual outturns for the period, as well as year-to-date outturns. However, the reports do not allow direct comparison between the originally approved expenditure budget and actual expenditure outturns. There are no transfers to de-concentrated units. A change of the report's composition and structure can only be introduced on the national level by the Ministry of Finance.

378. **The score for this dimension is D.**

### Dimension PI-28.2. Timing of in-year budget reports

379. Table 28.2 below shows the dates issuance of 2020 in-year budget execution reports. As indicated below, the territorial bodies of the Treasury prepare monthly in-year budget execution reports; these are issued within one week after the end of the previous month.

Table 28.2: Issue dates of in-year budget reports (FY2020)

Period covered by the report	Actual date of issuance	Deadlines
January 2020	05.02.2020	05.02.2020
February 2020	05.03.2020	05.03.2020
March 2020	03.04.2020	05.04.2020
April 2020	05.05.2020	05.05.2020
May 2020	05.06.2020	05.06.2020
June 2020	03.07.2020	05.07.2020
July 2020	05.08.2020	05.08.2020
August 2020	04.09.2020	05.09.2020
September 2020	05.10.2020	05.10.2020
October 2020	05.11.2020	05.11.2020
November 2020	04.12.2020	05.12.2020
December 2020	11.01.2021	05.01.2021

Data source: Finance and Budget Department of Zhytomyr City Council.

380. The score for this dimension is A.

### Dimension PI-28.3. Accuracy of in-year budget reports

381. The in-year budget execution reports include planned and actual expenditures but do not cover expenditure at commitment stage. Data presented in the monthly and quarterly reports (such as revenue and expenditure performance, contingency fund and grants from the national government, budget arrears and local debt indicators) is consistent and sufficient for analysis of budget execution that is provided on a quarterly basis. Results of the analysis are published on the city council website.<sup>22</sup>

382. At present, there is no functional independent internal audit to validate the accuracy of these reports. However, to a certain extent, the Internal Control Division of Zhytomyr City Council seems to work as internal audit also in relation to financial integrity, but without having that position. Also, external audit has not been conducted to equally authenticate the integrity of these reports. That said, the reports are very useful as they provide information and variance analysis of both revenue and expenditure for management use.

383. The score for this dimension is C.

### PI-29. Annual financial reports

384. This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores. The assessment covers the SNG budget units over the last completed FY (2020) for dimensions 29.1 and 29.2, and the last three FYs' financial reports (2018-2020) for dimension 29.3.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-29. Annual financial reports (M1)</b>	<b>D+</b>	
<b>29.1. Completeness of annual financial reports</b>	D	The annual financial statements include complete information on assets and liabilities, including long-term, revenue, and cash flow statements. Treasury's reports on expenditure are based on economic and functional classifications, but not on administrative classification, which does not allow for their direct comparison with the original budget. The city prepared additional annual reports based on the functional classification, but reports are not presented in the form of original budget. They do not contain information on consumption and development expenditures, salary, lending etc. The report does not allow direct comparison with the original budget.
<b>29.2. Submission of reports for external audit</b>	D	The city of Zhytomyr has not submitted the FY2020 annual financial statement for external audit.
<b>29.3. Accounting standards</b>	B	Annual financial statements on budget execution are developed in accordance with the National Public Sector Accounting Regulations prescribed by the Ministry of Finance which are generally in line with IPSAS; the annual financial statements have been consistent over time.

<sup>22</sup> <https://zt-rada.gov.ua/?pages=1124>; <https://zt-rada.gov.ua/?pages=1225>.

		The accounting standards and policies adopted are disclosed in the notes to the financial statements. Differences between the National Public Sector Accounting Standards and IPSAS are not disclosed.
--	--	--

### Dimension PI-29.1. Completeness of annual financial reports

385. The annual financial statements include complete information on assets and liabilities, including long-term, revenue, and cash flow statements. Treasury’s reports on expenditure are based on economic and functional classifications, but not on administrative classification, which does not allow for direct comparison with the original budget. The city prepared additional annual reports based on the functional classification, but reports are not presented in the form of original budget. They do not contain information on consumption and development expenditures, salary, etc. These do not allow direct comparison with the original budget.

Table 29.1: Information contained in annual financial reports

Financial report	Date annual report submitted for external audit	Content of annual financial report			Reconciled cash flow statement (Yes/No)
		Expenditures by program, functional and economic classification and revenues (Yes/No)	Financial and non-financial assets and liabilities (Yes/No)	Guarantees and long-term obligations (Yes/No)	
Consolidated annual financial report (2020)	No report for submission for external audit	Yes	Yes	Yes	Yes

Data source: FY2020 annual financial report on Zhytomyr city budget performance.

386. **The score for this dimension is D.**

### Dimension PI-29.2. Submission of reports for external audit

387. The local government of Zhytomyr city has not submitted the FY2020 annual financial statement for external audit. The financial records of the government have not been subject to annual audit by the external Accounting Chamber in any of the last three years and not before that. However, the city provides consolidation and submission an annual financial report to the Ministry of Finance by the 25<sup>th</sup> of January but latest by the 4<sup>th</sup> of February fully in line with legislation. The scoring, however, is about submitting the report to external audit which the city does not provide.

388. The reports coming from SAS is not about annual audit.

389. **The score for this dimension is D.**

### Dimension PI-29.3. Accounting standards

390. Accounting and preparation of all public sector financial reports are conducted in accordance with the requirements of NPSAR(S) of Ukraine, which are primarily based on IPSAS. NPSAR(S) are consistent with IPSAS in the most important areas. The accounting standards and policies adopted are disclosed in the notes to the financial statements. Differences between the National Public Sector Accounting Standards and

IPSAS are not disclosed. The World Bank has issued a report on the results of diagnostics of the current state of the public sector accounting system, which confirmed that the national standards are consistent with the IPSAS in more than 80% of standards.

**391. The score for this dimension is B.**

## PILLAR 7: External scrutiny and audit

392. This pillar assesses whether public finances are independently reviewed and whether there is external follow-up on the implementation of recommendations for improvement by the executive.

### PI-30. External audit

393. This indicator examines the characteristics of external audit. This indicator is used when the external audit of SNGs is performed by the national Supreme Audit Institution (SAI) or its regional offices. It contains four dimensions and uses the M1 (ML) method for aggregating dimension scores. The assessment covers the budgetary units and EBU's over the last three completed FYs for 30.1, 30.2 and 30.3, and for 30.4, "at time of assessment."

394. The first dimension of this indicator is centred on the operations of the SAI: the coverage of the audits and how the SAI conducts its operations. The fourth dimension assesses the independence of the SAI. Dimension 2 examines the process and procedures once the SAI audits are completed. Dimension 3 assesses how audited entities respond to recommendations made in the audit reports.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-30. External audit (M1)</b>	<b>D</b>	
<b>30.1. Audit coverage</b>	D	Over the last three completed fiscal years, the Supreme Audit Institution known as the Accounting Chamber of Ukraine (ACU) has not conducted any external audit of the financial record and operation activities of Zhytomyr City Government administration.
<b>30.2. Submission of the audit reports to the sub-national council</b>	D	The ACU has not conducted any external audit of the financial records of Zhytomyr city administration; therefore, it has also not submitted any audit reports to the City Council for scrutiny.
<b>30.3. External audit follow-up</b>	NA	Within the assessment period (2018-2020), the ACU has not undertaken any external audit follow-up within the Zhytomyr city administration.
<b>30.4. Independence of the public audit institution in charge of sub-national governments</b>	D	The ACU is not fully independent. Its staff are civil servants under the authority and control of the executive government. Again, it has no full mandate to audit all public funds.

### Dimension PI-30.1. Audit coverage

395. Over the last three completed fiscal years, the Supreme Audit Institution known as the Accounting Chamber of Ukraine (ACU), responsible for conducting external audit of local budget expenditure made by transfers from central government as well as audit of local government fixed revenues and expenditures that are determined by the functions of the state and passed to local governments (as per a revised ACU law in November 2018), has not conducted any external audit of the financial record and operation activities of the Zhytomyr City Government administration. In terms of standards, it is known that ACU largely conducts audit (evidence from the results of audit reports at the state budget level) based on ISSAI standards.

396. **The score for this dimension is D.**

### **Dimension PI-30.2. Submission of audit reports to the legislature**

397. The Accounting Chamber of Ukraine, over the last three completed fiscal years, has not conducted any external audit of the financial records of the local government; therefore, it has also not submitted any audit reports to the Zhytomyr City Council for scrutiny.

398. **The score for this dimension is D.**

### **Dimension PI-30.3. External audit follow-up**

399. Within the assessment period (2018-2020), the Accounting Chamber of Ukraine has not undertaken any external audit of the financial records of the Zhytomyr City Council; therefore, it has also not issued any recommendations. This dimension is therefore not applicable.

400. **The score for this dimension is NA.**

### **Dimension PI-30.4. Supreme Audit Institution independence**

401. In 2015, the Parliament promulgated a new law aimed at strengthening the independence of the Accounting Chamber of Ukraine (which is the Supreme Audit Institution of Ukraine). Based on the new law, the Chairperson of the Accounting Chamber (who is a member of the ACU) and other members of the ACU are appointed by the legislature; their removal is only at the instance of the Parliament based on sufficient evidence as prescribed by law. Nonetheless, the staff of ACU are civil servants; this means that ACU staff are not independent from the executive authority. Also, their remuneration and benefits are determined by the executive government and not the ACU governing council. Furthermore, the staff of ACU could be transferred at any time by the executive government. ACU has full authority to develop its own audit plan, but it does not have full authority to audit all public funds; for instance, it has a mandate to audit some part of sub-national government revenues and expenditures, and the remaining part is to be audited by the State Audit Service - SAS (which is more of a centralized internal audit directorate, reporting directly to the executive government). SAS's audits are not aligned to the budget cycle, and they are also more directed towards performance and effectiveness audits as opposed to financial audits. In terms of the share of revenue and expenditure to be audited by ACU and SAS, officials say that the actual proportions are yet to be determined based on the amended Law of November 2018.

402. Another element of independence<sup>23</sup> relates to ACU budget; the ACU does not submit its budget directly to the legislature, but it is submitted to the Ministry of Finance for consolidation. Officials of ACU have indicated that although the institution has not experienced any cuts in the approved budget and/or delays in actual transfers for its operations, the future remains unpredictable.

**The score for this dimension is D.**

---

<sup>23</sup> Cf INTOSAI ISSAI 1, Section 7, Point 2, Financial independence of Supreme Audit Institutions.

## PI-31. Legislative scrutiny of audit reports

403. This indicator focuses on legislative scrutiny of the audited financial reports of the sub-national government, including institutional units, to the extent that either: (a) they are required by law to submit audit reports to the legislature; or (b) their parent or controlling unit must answer questions and act on their behalf. The assessment of this indicator is based on the audit reports submitted to the legislature within the last three years.

INDICATORS/ DIMENSIONS	2021 SCORE	ASSESSMENT OF PERFORMANCE
<b>PI-31. Legislative scrutiny of audit reports (M2)</b>	<b>D</b>	
<b>31.1. Timing of audit report scrutiny</b>	D	The City Council has not received any external audit and/or audited financial report for scrutiny from the ACU or the SAS.
<b>31.2. Hearings on audit findings</b>	NA	The City Council has not conducted any hearing on external audit findings and hearing on any audited financial reports from the the Finance and Budget Department of the City Council.
<b>31.3. Recommendations on audit by the sub-national council</b>	NA	The City Council has not issued any recommendations on audit and/or financial findings.
<b>31.4. Transparency of legislative scrutiny of audit reports</b>	NA	The City Council has not conducted any public scrutiny of audit reports.

### PI-31.1. Timing of audit report scrutiny

404. The City Council has not received any external audit and/or audited annual financial report for scrutiny from the Accounting Chamber of Ukraine (ACU) or the State Audit Service (SAS).

405. **The score for this dimension is D.**

### PI-31.2. Hearings on audit findings

406. The City Council has not conducted any hearing on external audit findings and hearing on any audited financial reports from the Finance and Budget Department of the City Council.

407. **The score for this dimension is NA.**

### PI-31.3. Recommendations on audit by the sub-national council

408. The City Council has not issued any recommendations on audit and/or financial findings as a result from an audit process.

409. **The score for this dimension is NA.**

### PI-31.4. Transparency of legislative scrutiny of audit reports

410. The City Council has not conducted any public scrutiny of audit reports.

411. **The score for this dimension is NA.**

## 3. CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS

### 3.1 Integrated assessment across the PIs

#### 3.1.1 Intergovernmental fiscal relations

412. The overall performance of intergovernmental fiscal relations is varying. The performance of transfers from higher levels of government gets a low rating (HLG-1 rated 'C'). Outturns of transfers from higher levels of government and transfers composition outturn and predictability of transfers also show poor results (HLG-1.1, 1.2, and 1.4 are rated 'C,' 'D' and 'D' respectively). The low performance of transfers from higher levels of government depends on the central government's failure to notify local governments of their annual subventions, promptly for inclusion into their annual budgets (including Zhytomyr City Government budget). This has had a negative impact on the performance of the City Government's budget in terms of budget reliability. It is therefore not surprising that expenditure composition outturns for both functional and economic classifications (PI-2.1 and PI-2.2) scored 'C's. Fiscal rules and monitoring of fiscal positions show better performance, with an overall score of 'A,' and all dimensions also rated 'A.' Central government fiscal and debt rules for local governments are clear and applicable to all sub-national governments. These rules are closely monitored, with sanctions administered to defaulting local governments.

#### 3.1.2 Budget reliability

413. Budget reliability, according to the assessment, shows a more spread rating of the performance. Aggregate expenditure budget appears to be reliable based on evidence collected, as the corresponding analysis indicate that actual outturns are less than 10% of the original approved budget at least in two out three years (PI-1 rated 'B'). The reliability of the aggregate expenditure budget shows fairly good fiscal discipline. Expenditure composition outturn according to function and economic category, though, shows poor results (PI-2.1 and 2.2 rated 'C'). The poor performance of expenditure composition outturns is because of the negative effect of transfers from higher levels of government (HLG-1 rated 'C'). These transfers are not originally budgeted for by the City Government; therefore, actual transfers result in budget adjustments and reallocations across expenditure votes, the effect of which could be a misallocation of expenditure or misuse of public funds. However, the use of the contingency vote is respected by the City Government; the estimated expenditure for contingency reserve is less than 1% of general fund. However, there is no actual expenditure charged to this goal. This indicates some level of budget reliability. Aggregate revenue outturn is reliable (PI-3.1 rated 'A') as well as revenue composition outturn (PI-3.2 rated 'B').

#### 3.1.3 Transparency of public finances

414. Budget preparation and execution are based on administrative, economic, functional, and program classification using GFS/COFOG standards, but budget reporting is based only on economic, functional, and program classification. The classification follows GFS 2001. As administrative classification is not used in budget reports, there is a lack of transparency which results in a 'D' score for PI-4.1.

415. Budget documentation submitted to the City Council is comprehensive (PI-5 rate 'B'). The ratio of extra-budgetary expenditure of healthcare institutions to total expenditures of the Zhytomyr city budget stood at 1.9% in FY2020. These expenditures were not included in the reports on budget performance. The share of total extra-budgetary revenues outside the City Government budget reports was 1.8% of total City Government revenue for FY2020. This means a 'B' score for PI-6.1 and 6.2. In these circumstances, the effect of City Government operations outside the budget poses is not a big threat to



local government funds and the overall score for PI-6 is 'B+'. As there is no first-tier government below the City Government, PI-7 is not applicable.

416. Performance information on service delivery is good (overall score for PI-8 is 'A'). Planned performance outputs with KPIs are published on the website, providing information to the public on planned resources for service delivery as well as actual resources allocated and their effectiveness. There is substantial information on all resources received in cash and kind, creating reasonable assurance that budget allocations are achieving planned results. Public access to fiscal information is good (PI-9 rated 'A'); all key fiscal information including annual budgets, in-year budget execution reports, annual financial statements and a citizens' budget are available to the public promptly. The framework for public consultation is considered as not satisfactory (PI-9.bis rated 'D+').

### **3.1.4 Management of assets and liabilities**

417. This pillar shows varied performance. The analysis shows that the City Government has reasonable control over its assets and liabilities; control over assets and liabilities improves service delivery. City municipal enterprises are monitored at least annually with the majority (about 65,7% by value) of these enterprises being audited and publishing their annual audit reports on their respective websites (PI-10.1 rated 'D'). As there are no first-tier governments below the City Government and no contingent liabilities and PPPs, PI-10.2 and PI-10.3 are not applicable.

418. There are no guidelines established/approved by the local authority for the economic analysis of public investment projects. However, an economic analysis of four (4) major investment projects was conducted in line with the terms of reference template established by the Ministry for Regional Development (Order dated 24.04.2015 No.80). The template is used to select projects that can be funded by means of the SRDF and includes the following elements of economic analysis: area (territory) of a project impact; number of citizens that benefit from a project implementation; expected quantitative and qualitative outcomes of a project implementation, including the economic efficiency of the project; public investment projects' key measures and total cost. Results of the economic analysis of the four major investment projects under SRDF funding were published on the Ministry for Regional Development website and reviewed by the regional (oblast) commission under selection process. Such a commission is an entity other than the sponsoring entity. The annual budget of Zhytomyr CTC indicates the total life-cycle cost of all investment projects, including major ones, as well as the project cost in the planning budget period. However, the budget documents do not contain such information for the next three years.

419. Monitoring of financial assets of the City Council is satisfactory. All budget institutions of Zhytomyr City Council maintain their individual records of all items of financial assets which are recognized at fair value. Information on financial assets performance portfolio is not published (PI-12.1 rated 'C'). The same approach is used for non-financial assets monitoring. The land register is maintained at the national level (PI-12.2 rated 'C'). There is, however, a comprehensive and transparent asset disposal framework that allows public auction; all proceeds from asset disposal are paid directly into the treasury (PI-12.3 rated 'A'). There is a good public debt approval system with laws, regulations, and procedures established by the state government but also with local council approval mechanism (PI-13.2 rated 'A'). Debt figures are complete and reconciled annually (PI-13.1 rated 'A'). The City Government, however, does not prepare a medium-term debt management strategy (PI-13.3 rated 'D').

### **3.1.5 Policy-based fiscal strategy and budgeting**

420. This pillar shows varied performance. A good medium-term fiscal strategy provides a basis for a reliable budget. At this stage, the City Government's budget is based on annual macroeconomic indicators with its underlying assumptions (PI-14.1 rated 'A'). The main macroeconomic indicators (GDP, interest

rate, exchange rate, and inflation rate) are forecasted by the central government. The Finance and Budget Department of Zhytomyr City Council annually prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years, which are included in an explanatory note to the local budget forecast and submitted to the City Council. However, the City Government prepares medium-term revenue and expenditure estimates; revenue is by type and expenditure is by administrative classification. The local budget forecast template does not envisage the economic classification usage (PI-14.3 rated 'B'). The budget consistency analysis is non-existent (PI-14.4 rated 'D'); the absence of this analysis and its accompanying explanations is impacting negatively on the reliability of the budget.

421. The assessment indicates that the budget preparation process is at an under average level (PI-17 rated 'D+'). PI-17.1 and PI-17.2 dimensions are both rated 'C'. While the budget calendar and circular are comprehensive and clear for budget preparation, the calendar allows KSUs up to 10 days for budget preparation and submission to the Finance and Budget Department. Expenditure ceilings for budget proposals are also not approved by the city executive committee (cabinet). The budget submission to the City Council for scrutiny and approval is within one month of the start of the new fiscal year (PI-17.3 rated 'D').

422. The City Council scrutiny of the budget proposals is comprehensive. The City Council's review covers budget indicators for both annual and medium-term perspectives. Statements of the fiscal strategy are included in the local budget forecast as well. The review also covers detailed indicators of budget revenues and expenditures (PI-18.1 rated 'A'). As of September 17, 2021, there were no budget regulations of the City Council. At the same time, some procedures to review budget proposal are prescribed by the City Council regulation on the sectoral commissions which is approved in advance of budget hearings by the City Council Decree dated 21.07.2016 No. 261. These procedures are adhered to by all the budget process players. The procedures do not contain arrangements for conducting public consultation and arrangements for negotiation procedures (PI-18.2 rated 'C'). The City Council's timely approval of the annual budget (PI-18.3 rated 'A') allows key spending units to better plan and use approved budget allocations for improved service delivery. In-year budget amendment procedures exist, but they allow for extensive administrative reallocations without limit (PI-18.4 'B').

### ***3.1.6 Predictability and control in budget execution***

423. The overall performance of this pillar is above average. The State Tax Service (STS) is responsible for the administration of taxes on behalf of the City Government of Zhytomyr; therefore PI-19 and all its dimensions are not applicable. That said, STS has a user-friendly website with comprehensive and clear taxpayer information in terms of laws, rights and obligations, and the procedure for filing and payment of taxes. Client service for taxpayers is good, as it provides toll-free telephone service in addition to the online enquiry and complaint framework. There is also information on the taxpayer complaint mechanism.

424. Accounting for taxes shows good performance (PI-20 rated 'A'). All taxes are properly accounted for and reported promptly, which is a prerequisite for effective and efficient cash management. Therefore, it is not surprising that the cash management framework is sound (PI-21.1 rated 'A'). All taxes collected are directly deposited into the Treasury (PI-20.2 rated 'A'). Since Zhytomyr City Government does not administer and collect core taxes directly, PI-20.3 dimension is not applicable. The budgetary institutions receive reliable information on expenditure commitment at least six months in advance - actually, one year (PI-21.3 rated 'A'); this ensures timely planning of procurement activities leading to efficient service delivery. That said, the frequency and significance of in-year budget allocations are of concern, even

though with an average score (PI-21.4 rated 'C'). These frequent in-year budget virements negatively affect planned service delivery programmes and overall government policies.

425. Expenditure arrears are well controlled and monitored (PI-22 with an overall score of 'A'). Payroll and personnel management perform satisfactorily even though the overall score for PI-23 is 'C+'. To a great degree depending on uneven payroll audit, this contributes to budget reliability, since payroll is one of the largest expenditure items on the budget. Even so, the City Government has a fairly good payroll and personnel records management system, all institutions use automated systems. At the same time, changes in the personnel database are not automatically reflected in the payroll management software. The total integration between personnel and payroll data is provided through manual intervention (PI-23.1 rated 'B'). Management and changes to payroll and personnel records as well as the safety, security and integrity of payroll and personnel records appear to be well managed (PI-23.2 and PI-23.3 all rated 'A'). The incidence of 'ghost' workers is non-existence; however, payroll audits are uneven (PI-23.4 rated 'C'). Procurement systems are sound (PI-24 with an overall score of 'B+'); sound procurement system improves service delivery. There is good public access to all procurement information (PI-24.3 rated 'A'), but only 67% of procurement activities go through competitive procurement methods (PI-24.2 rated 'C'). The system for managing procurement complaints is satisfactory (PI-24.4 rated 'B').

426. Internal controls for non-salary expenditure show good performance (PI-25 rated 'B'), with a strong legal and regulatory framework established by the central government but also applicable at all local government levels, including the City Government of Zhytomyr. The city itself has also developed a strong central internal control structure. The financial management laws, regulations and procedures prescribe appropriate measures for segregation of duties (PI-25.1 rated 'A'). Compliance level regarding PFM laws and regulations is high (PI-25.3 is rated 'B'), but the lack of an internal audit function means that there is no regular independent check on compliance; as Internal audit function does not exist; this results in a 'B' score.

### **3.1.7 Accounting and reporting**

427. The performance of this pillar is varying. The financial integrity process, however, shows good performance. Bank reconciliations are carried out promptly, likewise advance accounts. There are no suspense accounts; this reflects a high degree of data accuracy. Only authorised staff have access to financial records. All changes to these records are duly authorised and approved by the head of the department and/or budget institution; changes result in an audit trail (PI-27 rated 'A').

428. The City Government in-year budget execution reports provide useful financial information for management use even though there is no separate unit in the city responsible for data integrity. However, to a certain extent, the Internal Control Department seems to work as internal audit also in relation to financial integrity but without having that position (PI-28.3 rated 'C'). The reports show information on revenue and expenditure according to functional, programme, and economic classifications in line with GFS2001. Coverage and classification of financial reports do not allow direct comparison between the originally approved expenditure budget and actual expenditure outturns for the main administrative headings. Only the revenues are directly comparable by detailed codes of classifications (PI-28.1 rated 'D'). The E-Reporting system facilitates the completion and submission of in-year budget execution reports; submission is done within one week after the previous month (PI-28.2 rated 'A').

429. The National Accounting Standards are also applicable to the City Government for the preparation of annual financial statements (PI-29.3 rated 'B'). The annual financial statements are comprehensive as they present information on revenue and expenditure, cash balances and receivables, tangible assets, payables, long-term liabilities and guarantees, and a reconciled cash flow statement. However, the annual financial statements are not comparable with the approved budget (PI-29.1 rated 'D'). The City

Government also did not submit annual financial statements to the Accounting Chamber of Ukraine (ACU) within the last three years under review (PI-29.2 rated 'D').

### **3.1.8 External scrutiny and audit**

430. The assessment shows poor results for this pillar. The Accounting Chamber of Ukraine's legal mandate does not cover all local government's revenues and expenditures; coverage is limited to only state subventions. In the last three years under review, the City Government had not been audited by the Accounting Chamber of Ukraine (ACU). The independence of ACU is weakened by the fact that its staff are civil/public servants in terms of employment conditions, remuneration, appointment, transfer, and termination. The Auditor-General and Members of the Board of ACU are however appointed by the national legislature. The Chamber's annual budget is scrutinised and approved by Minfin just like any other budget institution; this affects ACU's independence (PI-30 rated 'D'). Since the external auditors (ACU) has not audited the finances of the City Government of Zhytomyr, no external audit reports have been submitted to the City Council for scrutiny (PI-31 rated 'D').

## **3.2 Strengths and weaknesses of the PFM systems**

### **3.2.1 Fiscal discipline**

431. Strong PFM laws promulgated by the state government as a result of years of PFM reforms are applicable at all sub-national governments have contributed to fiscal discipline. The assessment also shows that there is high compliance with payment rules and procedures; this also improves fiscal discipline.

432. Though the expenditure budget is reliable at the aggregate level, the high deviations for both economic and functional expenditure classification resulting from unpredictable and unbudgeted higher level government transfers is risking the efficiency in the use of resources for the delivery of public service. At present, local governments are not allowed by law to budget for expenditure out of revenue yet to be earmarked by the state government. The rules of engagement in terms of allocating resources/transfers from higher levels of government to agreed programmes and policies have been respected by local government officials; this may not always be the case and is likely to result in misallocation and misappropriation of public funds going forward. Fiscal discipline is strengthened by the reliability of aggregate revenues but also weakened by the variances in revenue composition.

433. Revenues and expenditures outside the City Government budget and reports exist, less than 2% of City Government operations, and they do not pose a significant threat to fiscal discipline due to strong reporting requirements. However, it is important to closely monitor these figures and address the underlying causes. The legal framework allows extra-budgetary units to use their own resources to improve service delivery; the law also requires strict and periodic reporting of these funds, and this is complied with.

434. Fiscal risk management is at average performance; city public corporations are fairly monitored, with the majority of them being audited annually. Concerning public enterprises, there are reasons to strengthen the oversight responsibilities of public corporations. Public investment management system doesn't include approved approaches to economic analysis of projects (PI-11.1 scored 'C'), as well as standard criteria for their selection and prioritization (PI-11.2 scored 'C'). Information on the project implementation is not presented in the medium term (RI-11.3 with a score of 'C'). At the same time, regular monitoring of all investment projects is provided (RI-11.4 with a grade of 'A').

435. One key element that usually distorts government budget and consequently impacts negatively on fiscal discipline is payroll. However, in Zhytomyr, payroll management and controls are reasonable with very little or no impact on fiscal discipline.

436. Although there is generally a good internal control practice, the lack of institutionalised regular internal audit is a matter of concern.

437. The ineffectiveness of the external oversight roles by the Accounting Chamber of Ukraine and the City Council mainly due to legal limitations of the former, and consequently not auditing and submitting external audit reports of the local government for legislative review, may weaken the internal control framework with a consequential effect on fiscal discipline – this is because local government staff may feel less accountable.

### **3.2.2 Strategic allocation of resources**

438. Resource allocation in a strategic manner has been enhanced by the good budget classification in line with international good practice. The budget is detailed at every level of classification (administrative, economic, functional and programme); this facilitates traceability of allocated resources for efficient service delivery. There is also comprehensive information in the budget documentation submitted to the City Council. The comprehensiveness of budget documentation improves transparency and allows citizens to closely monitor fiscal information.

439. The annual budget estimates derive their source from underlying forecasts prepared by the City Government principally based on historical fiscal performance and current central government macroeconomic projections. These underlying assumptions and forecasts provide a basis for the allocation of resources according to policy priorities. The budget formulation and preparation processes are affected by the insufficient time allocation for key spending units to meaningfully prepare their budget proposals; this reduces the ability of key spending units to effectively prioritise their spending needs. Nevertheless, the approval of the annual budget promptly allows key spending units to commence their annual programmes and activities in time to ensure full utilisation of allocated resources to improve service delivery.

440. While on the one hand transfers from higher level government affects budget reliability due to their unpredictable nature, sufficient resources, on the other hand, are made available to the City Government for the execution of its programmes. The economic and functional reallocation of expenditure during the budget year, coupled with the frequent in-year budget virements, is of concern as they could potentially affect the strategic allocation of resources. However, this is minimised by the fact that programmes and activities have already been pre-agreed. Strategic resource allocation has been enhanced by the strong revenue accounting framework as well as the efficient cash management system, together with ensuring the availability of resources promptly for improved service delivery.

### **3.2.3 Efficient use of resources for service delivery**

441. Good budget classification, which ensures that resources are allocated strategically, has led to improvement in the use of resources allocated for service delivery. This is because resources are properly allocated. However, there is still concern over the frequency and significance of in-year budget virements as well as budget reallocations across expenditures by economic and functional classifications. At present, the availability of resources to fund City Government programmes negates the effect of budget reallocations; also, revenues are well managed and allocated at the right time.

442. The effectiveness and transparency of procurement systems, resulting in most procurement activities done through competitive means, have contributed to the efficiency of the use of resources for

service delivery. Competitive procurement leads to a reduction in the marginal cost of public service. This also means more services could be delivered due to cost reduction.

443. The publication of performance information for service delivery ensures that the public can track the provision of services according to plan. The public can then raise questions and by doing so, it can help to improve the delivery of service efficiently. It also reduces the wastage of resources due to public accountability. There is also a good framework for recording, accounting and reporting on all resources (both cash and kind) received by frontline service delivery units. This mechanism ensures that resources are used efficiently. More public engagement in the design of public service means improvement in the efficient use of resources for service delivery.

444. Internal audit is not instituted in Zhytomyr; external audit is almost non-existent – a negative impact on efficient service delivery due to less accountability. It is a concern that international best practices for independent audit are not institutionalised in the city. There are proper safeguards and accountability for public fixed assets, a prerequisite for improved service delivery. The timely preparation and publication of fiscal data (in-year budget execution reports) have led to improvement in public accountability, thereby leading to efficient use of resources for service delivery.

### **3.3 Performance changes since a previous assessment**

445. This is the first assessment (baseline study).

### **3.4 Conclusions on service delivery**

#### ***3.4.1 Intergovernmental fiscal relations***

446. Primary service delivery was not negatively affected by the poor PFM performance of transfers from higher levels of government. As indicated under HLG-1 above, deviations between budgets and actuals were high. The timely release of actual transfers/subventions from state and oblast governments negated the impact of these high deviations; this meant that funds were readily available to pay for goods and the provision of critical services.

#### ***3.4.2 Budget reliability***

447. The assessment reveals that service delivery was not negatively affected by the mixed PFM performance of budget reliability indicators. The aggregate expenditure budget was reliable, which meant that originally budgeted expenditure was sufficiently funded and utilised within targets. Also, additional funding was made available from inflows from state and oblast governments. Otherwise, the unreliability of expenditure budget according to functional and economic classifications theoretically affects service delivery, but the State and City Government have developed a mechanism that predetermines programmes and activities to be funded; this mechanism appears to have resulted in minimising the impact of huge deviations in the economic and functional classification of expenditure. On the revenue side, except for the unreliability of revenue composition, revenue at the aggregate level is reliable and thus does not affect the revenue/cash flow streams required for the provision of primary services.



### **3.4.3 Transparency of public finances**

448. The transparency framework of the City Government's PFM functions, which requires the publication of all fiscal information, performance plans and achievements for service delivery. Besides, citizens' engagement during the design of service delivery programmes has led to improvement in the delivery of primary service.

449. The online feedback mechanism "citizens budget" provides an opportunity to involve citizens in budget fund distribution, yet not the whole budget, but some piece of it determined by the City Council. It is still required to develop and introduce more efficient mechanism of public involvement in the budget preparation as well as designing SD programs and investment projects.

450. The City Government's budget classification architecture allows easy tracking of resource allocation to specific services, programmes and activities; SD units also use the same classification, and this facilitates traceability of public finances. Healthcare facilities in particular report on revenues and expenditures from their own resources – this helps in the transparency and accountability framework. Educational institutions revenues and expenditures are all part of the main budget of the City Education Department. The procedure and allocation formula of funds to SD units is well known to all parties ahead of actual transfers; this improves the transparency of public finances.

### **3.4.4 Management of assets and liabilities**

451. SD units have no borrowing powers. SD units submit annual financial statements to respective sectoral departments within established timelines. There is also a good, fixed assets management system that provides reasonable assurance of the safety and security of SD unit assets that are needed for primary service delivery. The involvement of managers of SD units in the decision-making process of public investments especially those that have a direct impact on their services has contributed to the efficiency of service delivery; this is so because SD units have the technical knowledge in terms of product/equipment selection. Furthermore, SD units prepare and submit to respective KSUs their own proposals on investment projects implementation.

### **3.4.5 Policy-based fiscal strategy and budgeting**

452. Service delivery may be affected because of the absence of a medium-term perspective in expenditure planning; a medium-term budgeting framework encourages resource planning and expenditure allocation in advance. Furthermore, SD units may be negatively impacted by the City Government's inability to estimate the impact of changes to fiscal policy proposals. These changes could result in budget adjustments that could be detrimental to SD units' programs. Any hiccups in the budget formulation, preparation and approval processes at the city government level could potentially affect SD units service delivery programs; at present, this is not the case. The budgets are approved on time. SD units receive information on their proposals within one month of budget approval – this does not affect service delivery programs/activities.

### **3.4.6 Predictability and control in budget execution**

453. SD units' own revenues, which constitute about 2% of its total revenue is properly accounted for and reported. The state PFM laws allow SD units to open and operate their own bank accounts, but with the approval of the respective level of government. Own revenues are deposited into these bank accounts and used for SD unit operation. Even though not significant, the use of SD units' own revenue contributes to improvement in service delivery. SD units do not prepare annual cash flow plans. They rely on the City Government and the National Health Service of Ukraine's cash flow plans for the management of their

cash need. Based on the interactions with SD units visited, cash shortages are not experienced; cash releases are timely which ensures the timely provision of service.

454. There are no expenditure arrears – arrears have the potential of reducing the budget and cash available for critical services. Payroll controls are fairly good at SD units; changes to personnel and payroll records are properly authorized and approved. The state procurement system also serves the procurement needs of SD units. Internal controls are strong; they provide assurance of management and accountability of public funds. Internal audit coverage is however limited; SD units visited have never been audited within the last three completed fiscal years. As of now, one cannot conclude on the efficiency and effectiveness of public services, especially in schools and healthcare facilities due to the absence of performance audit reports.

#### ***3.4.7 Accounting and reporting***

455. State and city government financial management laws and regulations, as well as reporting templates, also apply to SD units including schools and healthcare facilities. Accounting and reporting requirements are strictly enforced by the City Government department responsible for monitoring SD units. They also comply with the accounting and reporting requirements. SD units prepare monthly and annual financial reports and submit the same to their supervisory budgetary unit; the reports contain information on all revenues, expenditures, assets and liabilities, and they are to be published on the SD units' websites.

#### ***3.4.8 External scrutiny and audit***

456. External audit coverage is as SD units are not independently and annually financially audited, and no performance audits have been carried out to ascertain the efficiency and effectiveness of primary service delivery. The legislative review by the City Council is less effective, because independent performance evaluations have not been carried out. Nevertheless, the City Council conducts some performance reviews of SD units during budget hearings, which may not be effective.



## 4. GOVERNMENT PFM REFORMS

### 4.1 National approach to PFM reforms

457. The core strategic document of the Government designed for presenting comprehensive information on PFM reform planning and implementation is PFM Reform Strategy and its action plan.

458. PFM Reform Strategy for 2017-2020 was approved by the Cabinet Resolution dated 08.02.2017 No.142-r.<sup>24</sup> Measures and tasks for local budget reform are included in the Strategy under the Chapter II and provide for the next targets:

- clear delineation of powers between the central government and local self-governments;
- increase of own financial resources of local self-government;
- improvement of financial support to expenditures delegated by the central government to local self-government;
- introduction of medium-term budget planning and PBB improvement at the local level;
- strengthening the capacity of local self-government authorities in debt management;
- improvement of financial transparency and accountability of local self-government.

459. Since 2017-2020 PFM Reform Strategy implementation had been completed recently, the new draft PFM Reform Strategy for 2021-2025 was developed by the Ministry of Finance in cooperation with other ministries and agencies, and international technical assistance projects. The draft PFM Reform Strategy for 2021-2025 was published on the Ministry of Finance official website on the 5<sup>th</sup> of July 2021.<sup>25</sup>

460. According to the information received during the meeting of the assessment team with the Ministry's representatives on the 23<sup>rd</sup> of September 2021, the draft Strategy is currently being finalized by stakeholders and is expected to be approved by the Government shortly.

### 4.2 Recent and ongoing PFM reform actions impacting sub-national governments

461. One of the most important and comprehensive reforms has been implemented over the recent years in Ukraine is the decentralization reform which can be considered and analysed in two ways which are closely linked, however differ by their nature. These are **decentralization of public administration** and **fiscal decentralization**.

462. Both of them are aimed at building an effective local government, providing comfortable living conditions for citizens and accessible high-quality service delivery. These goals cannot be achieved without ensuring proper economic development of territorial communities and providing them with sufficient financial resource.

463. The process of decentralization of public administration was launched when the Government adopted the Concept for Reformation of Local Self-Governance and Administrative-Territorial Structure

---

<sup>24</sup> <https://zakon.rada.gov.ua/laws/show/142-2017-%D1%80#Text>.

<sup>25</sup> [https://mof.gov.ua/uk/legal\\_acts\\_drafts\\_2021-485](https://mof.gov.ua/uk/legal_acts_drafts_2021-485).

in Ukraine (Cabinet Resolution dated 01.04.2014 No. 333-r). Based on the Concept, the process of amalgamation of territorial communities was held over 2015-2020.

464. The main change in the budget system structure delivered under the decentralization reform was a replacement of the three-tier budget system with the two-tier one. The three-tier budget system was represented by:

*the 1<sup>st</sup> tier* – central government budget;

*the 2<sup>nd</sup> tier* – oblast and rayon budgets, budgets of cities of oblast significance;

*the 3<sup>rd</sup> tier* – budgets of cities of rayon significance and villages (which received transfers from rayon budget).

465. The new valid **two-tier budget system** is more simplified as follows:

*the 1st tier* – central government budget;

*the 2nd tier* – oblast and rayon budgets, and budgets of territorial communities (that is budgets of all cities and villages) – all these budgets receive transfers directly from the state budget.

466. Such an approach means two important things: 1) introduction of direct budget relations between central government and all local governments, and 2) reducing dependence of municipalities from the intermediate tier of rayon administrations.

467. Although these novelties did not bring any changes to capital cities and cities of oblast significance (which Zhytomyr city belongs to), they provide important background for further development of other municipalities (small cities and villages) and strengthening their financial capacity.

468. The process of amalgamation of territorial communities was additionally encouraged through the instrument of fiscal decentralization that was amendments to the Budget Code, which established new and more significant revenue and expenditure powers for amalgamated communities and switched them to direct relations with the central government, which consequently means that amalgamated communities receive transfers from the state budget in a direct way (avoiding rayon level).

469. Thus, fiscal decentralization reform has provided local governments with fiscal tools to increase their own resources and, to some extent, reduce their financial dependence on the central government. The additional resource allocated to local governments give them more opportunities for territorial development, investments in modern infrastructure, and improvement of service delivery budget programs.

470. At the same, time, fiscal policy at the local level has been still unpredictable in the medium term. Lack of integrated strategic planning system prevents adequate budget planning and results in huge variance in both revenue and expenditure outturn.

471. Introduction of **medium-term budget planning** in the budget process, including at the local level, has remained one of the priorities of the Government and the Ministry of Finance and is included in the draft PFM Strategy for 2021-2025.

472. The first significant step towards MTBF introduction was done in December 2018, when the parliament of Ukraine adopted amendments to the Budget Code which prescribed legal requirement for local governments to develop local budget forecasts starting from 2020. However, due to the need to provide MTBF training to local governments to ensure their capacity building in budget forecast preparation, the Ministry of Finance initiated respective changes to the Budget Code and Article 75<sup>1</sup> (“Local Budget Forecast Preparation and Approval”) was suspended until January 1, 2021.

473. FY 2021 became the first one when local governments prepared and approved their budget forecasts for 2022-2024 based on the Template and Instruction for local budget forecast preparation developed by the Ministry of Finance (respective Order dated 02.06.2021 No. 314, see PI-14). In addition, it was the first time when the Ministry of Finance provided local governments with the medium-term forecast of budget transfers that are prescribed annually in the State Budget Law.

474. In line with Article 75<sup>1</sup> of the Budget Code, local budget forecast includes the following information:

- key economic and social development indicators of the territory;
- overall indicators of local budget revenue and financing, budget expenditure ceilings (separately for general and special fund);
- budget expenditure ceilings by KSUs (separately for general and special fund);
- local budget revenues disaggregated by types (separately for general and special fund);
- local budget deficit/surplus and source of means for deficit financing;
- local debt and local guarantees, repayments for local debt;
- capital investments (broken-down by investment projects);
- other indicators and provisions required for drafting a local budget decision.

475. Another way to increase transparency and effectiveness of budget resource allocation under PFM reform in Ukraine is **gender-responsive budgeting** implementation at both national and sub-national levels. Although respective measures and reform actions took place over 2013-2020 under the SIDA project, currently the GRB elements are only fragmentally applied in the budget preparation and execution. To improve gender equality in the country through ensuring budgeting that considers men and women interests and needs, there is specific link to the Government's 2021-2025 draft PFM Reform Strategy which suggests: introducing GRB in medium-term budget planning; gender analysis of budget programs; gender equality as a budget program's performance indicator; introducing unified list of performance indicators considering GRB.

476. Under the annual budget process, the Government has developed and submitted to the Parliament a draft law on amendments to the Budget Code, which constitute the legal base for novelties in the budget process to be implemented in the next budget periods (in case of their adoption by the Parliament).

477. The novelties say that additional budget revenue (that are 10% of administrative fines received as fee for road safety violence and 50% of fees for gambling activity license) are granted to local budgets in line with amendments to the Budget Code. Furthermore, the new transfers from the state budget to local budgets are defined for 2022, which are designated to cover expenditure on purchase of equipment for canteens and ensuring fire safety in educational institutions.

### 4.3 Institutional consideration

#### *Government Leadership and Ownership*

478. Based on information received from the Ministry of Finance, the draft PFM Reform Strategy for 2021-2025 is in line with EU Association Agreement as well as IMF Extended Fund Facility Program.

479. Although PFM reform is owned and led by the central government, the Zhytomyr City Governments also play an important role in ensuring that PFM reform objectives and activities that affect the City

Government's financial management processes are executed in accordance with agreed implementation schedule and timelines.

### ***Coordination across Government***

480. To coordinate 2017-2020 PFM Reform Strategy, implementation coordination working group was established by the Ministry of Finance (Order dated 22.12.2018 No.1124), which consists of representatives of the Cabinet, Presidential Administration, sectoral committees of the Parliament, other line ministries, the Treasury, SFS, All-Ukrainian Association of Local Self-Governance, international financial organizations (IMF, World Bank), EU Delegation to Ukraine, and international technical assistance projects. The same approach was adopted during the design of 2021-2025 PFM Reform Strategy. Development partners such as Swiss SECO, WB, EU and IMF contributed to the Strategy drafting. At the same, time, there is no evidence to show the direct involvement of Zhytomyr City Government in the process of PFM Reform Strategy elaboration.

### ***A Sustainable Reform Process***

481. While it is acknowledged that there is no standalone PFM Reform Strategy for Zhytomyr City Government, the central government of Ukraine has made adequate budgetary provisions to ensure the sustainability of the overall PFM strategy, which will also feed into the funding arrangements of the City Government's reforms activities. Additionally, the City Government is enjoying the support of some development partners, specifically Swiss SECO, for the improvement of local PFM system.

### ***Transparency of the PFM Programme***

482. As has been the case with 2017-2020 PFM Reform Strategy, the Ministry of Finance has indicated its readiness to publish the new 2021-2025 PFM Reform Strategy on its website once it is approved by the Cabinet. Other transparency arrangements comprise the monitoring and evaluation mechanism, which includes quarterly reporting of each reform component by all implementing agencies to the Ministry of Finance, who will then consolidate all inputs from implementing agencies and submit them to Cabinet for review and approval. Once approved, the consolidated report is published on the ministry's official website.<sup>26</sup>

## **4.4 Key aspects of the SNG specific PFM reforms**

483. The governments of Zhytomyr City Council have no standalone PFM Reform Strategy. All PFM reform activities are governed and coordinated at the central level. As it was mentioned above, at the time of assessment, the central government was in the process of finalizing 2021-2025 PFM Reform Strategy. Once approved by the Cabinet, it will form the basis of local government reform programs.

---

<sup>26</sup> <https://mof.gov.ua/uk/zvit>

## Annex 1. Performance indicator summary

Indicator /Dimension	2021 score	Description of requirement met
<b>SUB-NATIONAL PILLAR: INTERGOVERNMENTAL FISCAL RELATIONS</b>		
<b>HLG-1 TRANSFERS FROM HIGHER LEVEL GOVERNMENT</b>	<b>C</b>	
<b>HLG-1.1 Outturn of transfers from higher level government</b>	C	Table HLG.1 shows that in two of the last three years under assessment, actual transfers were between 92% and 116% of the original budget estimates. Actual deviation stood at: 2018 – 112.5%; 2019 – 95.1%; 2020 – 122.7%.
<b>HLG-1.2 Transfers composition outturn</b>	D	Variance in transfer composition was more than 15% in each of three years under assessment: 2018 – 15.8%; 2019 – 17.6%; in 2020 – 18.3%.
<b>HLG-1.3 Timeliness of transfers from higher level government</b>	A	Transferring grants from state budget to local budgets, including the budget of Zhytomyr CTC, is provided in accordance with the Procedure developed at the central level and approved by Cabinet Decree No. 1132. Before the start of the next budget period, the Finance and Budget Department prepares an annual budget allocation plan (cash flow forecast) that defines the schedule of transferring grants from state budget to local budgets. In each of the years under assessment (2018, 2019 and 2020), more than 93% of all budget grants were transferred timely to the city budget according to the period restriction governed by the law.
<b>HLG-1.4 Predictability of transfers</b>	D	2021 was the first year when the Ministry of Finance of Ukraine provided the SNG with information on budget transfers forecast for the fiscal year and the two following fiscal years (2022-2024).
<b>HLG-2 FISCAL RULES AND MONITORING OF FISCAL POSITION</b>	<b>A</b>	
<b>HLG-2.1 Fiscal rules for sub-national governments</b>	A	Basic rules and procedures (budget rules) used in local budgets preparation, consideration, approval, and implementation, as well as local budgets reporting, are governed by the BCU, which contains prescribes restrictions on local budgets adoption with deficit/surplus.
<b>HLG-2.2 Debt rules for sub-national governments</b>	A	Debt policy rules for SNGs are regulated in the BCU. According to Article 16 of the Code, city councils have the right to carry out: local internal borrowings; local external borrowings by obtaining credits (loans) from international financial organizations; other local external borrowings (city councils of city territorial communities with the administrative centre in the city of oblast significance). Article 18 of the BCU stipulates that the maximum amount of local debt and debt guaranteed by the city territorial community at the end of the budget period may not exceed 200% of the average annual estimated development budget revenues for the next two budget periods defined in the local budget forecast.

		To ensure compliance with the limits of local debt and local guarantees, the Ministry of Finance maintains a register of local borrowings and local guarantees.
<b>HLG–2.3. Monitoring of sub-national governments</b>	A	The Budget Code of Ukraine (Articles 60 and 61) mandates all SNGs to prepare and submit annual financial statements to the Treasury before the 31 <sup>st</sup> of March of the year following the previous budget period. Evidence provided by the Zhytomyr City Office of the State Treasury Service indicates that all SNGs submit their annual financial statements within the timelines prescribed under the law.
<b>PILLAR I: BUDGET RELIABILITY</b>		
<b>PI–1 AGGREGATE EXPENDITURE OUTTURN</b>	<b>B</b>	
<b>PI-1.1 Aggregate expenditure outturn</b>	B	Actual aggregate expenditure outturn stood at 111.1%, 105.2% and 104.4% in 2018, 2019, and 2020 respectively. That means less than 10% deviation in two of the last three completed FYs.
<b>PI–2 EXPENDITURE COMPOSITION OUTTURN</b>	<b>C+</b>	
<b>PI–2.1 Expenditure composition outturn by function</b>	C	Variance in expenditure composition by functional classification was less than 15% in each of the last three FYs: 8.2%, 12.4% and 10.7% in 2018, 2019, and 2020 respectively.
<b>PI–2.2 Expenditure composition outturn by economic type</b>	C	Variance in expenditure composition by economic categories was significantly higher in 2019 comparing with the function criteria. However, it was less than 15% in 2018 and 2020. As it is presented in Table 2.1 and Annex 4, actual variances were 8.5%, 30.6% and 14.3% in 2018, 2019, and 2020 respectively
<b>PI–2.3 Expenditure from contingency reserves</b>	A	There were no actual expenditures from contingency reserves over 2018-2020 however such expenditures were planned in amount no more than 1% of the general fund of the city budget.
<b>PI-3- REVENUE OUTTURN</b>	<b>B+</b>	
<b>PI–3.1 Aggregate revenue outturn</b>	A	Actual aggregate revenue outturn by years: 105.4%, 109.1% and 101.8% in 2018, 2019, and 2020 respectively.
<b>PI–3.2 Revenue composition outturn</b>	B	Actual revenue composition outturn by years: 9.7%, 6.6% and 7.4% in 2018, 2019, and 2020 respectively.
<b>PILLAR II: TRANSPARENCY OF PUBLIC FINANCES</b>		
<b>PI–4 BUDGET CLASSIFICATION</b>	<b>D</b>	
<b>PI-4.1 Budget classification</b>	D	Budget preparation and execution are based on administrative, economic, functional, and program classification using GFS/COFOG standards. However, budget reporting is based only on economic, functional and program classification. The classification follows GFS 2001.
<b>PI–5 BUDGET DOCUMENTATION</b>	<b>B</b>	
<b>PI-5.1 Budget documentation</b>	B	Budget documentation submitted to Zhytomyr City Council in 2020 fulfils three (3) out of four basic elements and four (4) out of eight additional elements as shown in Table 5.1.
<b>PI–6 SUB-NATIONAL GOVERNMENT OPERATIONS OUTSIDE FINANCIAL REPORTS</b>	<b>B+</b>	
<b>PI–6.1 Expenditure outside financial reports</b>	B	The ratio of extra-budgetary expenditure of healthcare institutions to total expenditures of Zhytomyr city budget stood at 1.9% in FY2020. These expenditures were not included in the budget reports of Zhytomyr City Council.

<b>PI-6.2 Revenue outside financial reports</b>	B	Share of total extra-budgetary revenues outside the Zhytomyr city budget reports was 1.8% of total city government revenue for FY2020.
<b>PI-6.3 Financial reports of extrabudgetary units</b>	A	Annual financial statements were prepared by all budget and extra-budgetary units and submitted to their respective supervisory KSUs within two months after the end of the previous budget period, as it is prescribed by the law. The annual financial statements contain full information on revenues, expenditures, financial and tangible assets, liabilities, and reconciled cash flow.
<b>PI-7 TRANSFERS TO SUB-NATIONAL GOVERNMENTS</b>	NA	
<b>PI-7.1 System for allocating transfers</b>	NA	This dimension is not applicable since there is no lower-tier government of Zhytomyr City Council.
<b>PI-7.2 Timeliness of information on transfers</b>	NA	This dimension is not applicable since there is no lower-tier government of Zhytomyr City Council.
<b>PI-8 PERFORMANCE INFORMATION FOR SERVICE DELIVERY</b>	A	
<b>PI-8.1 Performance plans for service delivery</b>	A	All fourteen (14) KSUs develop passports (annual performance plans) for all the budget programs they are responsible for. Passports specify purpose, tasks, and performance indicators of respective budget program and are to be developed separately for each budget program according to the budget legislation. The budget program passports which include KPIs, output to be produced, and planned outcomes for all (100% by value) KSUs are published on the website of Zhytomyr City Council.
<b>PI-8.2 Performance achieved for service delivery</b>	A	All KSUs prepare and submit reports on budget program passport implementation to the Finance and Budget Department in line with requirements prescribed by the budget legislation. Reports, which present outputs and outcomes (quality performance indicators) of each budget program, are available on the Zhytomyr City Council website for all (100% by value) KSUs.
<b>PI-8.3 Resources received by service delivery units</b>	A	All KSU and budgetary institutions are obliged to report quarterly on resources received in-kind, and monthly on resources received in cash. These monthly and quarterly reports are submitted by KSUs to the Finance and Budget Departments and the Treasury. Information on resources received in-kind is quantified in monetary terms and included in the annual financial statements. Documentary evidence received from the City Council verifies that information on resources received by KSUs for budget program implementation is disaggregated by source of funds. Therefore, all resources received by service delivery units (i.e., 100% by value) are compiled into a report by the Treasury each year.
<b>PI-8.4 Performance evaluation for service delivery</b>	B	Budget program effectiveness evaluation is provided by KSUs, hence there is no independent evaluation of service delivery programs. Evaluation results by budget programs as well as consolidated results are published on the Zhytomyr City Council website.  Budget program evaluation includes: analysis of compliance of a budget program with national and local priorities of socio-

		economic development as well as legal requirements established by the budget legislation; assessment of the budget program efficiency by establishing correlation between the results achieved and the amount of budget funds used; analysis of variance in planned and actual performance indicators; identification of factors hindering budget programs implementation; development of proposals to improve the efficiency of a budget program.
<b>PI-9 PUBLIC ACCESS TO FISCAL INFORMATION</b>	<b>A</b>	
<b>PI-9.1 Public access to fiscal information</b>	A	Local governments of Zhytomyr CTC provide the public with wide and free access to fiscal information. In particular, it is true for four (4) basic elements and one (1) additional element, as indicated in Table 9.1 below. Elements 5 and 7 are NA since the legislation does not require external audits of local budgets.
<b>PI.9bis. PUBLIC CONSULTATION</b>	<b>D+</b>	
<b>PI-9bis.1 Public consultation in budget preparation</b>	D	The City Government uses “citizens budget” as an instrument for considering public view in the budget preparation, however it does not envisage public discussion of the whole budget proposal. It deals with a certain part (share) of the city budget funds, determined by the City Council, which can be allocated for implementation of the projects proposed and developed by citizens of Zhytomyr CTC.
<b>PI-9bis.2 Public consultation in the design of service delivery programs</b>	C	The City Government reported on the consultation for <i>secondary education budget program</i> in 2020. Inputs received from citizens are included in the annual reports of the schools’ principals, which are published on the websites of the respective educational institutions
<b>PI-9bis.3 Public consultation in investment planning</b>	D	Public consultation on investment projects were not conducted in 2020.
<b>PILLAR III: MANAGEMENT OF ASSETS AND LIABILITIES</b>		
<b>PI-10 FISCAL RISK REPORTING</b>	<b>D</b>	
<b>PI-10.1 Monitoring of public corporations</b>	D	FY2020 annual audited financial statements of the three largest PCs were published on the city council website within nine months from the end of the fiscal year. These three audited PCs constitute 65.7% by their value. Annual financial statements for FY2020 for all PCs of Zhytomyr City Council were submitted to the Finance and Budget Department by the 1 <sup>st</sup> of March of the year next to the reporting period. This is the deadline prescribed in the Procedure approved by Decree of the Executive Committee of Zhytomyr City Council dated 19.08.2015 No. 541 (see Table 10.1 below).
<b>PI-10.2 Monitoring of sub-national governments</b>	NA	This dimension is not applicable since there is no lower-tier government of Zhytomyr City Council.
<b>PI-10.3 Contingent liabilities and other fiscal risks</b>	NA	This dimension is not applicable since there are neither PPP nor contingent liabilities among the fiscal risk of Zhytomyr City Council.
<b>PI-11 PUBLIC INVESTMENT MANAGEMENT</b>	<b>C+</b>	
<b>PI-11.1 Economic analysis of investment proposals</b>	C	There are no guidelines established/approved by the local authority for the economic analysis of public investment projects. However, an economic analysis of four (4) major investment projects (No. 1, 2, 3, and 4 in Table 11.1) was



		<p>conducted in line with the terms of reference template established by the Ministry for Regional Development (Order dated 24.04.2015 No.80).</p> <p>The template is used to select projects that can be funded by means of the SRDF and includes the following elements of economic analysis: area (territory) of a project impact; number of citizens that benefit from a project implementation; expected quantitative and qualitative outcomes of a project implementation, including the economic efficiency of the project; public investment projects' key measures and total cost.</p> <p>Results of the economic analysis of the four major investment projects under SRDF funding were published on the Ministry for Regional Development website and reviewed by the regional (oblast) commission under selection process. Such a commission is an entity other than the sponsoring entity.</p>
<b>PI-11.2 Investment project selection</b>	C	The four major investment projects (66% by value) funded by means of SRDF were selected, according to standard criteria defined (published) in the Cabinet Decree dated 18.03.2015 No. 196.
<b>PI-11.3 Investment project costing</b>	C	The total life-cycle cost of all investment projects (including major ones), as well as projected cost for the planning budget period, is included in the annual budget of Zhytomyr CTC. However, the budget documents do not contain such information for the next three years.
<b>PI-11.4 Investment project monitoring</b>	A	<p>In line with the City Program on Economic and Cultural Development all the executives of the City Council, responsible for investment project implementation, are obliged to submit quarterly reports on the program implementation (including investment projects) to the Economic Development Department, which provides investment projects monitoring and its results publication on the city council website.</p> <p>Furthermore, monitoring of the four (4) major investment projects implemented by means of SRDF was provided by relevant project contractors with respect to both financial component and physical progress of the project implementation in accordance with the Cabinet Decree dated 18.03.2015 No. 196.</p> <p>Zhytomyr SOA has ensured monitoring results publication on the website of the Ministry for Regional Development (see Table 11.3) on a quarterly basis before the 10<sup>th</sup> day of the month following the reporting quarter. The monitoring reports include evidence (pictures) presenting the physical progress of the projects and consolidated analytical information on the results achieved over the reporting period.</p> <p>A share of the total cost of the four investment projects (66%) presented in Table 11.3 means that <i>majority</i> of them were covered by the regular monitoring, which is consistent with the standard procedures and rules for investment project implementation.</p>
<b>PI-12 PUBLIC ASSET MANAGEMENT</b>	<b>B</b>	

<b>PI-12.1 Financial asset monitoring</b>	C	All budget institutions of Zhytomyr City Council maintain their individual records of all items of financial assets, which are recognized at fair value. Information on financial assets performance portfolio is not published.
<b>PI-12.2 Nonfinancial asset monitoring</b>	C	All budget institutions of Zhytomyr City Council maintain their individual registers on all items of tangible assets (buildings, vehicles, facilities, equipment), including information on their usage and age. The land register is maintained at the national level by the State Cadastre. Information on nonfinancial assets is not subject to disclosure.
<b>PI-12.3 Transparency of asset disposal</b>	A	Procedures and rules for asset disposal are established. Any asset disposal requires an individual local council decision. Information on communal property disposal is included in the budget reports as budget revenues. Furthermore, the Communal Property Department of Zhytomyr City Council issues an annual analytical report on assets disposal, which is published on the city council website. In 2020, 14 communal property items were disposed, consequently the city budget received UAH 14,579,0 thousand.
<b>PI-13 DEBT MANAGEMENT</b>	<b>B</b>	
<b>PI-13.1 Recording and reporting of debt and guarantees</b>	A	The Finance and Budget Department of Zhytomyr City Council prepares and submits to the Treasury quarterly information on local debt and local guarantees, following the template prescribed in the Ministry of Finance Order dated 17.01.2018 No.12. This information is included in quarterly and annual budget reports on local budgets performance and contains data on internal and external debt liabilities of local governments. Information covers local debt stock and operations. Data on debt service is also included in the quarterly and annual budget reports, however it is presented in a separate form. Data on internal and external local debt and local guarantees are complete, accurate, updated, and reconciled on a monthly basis.
<b>PI-13.2 Approval of debt and guarantees</b>	A	According to Article 16 of the BCU, the legal right to make local borrowings and issue local guarantees within the limits set by the local budget decision belongs to the head of the local financial body on behalf of the City Council. In accordance with Article 74 of the BCU, the scope and conditions of local borrowing and local guarantees need to be agreed with the Ministry of Finance. Procedural issues in the process of approving local borrowings and local guarantees are regulated by Cabinet Decree dated 16.02.2011 No. 110 "On approval of the Procedure for local borrowing." Clause 4 of the Procedure requires the adoption of the local council decision on borrowings. Based on the evidence provided by the Finance and Budget Department, the latest approval of local guarantee, issued by Zhytomyr City Council, was done by the Ministry of Finance on April 08, 2019.
<b>PI-13.3 Debt management strategy</b>	D	Zhytomyr City Council annually approves the Local Debt Management Program of Zhytomyr CTC for the next budget period, which covers information on existing and projected

		local debt, local debt, and local guarantees portfolio, interest rate limits, potential risks assessment. Medium-term debt management strategy is not developed.
<b>PILLAR IV: POLICY-BASED FISCAL STRATEGY AND BUDGETING</b>		
<b>PI-14. MEDIUM-TERM BUDGET STRATEGY</b>	<b>C+</b>	
<b>PI-14.1 Underlying forecasts for medium-term budget</b>	A	The city budget forecast submitted to the City Council in 2020 includes estimates of revenue, expenditure, and budget transfers for the next budget period and two following fiscal years. These estimates are developed based on key demographic and macroeconomic indicators prescribed in the explanatory note to the annual 2021 city budget. The city budget forecast and the underlying assumptions were submitted to the City Council together with the annual city budget for FY2021.
<b>PI-14.2 Fiscal impact of policy proposals</b>	D	Estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year of 2021 and the following two fiscal years were not provided in the city budget forecast.
<b>PI-14.3 Medium-term expenditure and revenue estimates</b>	B	Medium-term estimates of budget expenditure and revenue for the budget year and two following fiscal years are included in the local budget forecast. Revenues are presented by type. Expenditures are allocated by administrative and program (aggregated codes) classification. Expenditure allocation by economic classification is not required by the local budget forecast template .
<b>PI-14.4 Consistency of budget with previous year's estimates</b>	D	Budget documentation does not include explanation on changes to expenditure estimates between the last medium-term budget forecast and the current medium-term budget forecast.
<b>PI-17 BUDGET PREPARATION PROCESS</b>	<b>D+</b>	
<b>PI-17.1 Budget calendar</b>	C	The budget calendar is largely adhered to by the budget process players. Based on the measures and timelines defined in the budget calendar KSUs have less than four weeks (actual period – up to 10 days) to meaningfully complete their budget requests and supporting calculations.
<b>PI-17.2 Guidance on budget preparation</b>	C	The budget circular for FY 2021 was sent to KSUs on the 27 <sup>th</sup> of October 2020, and expenditure ceilings – on the 2 <sup>nd</sup> of November. The ceilings covered total budget expenditure for the full fiscal year. However, expenditure ceilings were not approved by the Executive Committee prior to the circular's distribution to KSUs. When budget estimates elaboration is complete, expenditure ceilings for all KSUs are included in the local budget forecast and approved by the Executive Committee.
<b>PI-17.3 Budget submission to the sub-national council</b>	D	For all three years under assessment (2018-2020) the Executive Committee submitted the annual budget to the City Council (legislature) less than a month before the start of the next fiscal year. Actual submission dates were as follows: for FY2019 budget – 10.12.2018; for FY2020 budget – 17.12.2019; for FY2021 budget – 16.12.2020.
<b>PI-18 LEGISLATIVE SCRUTINY OF BUDGETS</b>	<b>C+</b>	

<b>PI-18.1 Scope of budget scrutiny</b>	A	The City Council's review covers budget indicators for both annual and medium-term perspective. Statements of the fiscal strategy are included in the local budget forecast as well. The review also covers detailed indicators of budget revenues and expenditures.
<b>PI-18.2 Legislative procedures for budget scrutiny</b>	C	As of September 17, 2021, there were no the budget regulations of the City Council. At the same time, some procedures to review budget proposal are prescribed by the City Council regulation on the sectoral commissions which is approved in advance of budget hearings by the City Council Decree dated 21.07.2016 No. 261. These procedures are adhered to by all the budget process players. The procedures do not contain arrangements for conducting public consultation and arrangements for negotiation procedures.
<b>PI-18.3 Timing of budget approval</b>	A	In each of three years under assessment (2018-2020), the budget of Zhytomyr CTC was approved by the City Council before the start of the next fiscal year (see Table 18.3 below).
<b>PI-18.4 Rules for budget adjustment by the executive</b>	B	Although there are clear legal requirements and rules for in-year budget adjustments, they allow for extensive administrative reallocations (among KSUs) without any limits.
<b>PILLAR V: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION</b>		
<b>PI-19 TAX ADMINISTRATION</b>	NA	
<b>PI-19.1 Rights and obligations for tax measures</b>	NA	Core taxes and fees are administered and collected by central authority – the State Fiscal Service of Ukraine.
<b>PI-19.2 Property tax register and value assessment</b>	NA	Property tax, land tax and fees from rent are administered and collected by central authority – the State Fiscal Service of Ukraine.
<b>PI-19.3 Tax risk management, audit and investigations</b>	NA	Administered by central authority – the State Fiscal Service of Ukraine.
<b>PI-19.4 Tax arrears monitoring</b>	NA	Administered by central authority – the State Fiscal Service of Ukraine.
<b>PI-20 ACCOUNTING FOR REVENUE</b>	A	
<b>PI-20.1 Information on revenue collections</b>	A	The Finance and Budget Department receives monthly revenue reports from the city tax office presenting information on total tax collections broken down into tax types. Furthermore, the city tax office provides for daily information on tax revenues (broken down also by taxpayers). The Finance and Budget Department prepares monthly consolidated report on both tax and non-tax revenue (broken down into revenue classification codes).
<b>PI-20.2 Transfer of revenue collections</b>	A	All taxes are paid directly into the accounts registered in the Treasury, though separately for each type of tax revenue. Therefore, all tax revenues are directly transferred to the Treasury within 24 hours.
<b>PI-20.3 Tax accounts reconciliation</b>	NA	Since Zhytomyr City Government does not administer and collect core taxes directly, this dimension is not applicable
<b>PI-21 PREDICTABILITY OF IN-YEAR RESOURCE ALLOCATION</b>	B+	
<b>PI-21.1 Consolidation of cash balances</b>	A	All cash balances on the city budget accounts are consolidated by the Treasury on a daily basis.

		As of July 1, 2021, the consolidated cash balance stood at UAH 34.9 million.
<b>PI-21.2 Cash forecasting and monitoring</b>	A	After the budget is approved by Zhytomyr City Council, an annual cash flow forecast is prepared by the Finance and Budget Department before the start of the budget period. It is updated regularly (at least monthly) on the basis of actual cash inflows (revenue) and outflows (expenditure payments).
<b>PI-21.3 Information on commitment ceilings</b>	A	After the city budget is approved by Zhytomyr City Council, the Finance and Budget Department issues reliable expenditure commitment ceilings to each KSU for a full fiscal year divided by 12 months. Based on this, KSUs set commitment ceilings to each subordinated budgetary unit. The expenditure ceilings allow budgetary units to take commitments for one full fiscal year within the limits of budget allocations approved by the City Council.
<b>PI-21.4 Significance of in-year budget adjustments</b>	C	Analysis of Zhytomyr city budget for FY2020 demonstrates significant in-year budget adjustments. The city budget was amended <i>thirteen times</i> (13) within the FY2020 in line with the procedures and rules established by the Budget Code of Ukraine. The amendments, however, led to changes in commitment ceilings upwards.
<b>PI-22 EXPENDITURE ARREARS</b>	<b>A</b>	
<b>PI-22.1 Stock of expenditure arrears</b>	A	In each of the last three completed fiscal years 2018, 2019, and 2020, there were no stock of expenditure arrears.
<b>PI-22.2 Expenditure arrears monitoring</b>	A	Even though there are no stock of expenditure arrears, all budget institutions prepared, as part of the monthly financial reporting requirements, statements to show any commitment that is unpaid even if the arrears are nil. These statements of arrears from the budget institutions and KSUs are bases for the City Treasury to prepare monthly consolidated reports within two weeks after the end of the previous month.
<b>PI-23 PAYROLL CONTROLS</b>	<b>C+</b>	
<b>PI-23.1 Integration of payroll and personnel records</b>	B	The process of human resource management and payroll management is fully automatized. The human resource management software and payroll management software are both linked to the approved staff list to ensure internal control, data consistency, and monthly data reconciliation. At the same time, changes in the personnel database are not automatically reflected in the payroll management software. The total integration between personnel and payroll data is provided through manual intervention.
<b>PI-23.2 Management of payroll changes</b>	A	Any changes to the personnel and payroll records are updated within 24 hours and reconciled every month before the monthly payroll is processed and paid. The basis for changing records is always respective legal acts of the City Council as well as supporting documents. Due to this, there were no payroll arrears that would require retroactive adjustments.
<b>PI-23.3 Internal control of payroll</b>	A	There are clear rules and procedures for making changes to the personnel and payroll database and records. They envisage digital signature authorization that consequently results in an audit trail. Only authorized HR staff, chief accountant, and deputy accountants of KSUs and budgetary units have access to

		the personnel and payroll management software for both review and changing relevant information. This is an instrument to ensure full data integrity.
<b>PI-23.4 Payroll audit</b>	C	The SAS, the Pension Fund, and social security funds are empowered to conduct payroll audit (the Pension Fund and the social security funds – in part of respective salary deduction). Interviewing the Finance and Budget Department of Zhytomyr City Council, the evidence for five (5) payroll audits conducted in 2018-2020 was obtained, including 4 audits provided by the Pension Fund Department in Zhytomyr Oblast (one of them in 2018, two – in 2019, one – in 2020) and 1 audit carried out by the social security funds in 2019. Any payroll audit covering all entities of the Zhytomyr City Council has not been conducted in the last three completed fiscal years (2018-2020).
<b>PI-24 PROCUREMENT</b>	<b>B+</b>	
<b>PI-24.1 Procurement monitoring</b>	A	Data available on the ProZorro are accurate and complete for all procurement methods for goods, services, and works. Information is presented in real time showing the purpose, subject, conditions, the value, and winner(s) of the contract. The accuracy and completeness of the procurement information are assessed by SAS inspections and audits.
<b>PI-24.2 Procurement methods</b>	C	The Public Procurement Law establishes the following public procurement methods: 1) open bidding; 2) competitive dialogue; 3) procurement under the framework contract; and 4) negotiation procurement procedure. As it is presented in Table 24.2, procurement bids conducted through competitive methods in 2020 total stood at 67%.
<b>PI-24.3 Public access to procurement information</b>	A	Findings on public access to procurement information led to the conclusion that all six requirements to information accessibility were met by KSUs and budgetary institutions of Zhytomyr City Council. Information on procurements available for the public access is accurate and complete. It is assessed by SAS inspections and audits.
<b>PI-24.4 Procurement complaints management</b>	B	Procurement complaints are managed by the Antimonopoly Committee of Ukraine (hereinafter – AMCU) as a body responsible for complaints management process at both national and sub-national level. There is no specific local government procurement complaint body. Complaints are submitted to the AMCU as an e-document through the ProZorro electronic procurement system. Procurement complaints framework for Zhytomyr city meets 5 out 6 criteria of the PEFA Methodology (see Table 24.4).
<b>PI-25 INTERNAL CONTROL ON NONSALARY EXPENDITURES</b>	<b>B</b>	
<b>PI-25.1 Segregation of duties</b>	A	The city of Zhytomyr has established and documented a clear segregation of duties which is in force for the PFM procedures. The procedures for segregation of duties are clear and appropriate, as they prescribe who is responsible for generating an expenditure (raising a local purchase order – LPO), who authorizes such expenditure and who approves and pays expenditures. The rules/procedures also prescribe that

		the officers who provide financial transaction records cannot be the same approving such transactions. The Public Procurement Law delineates the roles and responsibilities of public officials in the procurement process; public officers who prepare procurement tenders are separate from those who evaluate the tenders, those approving tenders, and those who sign procurement contracts. The Accounting Manual also prescribes clear rules/procedures for segregation of duties including expenditure commitment, authorization, payment, and recording.
<b>PI-25.2 Effectiveness of expenditure commitment controls</b>	C	In line with documented internal procedures and under supervision of the Internal Control Division, spending units have autonomy in exercising control to make sure that commitments are kept only within the scope of budgets and monthly budget allocations. Furthermore, the Treasury Information System is applied to public administration bodies at all levels; it includes a module that provides for the registration of all budget commitments, and this procedure ensures that commitments are effectively limited within the budget allocations of the relevant spending unit. The financial management system does not limit commitment based on cash unavailability.
<b>PI-25.3 Compliance with payment rules and procedures</b>	B	Presently, the absence of a functional internal audit unit as well as the non-existence of external audit reports as evidence limits the base for assessors' judgement on the effectiveness and the level of compliance with payment rules and procedures. However, the information from the Internal Control Division is to a great deal remedying this and shows good compliance and confirms that possible deviations are always observed and corrected. That said, lack of independent external audit and an institutionalised internal audit in principle leaves a gap in the defence of financial integrity.
<b>PI-26 INTERNAL AUDIT</b>	<b>D</b>	
<b>PI-26.1 Coverage of internal audit</b>	D	Budgetary institutions in the city of Zhytomyr have not established any internal audit divisions or appointed an official responsible for internal audit. Therefore, there is no functional internal audit unit in the city government administration.
<b>PI-26.2 Nature of audits and standards applied</b>	NA	As there is no functional internal audit unit, this dimension is not applicable.
<b>PI-26.3 Implementation of internal audits and reporting</b>	NA	As there is no functional internal audit unit, this dimension is not applicable.
<b>PI-26.4 Response to internal audits</b>	NA	As there is no functional internal audit unit, this dimension is not applicable.
<b>PILLAR VI: ACCOUNTING AND REPORTING</b>		
<b>PI-27 FINANCIAL DATA INTEGRITY</b>	A	
<b>PI-27.1 Bank account reconciliation</b>	A	The government of Zhytomyr has 1073 bank accounts opened for KSUs, spending units of lower-tier and recipients of budget funds, including EBUs. All bank accounts are directly linked to the Treasury Single Account (TSA). The City Treasury and the Finance and Budget Department have on-line access to the system. The Finance and Budget Department receives daily



		transactional report on the cash inflows and outflows across each of the accounts, which are then reconciled through TSA. The Budget Code of Ukraine allows SD units to open their own bank accounts at the state-owned banks. These bank accounts are used for collecting own revenues of budget institution and add up to the Treasury bank accounts, through which budget funds are transferred.
<b>PI-27.2 Suspense accounts</b>	NA	Not applicable. There are no suspense accounts.
<b>PI-27.3 Advance accounts</b>	A	Advances to staff for salary and operational activities are short term. Contractors receive up to 30% mobilization which is set-off against any future payment. All advances are reconciled every month when submitting budget arrears reports to the Treasury.
<b>PI-27.4 Financial data integrity processes</b>	B	The Treasury keeps its records in the automated accounting and reporting system. Access is strictly restricted by a password system. Records cannot be created or modified without registration in the electronic checklist. There is an audit trail relating to usage. However, there is no internal audit unit which is responsible for verifying and controlling data integrity. There is a special division on internal control in the city administration which is reporting directly to the city Mayor. To a certain extent, this body seems to work as internal audit also in relation to financial integrity but without having that position.
<b>PI-28 IN-YEAR BUDGET REPORTS</b>	<b>D+</b>	
<b>PI-28.1 Coverage and comparability of reports</b>	D	Coverage and classification of financial reports do not allow direct comparison between originally approved expenditure budget and actual expenditure outturns for the main administrative headings (spending units). Only the revenues by detailed codes of classifications are directly comparable.
<b>PI-28.2 Timing of in-year budget reports</b>	A	As indicated in Table 28.2 below, the local government prepares monthly in-year budget execution reports; these are issued within two weeks after the end of the previous month.
<b>PI-28.3 Accuracy of in-year budget reports</b>	C	The in-year budget execution reports include planned and actual expenditures but do not cover expenditure at commitment stage. Data presented in the monthly and quarterly reports is consistent and sufficient for analysis of budget performance. At present, there is no functional independent internal audit to validate the accuracy of these reports. However, to a certain extent, the Internal Control Division seems to work as internal audit also in relation to financial integrity but without having that position. Also, external audit has not been conducted to equally authenticate the integrity of these reports.
<b>PI-29 ANNUAL FINANCIAL REPORTS</b>	<b>D+</b>	
<b>PI-29.1 Completeness of annual financial reports</b>	D	The annual financial statements include complete information on assets, liabilities, including long-term, revenue, and cash flow statement. Treasury's reports on expenditure are based on economic and functional classifications, but not on administrative classification, which does not allow for their direct comparison with the original budget. The city prepared additional annual reports based on the functional classification, but reports are not presented in the form of original budget.



		They do not contain information on consumption and development expenditures, salary, lending, etc. The reports do not allow direct comparison with the original budget.
<b>PI-29.2 Submission of reports for external audit</b>	D	The city of Zhytomyr has not submitted the FY2020 annual financial statement for external audit.
<b>PI-29.3 Accounting standards</b>	B	Annual financial statements on budget execution are developed in accordance with the National Public Sector Accounting Regulations prescribed by the Ministry of Finance which are generally in line with IPSAS; the annual financial statements have been consistent over time. The accounting standards and policies adopted are disclosed in the notes to the financial statements. The differences between the National Public Sector Accounting Standards and IPSAS are not disclosed.
<b>PILLAR VII: EXTERNAL SCRUTINY AND AUDIT</b>		
<b>PI-30 EXTERNAL AUDIT</b>	<b>D</b>	
<b>PI-30.1 Audit coverage</b>	D	Over the last three completed fiscal years, the Supreme Audit Institution known as the Accounting Chamber of Ukraine (ACU) has not conducted any external audit of the financial record and operation activities of Zhytomyr City Government administration.
<b>PI-30.2 Submission of audit reports to the sub-national council</b>	D	The ACU has not conducted any external audit of the financial records of Zhytomyr city administration; therefore, it has also not submitted any audit reports to the City Council for scrutiny.
<b>PI-30.3 External audit follow-up</b>	NA	Within the assessment period (2018-2020), the ACU has not undertaken any external audit follow-up within the Zhytomyr city administration.
<b>PI-30.4 Independence of the public audit institution in charge of sub-national governments</b>	D	The ACU is not fully independent. Its staff are civil servants under the authority and control of the executive government. Again, it has no full mandate to audit all public funds.
<b>PI-31 LEGISLATIVE SCRUTINY OF AUDIT REPORTS</b>	<b>D</b>	
<b>PI-31.1 Timing of audit report scrutiny</b>	D	
<b>PI-31.2 Hearings on audit findings</b>	NA	The City Council has not received any external audit and/or audited financial report for scrutiny from the ACU or the SAS.
<b>PI-31.3 Recommendations on audit by the legislature</b>	NA	The City Council has not conducted any hearing on external audit findings and on any audited financial reports from the Finance and Budget Department of the City Council.
<b>PI-31.4 Transparency of legislative scrutiny of audit reports</b>	NA	The City Council has not issued any recommendations on audit and/or financial findings.

## Annex 2. Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
<b>1. Control environment</b>	
<p>1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization</p>	<p>According to the Law of Ukraine No. 2493 of June 7, 2001, the main responsibilities of local government officials include: respectful treatment of citizens and their appeals to local self-government bodies; care for a high-level of culture; communication and behavior; authority of the bodies and officials of local self-government (Article 8).</p> <p>By its Order No. 158 of 5<sup>th</sup> August 2016, the National Civil Service Agency of Ukraine approved the General Rules of Ethical Conduct for Civil Servants and Local Self-Government Officials, which they are obliged to follow in the performance of their duties. Compliance with the requirements of the General Rules should be taken into account during the annual performance assessment of managers and employees. The Order of the Ministry of Finance No. 1217 of September 29, 2011, approved the Code of Ethics for staff of the Internal Audit Department.</p> <p>The Zhytomyr City Council has established a Control and Analytical Department in the City Council, which is directly subordinated to the mayor and is accountable to the City Council. The main purpose of the creation of this structural unit is to ensure control over the activities of the executive bodies of the council, utilities and institutions, recipients of budget funds. The main tasks of the Department are to carry out a set of control and analytical measures and to provide the mayor and council, based on objective and independent conclusions, recommendations on:</p> <ul style="list-style-type: none"> <li>- improvement of the financial and material resources management system;</li> <li>- prevention of illegal and inefficient use of budget funds, communal property, etc.;</li> <li>- prevention of errors, violations or other shortcomings in the activities of executive bodies of the council, utilities and institutions of the city, as well as enterprises and organizations that have been granted tax benefits to the city budget or made subsidy payments from the city budget.</li> </ul> <p>The Order of the Mayor from 06.02.2018 No.87 approved the Code of ethical behavior of officials of executive bodies of the Zhytomyr City Council. Such a document is published on the website of the Zhytomyr City Council <a href="https://zt-rada.gov.ua/files/upload/sitefiles/doc1526030828.pdf">https://zt-rada.gov.ua/files/upload/sitefiles/doc1526030828.pdf</a>.</p> <p>In addition, appropriate conditions have been created for the executive bodies of the council to implement this element, by concluding a collective agreement between the administration of the Zhytomyr City Council and the trade union committee of the primary trade union organization of the executive bodies of the Zhytomyr City Council, including the coordination of interests of workers, owners, and the bodies authorized by them. Such a document defines the rules of internal labor regulations of the executive bodies of the City Council.</p> <p>It should be noted that for the implementation of this element, the decision of the Executive Committee of the Zhytomyr City Council approved the Regulations of the Executive Committee of the Zhytomyr City Council, posted on the website of the city council. The Regulation is a normative legal act developed on the basis of the current legislation of Ukraine and determines:</p>

Internal control components and elements	Summary of observations
	<ul style="list-style-type: none"> <li>- mechanism of organization of interaction of the executive committee of the city council, executive bodies of the city council on implementation of provisions of the Constitution of Ukraine, laws of Ukraine "About local government in Ukraine," "About service in local governments," "About access to public information," other regulations;</li> <li>- the mechanism of implementation of organizational, logistical support of executive bodies of city council;</li> <li>- establishes the internal schedule of work of executive bodies of city council.</li> </ul>
1.2 Commitment to competence	<p>According to the Order of the Ministry of Social Policy of 29<sup>th</sup> December 2004 No. 336, the section of the job description "Qualification Requirements" contains provisions concerning education, educational-qualification levels, and experience that are sufficient for complete and high-quality performance of jobs on the positions. The "Must Know" section contains requirements for specific knowledge, as well as knowledge of the legal acts and regulations required to perform the duties. The same Order stipulates that all employees must improve their professional qualifications in accordance with the requirements of current legislation, and all managers must implement measures for the professional development of staff in order to achieve high economic results.</p> <p>According to the General Rules of Ethical Conduct of Civil Servants and Officials of Local Self-Government (Order of the National Civil Service Agency No. 158 dated 5<sup>th</sup> August 2016), local self-government officials should constantly improve their abilities, knowledge, and skills in accordance with the functions and tasks of their positions, and they should also improve their professional and cultural levels, whilst improving the organization of professional activity.</p> <p>The Code of Ethical Conduct of Officials of Executive Bodies of Zhytomyr City Council stipulates that the officials of executive bodies of Zhytomyr City Council must constantly improve their skills, knowledge, and abilities in accordance with the responsibilities and tasks of the position, and they should also improve their professional and cultural levels, improving the organization of official activities. This stipulation is derived from the Law of Ukraine No. 2493 of June 7, 2001, about the main responsibilities of local government officials, which include the continuous improvement of the organization of their work and professional development (Article 8). In order to increase the efficiency of local self-government officials, their certification is conducted once every 4 years, during which work results, business, and professional qualities are evaluated. The Standard Regulation for certification of local government officials was approved by CMU Resolution No. 1440 of 26<sup>th</sup> October 2001. Between the appraisals, annual performance by local government officials of their tasks and responsibilities is assessed annually.</p> <p>In accordance with the Resolution of the Cabinet of Ministers No. 59 of 26<sup>th</sup> January 2011, a chief accountant must submit proposals to the manager for the organization of training of employees of the accounting service including accounting staff of budgetary institutions, which are subordinated to the budgetary institution, in order to improve their professional and qualification level.</p> <p>CMU Resolution No. 1040 of November 26, 2008, obliges the legal service to organize and carry out work related to the improvement of qualifications of employees of the legal service and the company belonging to its field of management.</p>

Internal control components and elements	Summary of observations
	<p>Depending on the profession, employees undergo periodic attestation, which is preceded by the completion of advanced training. For example, the Order of the Ministry of Finance No. 1537 of 1<sup>st</sup> December 2011 approved the procedure of evaluation of the performance by the chief accountant of the budgetary institution of his/her powers. Such an assessment shall be carried out annually. According to the Law of Ukraine No. 2145 of September 5, 2017 "On Education," pedagogical staff undergo regular attestation at least once every five years (Article 50). Regular certification of employees of cultural institutions (Order of the Ministry of Culture No. 44 of 16<sup>th</sup> July 2007) and doctors (Order of the Ministry of Health No. 359 of 19<sup>th</sup> December 1997 "On further improvement of the attestation of doctors" (in the wording of the Order of the Ministry of Health No. 650 2<sup>th</sup> October 2015)) are also held once in five years, and the annual review of personal educational portfolio will begin in 2021 with points of continuous professional development (Order of the Ministry of Health No. 446 22<sup>th</sup> February 2019 "Some issues of continuous professional development of doctors").</p> <p>In the Control and Analytical Department of the Zhytomyr City Council, as well as in the executive bodies in general, work is organized on a permanent basis to improve the skills of employees, with a high-level of self-education and improvement.</p>
<p>1.3 The "tone at the top" (i.e., management's philosophy and operating style)</p>	<p>According to the law, all managers must:</p> <ul style="list-style-type: none"> <li>- in terms of risk acceptance and monitoring: analyse the state of implementation of plans, organization of works, executive skills of employees, satisfaction of customer requirements and technological, market, financial achievements or missteps (Order of the Ministry of Social Policy of 29<sup>th</sup> December 2004 No. 336);</li> <li>- in terms of the management's attitude and actions on financial statements: approve the accounting policy of the enterprise (in accordance with the Law of Ukraine No. 996 of 16.07.1999 "On Accounting and Financial Reporting in Ukraine");</li> <li>- in terms of the management's attitude to: <ul style="list-style-type: none"> <li>• information processing: have knowledge of law, economics, administration, finance, personnel management; analyse and summarize information (Order of the Ministry of Social Policy of 29<sup>th</sup> December 2004 No. 336);</li> <li>• accounting functions: to approve the accounting policy of the enterprise (in accordance with the Law of Ukraine No. 996 of July 16, 1999 "On Accounting and Financial Reporting in Ukraine");</li> <li>• staff: to provide conditions for improving the organization of the Division of Labour, performance of work and management of units; to promote effective production (service) relationships and links between employees; to ensure compliance with the requirements of job descriptions; to implement measures for professional development of staff in order to achieve high economic results; to improve forms of motivation of employees (Order of the Ministry of Social Policy of 29<sup>th</sup> December 2004 No. 336);</li> <li>• monitoring, auditing and evaluation: to analyse the state of implementation of plans, organization of works, executive skill of employees, satisfaction of customer requirements and technological, market, financial achievements or failures (Order of the Ministry of Social Policy of 29<sup>th</sup> December 2004 No. 336).</li> </ul> </li> </ul> <p>The basic provisions concerning the attitude of the management to the personnel are regulated by the rules of internal labor conduct.</p>

Internal control components and elements	Summary of observations
	<p>Current legislation does not allow for the optimization and improvement of the efficiency of the segregation of responsibilities between a manager and his/her deputies, since all key units (positions) in the institution must be subordinate to the manager.</p>
1.4 Organizational structure	<p>The organizational structure of the institutions is derived from the law. According to Article 26 of the Law of Ukraine "On Local Self-Government in Ukraine," exclusive competence of village and city councils includes the approval of the structure of executive bodies of the council. Article 54 of the law stipulates that the regulations on departments, sections, and other executive bodies of the council are also approved by the relevant council.</p> <p>During the development and approval by the Zhytomyr City Council of regulations on departments, administrations, and independent departments, the specific goals and objectives of such institutions are agreed upon.</p> <p>Legislation provides for the organizational structure of institutions that contains key units required for internal control.</p> <p>As already mentioned, in 2016, the Zhytomyr City Council introduced a new structural subdivision into the organizational structure - the Control and Analytical Department of the City Council, which is endowed with the functions and powers inherent in internal control. The Department is directly subordinated to the mayor and is accountable to the City Council. The main purpose of the creation of this structural unit is to ensure control over the activities of the executive bodies of the council, utilities and institutions, recipients of budget funds. The main tasks of the Department are to carry out a set of control and analytical measures and provide the mayor and council based on objective and independent conclusions, recommendations on:</p> <ul style="list-style-type: none"> <li>- improvement of the financial and material resources management system;</li> <li>- prevention of illegal and inefficient use of budget funds, communal property, etc.;</li> <li>- prevention of errors, violations or other shortcomings in the activities of executive bodies of the council, utilities and institutions of the city, as well as enterprises and organizations that have been granted tax benefits to the city budget or got subsidy payments from the city budget.</li> </ul> <p>CMU Resolution No. 59 of 26<sup>th</sup> January 2011 approved the Standard Regulation on the Accounting Service of a Budgetary Institution, in accordance with which the Accounting Services operate. In particular, it is envisaged that such a service is an independent structural unit (or a designated specialist) reportable directly to the head of the institution or his/her deputy.</p> <p>Pursuant to Article 18 of the Law of Ukraine No. 889 of 10<sup>th</sup> December 2015 "On Civil Service," the Human Resource Service of a state body (or the position of a staff specialist) is established with direct subordination to the head of the civil service. Responsibilities of the Human Resource Service may be entrusted to one of the public officials of the authority. A standard regulation on the HR service of a state body was approved by the Order of the National Agency of Ukraine for Civil Service No. 47 of 3<sup>rd</sup> March 2016.</p> <p>As a rule, institutions create departments responsible for accounting and staff issues or appoint appropriate specialists. However, in small institutions, they are absent. In such cases, accounting is performed by a higher organization (for example, a centralized accounting service of the Department of Education, Youth, Sports, Culture covers financial activity of educational institutions). HR recruitment and accounting responsibilities may be shared with other employees.</p>

Internal control components and elements	Summary of observations
	<p>CMU Resolution No. 1040 of November 26, 2008, approved the General Regulation on the legal service of ministries, other executive bodies, state enterprises, institutions, and organizations. In accordance with this Regulation, the legal service of an executive authority or enterprise is formed as an independent structural unit reportable directly to the manager. In small institutions (such as schools), such units and staffing positions are not created, and a lawyer is contracted to provide legal services. Some small institutions do not have legal support for their operation.</p> <p>According to Clause 7 of the Order of the Ministry of Justice No. 1000/5 of 18<sup>th</sup> June 2015, the organization of office management in institutions is entrusted with independent structural units for record keeping (documentation support), general departments, offices, etc. or a person responsible for record keeping in the institution - secretary, record keeper (hereinafter referred to as the recordkeeping service). According to Paragraph 8 of the above Order, archive is an independent structural unit or part of the record keeping service of the institution. In numerically insignificant institutions, the person responsible for keeping the institution's archive is appointed. In small institutions, such persons may be absent, and other staff may share these responsibilities.</p> <p>Pursuant to Article 26 of the BCU, for the purpose of internal audit, a spending unit represented by the manager forms an independent internal audit unit subordinated and accountable directly to the manager. The basic principles of internal control and internal audit,<sup>27</sup> as well as the procedure for the formation of internal audit units<sup>28</sup> are defined by the CMU. While Internal Control has got a strong independent organization in Zhytomyr reporting directly to the City Council, internal audit has not been established neither organizationally nor functionally.</p>
1.5. Human resource policies and practices	<p>The standard regulation on the human resource service of a state body approved by the Order of the National Agency of Ukraine for Civil Service No. 47 of 3<sup>rd</sup> March 2016 includes the selection of personnel; forecasting staff development; encouraging employees to build work careers; enhancing their professional competence.</p> <p>Within the structure of the Zhytomyr City Council, an independent subdivision has been created - the Personnel and Service Department in the local self-government bodies of the Zhytomyr City Council. This strengthens the organizations work on the selection of personnel; forecasting staff development; encouraging employees to careers; increasing the level of their professional competence, etc.</p> <p>Pursuant to Article 16 of the Law of Ukraine "On Service in Local Self-Government Bodies," according to the decision of the local self-government body, personnel reserve is created for occupying positions and promotion, which is approved by the village or city mayor, head of rayon or city district, or oblast council. The procedure of formation and maintenance of staff reserve of officials is determined by the relevant council. CMU Resolution No. 1386 of 24<sup>th</sup> October 2001 approved the standard procedure for formation of personnel reserve in local self-government bodies.</p> <p>The Department of Personnel and Service in Local Self-Government Bodies of the Zhytomyr City Council provides the full range of measures for the organization of work on the creation of a personnel reserve for employment and promotion.</p>
<b>2. Risk assessment</b>	

<sup>27</sup> CMU Resolution No. 1062 of 12.12.2018.

<sup>28</sup> CMU Resolution No. 1001 of 28.09.2011.

Internal control components and elements	Summary of observations
2.1 Risk identification 2.2 Risk assessment 2.3 Risk evaluation	<p>In 2020, the Zhytomyr City Council approved the <i>Integrity Plan of the Zhytomyr City United Territorial Community</i>. This document is a strategic document of the City Council, which is designed to ensure effective counteraction and prevention of corruption and is based on the results of corruption risk assessment in the activities of the Zhytomyr City Council and its executive bodies.</p> <p>The Zhytomyr City Council also has approved a strategic document that defines the spatial and semantic directions of the city's development for 10 years, namely the <i>Concept of Integrated Development of Zhytomyr</i> until 2030. The concept was developed by an interdisciplinary team of executive and City Council members, independent local and foreign experts and representatives of the German Society for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH). This document and the set of measures defined by it are taken into account when developing the relevant budget programs.</p> <p>Passports of budget programs contain the specific goals of public policy, which are pursued by the implementation of a specific budget program and its performance indicators. Program passports also contain elements of control and monitoring of the implementation of such programs.</p> <p>Zhytomyr City Council and its executive bodies has worked as well to strengthen their capacity in the process of creating and implementing mechanisms to prevent corruption.</p> <p>Pursuant to Article 20 of the BCU, at all stages of the budgetary process, its participants are required, within the limits of their powers, to evaluate efficiency of budgetary programs, which includes measures to monitor, analyze and control the targeted and effective use of budgetary funds.</p> <p>Several parameters are connected with each other based on the risk determination including:</p> <p><b>Economic analysis of investment proposals is rated as 'C' under indicator 11.1</b> - To evaluate investment projects, an independent economic examination of such projects is conducted, which is carried out in accordance with approved state and international (when attracting international investment) rules and standards.</p> <p><b>Macro-fiscal sensitivity analysis is rated as 'N' under indicator 14.3</b> - The local government finance office does not prepare any macro-fiscal sensitivity analysis, indicating different scenarios of the budget.</p> <p><b>Revenue risk management is rated as 'NA' under indicator 19.2</b> – This dimension is not applicable.</p> <p>Decentralization was carried out in the fiscal bodies of Ukraine and a single legal entity was created - the State Tax Service of Ukraine. In accordance with the existing organizational structure of the State Tax Service, territorial bodies are structural subdivisions of the <i>State Tax Service of Ukraine and use the generally accepted system of risk management</i> of local budget revenues. The selection of taxpayers for the audit is carried out using an automated risk-oriented system of the State Tax Service.</p> <p><b>Cash flow forecasting and monitoring is rated as 'A' under indicator 21.2</b> - The local government finance office prepares a consolidated cashflow forecast before the start of the new fiscal year, following the City Council's approval of the budget estimates. The consolidated cash flow plan is updated each month based on actual cash inflow and outflow.</p>
2.5 Responses to risk (transfer, tolerance, treatment or termination)	<p>Risk response is performed by employees within the job descriptions, functions and tasks of the units in which they work.</p>



Internal control components and elements	Summary of observations
	<p>The Control and Analytical Department of the City Council in accordance with the approved Regulations on the department conducts a number of control measures, including analytical work, inspections of financial, and economic activities in general and on individual issues, audits, inventory, etc.</p> <p>For example, based on the results of inspections of financial and economic activities of enterprises and institutions subordinate and (or) accountable to the City Council, the specialists who carried out the inspection, in case of violations and deficiencies, draw up an inspection report. Such an act contains recommendations for eliminating the identified violations and shortcomings. The head of the Control and Analytical Department of the City Council reports on the results of the inspection directly to the mayor in the form of a report. Based on the results of consideration of the materials, the mayor makes management decisions (bringing the perpetrators to justice, making personnel decisions, transferring materials to law enforcement agencies, developing and approving a set of measures to improve work and eliminate existing shortcomings at the governing body, etc.). The heads of enterprises and institutions also develop and approve a set of measures to eliminate violations and shortcomings and further report on the measures taken to eliminate violations and shortcomings to the managing authority and the Control and Analytical Department of the City Council, which carried out the inspection.</p>
<p><b>3. Control activities</b></p>	
<p>3.1 Authorization and approval procedure</p>	<p>In accordance with the Law of Ukraine No. 996 of July 16, 1999 "On Accounting and Financial Reporting in Ukraine"; Standard Regulations on the Accounting Service of the Budget Institution approved by the Cabinet of Ministers of Ukraine Resolution No. 59 of 26<sup>th</sup> January 2011; National provisions (standard) of public sector accounting (NP(S)PSA); Methodological recommendations on accounting policy of the public sector entity, approved by the Order of the Ministry of Finance of Ukraine dated 11<sup>th</sup> January 2015; Methodical recommendations on the accounting policy of the enterprise, approved by the Order of the Ministry of Finance of Ukraine dated 27.06.2013. No.635; the chief accountant develops, and the manager of the institution approves the regulation on accounting policy.</p> <p>According to the Order of the Ministry of Finance No. 88 of 24<sup>th</sup> May 1995 "On Approval of the Regulations on the Documentary Support of Accounting Records," the manager of the institution should establish a schedule of workflow, which should ensure the optimal number of units and executors through which each primary document passes, determines the minimum term of its stay in a unit, improves accounting work, and strengthens the control functions of accounting and increase its level of automation. The workflow schedule is drawn up in the form of a diagram or a list of works on the creation, verification and processing of documents performed by each department of an enterprise or institution, as well as all contractors, indicating their relationship and work timing.</p> <p>The executive bodies of the Zhytomyr City Council, the vast majority of subordinate enterprises and institutions ensure compliance with the above requirements of applicable law. The activities of each individual legal entity that maintains separate accounting is carried out in accordance with the developed and approved accounting policy, document flow schedule. In addition, the executive bodies of the City Council in their activities, besides these documents, comply with the requirements of the Regulations of the Executive Committee of the Zhytomyr City Council.</p> <p><b><i>The processes for ensuring the reliability of the financial data were rated 'B' under PI-27.4.</i></b> Only authorized staff have access to financial records. All changes to these</p>



Internal control components and elements	Summary of observations
	<p>records are duly authorized by the head of department and/or budget institution; changes result in audit trail.</p> <p><b>Efficiency of controlling the expenditure obligations is rated 'C' under PI-25.2.</b> Manual control for expenditure commitments also exists where commitments are checked against approved budget per expenditure classification by the head of Accounting Department of each local government institution; approval is then given once there is sufficient approved budget for such expenditure. Another level of check is from the local government finance office for all budget institutions, to ensure that there is available cash to pay for commitments.</p> <p><b>Integration of the payroll and personal files is rated 'B' under PI-23.1.</b></p> <p><b>Compliance with payroll rules and procedures is rated 'A' under PI-23.3.</b></p>
<p>3.2 Segregation of duties (authorizing, processing, recording, reviewing)</p>	<p>Requirements for the segregation of key responsibilities are defined at the legislative level and must be confirmed by internal documents.</p> <p>According to the Resolution of the Cabinet of Ministers No. 59 of 26<sup>th</sup> January 2011 "On Approval of the Standard Regulation on the Accounting Service of a Budgetary Institution," the main tasks include accounting of financial and economic activities of a budgetary institution and preparation of reports.</p> <p>The Law of Ukraine "On Accounting and Financial Reporting" stipulates that a primary document (a work (service) delivery act) must be signed by the person who participated in the business operation. Order of the Ministry of Justice No. 1000/5 of June 18, 2015 "On Approval of the Rules of Organization of Records Management and Archival Storage of Documents in State Bodies, Local Self-Government Bodies, Enterprises, Institutions and Organizations" defines the need for segregation of responsibilities when signing management documents. According to this Order, internal approval of the draft contract based on the procurement results should be carried out, inter alia, by the employee who prepared the document; the head of the structural unit in which it was created; financial unit or chief accountant (accountant); the head of legal service (lawyer).</p> <p>The full segregation of responsibilities for approval and signing of certain types of documents at the institution should be summarized in the workflow schedule approved by the head of the institution. In the Zhytomyr City OTG, it is by the decision of the Executive Committee of the Council who approves the instructions on record keeping in the executive bodies of the Zhytomyr City Council.</p> <p>The head of an institution approves the regulation on the tender committee in accordance with the Standard Regulation approved by the Ministry of Economic Development (Order No. 557 of March 30, 2016), as well as its membership. There is no restriction on the possibility to participate in determining the winner of the tender by the employees who prepared the corresponding tender offer.</p> <p>Order of the Ministry of Finance No. 879 2<sup>nd</sup> September 2014 approved the regulation for inventory of assets and liabilities. The Order, in particular, specifies that for the inventory purposes, an executive document shall be issued by the head of the enterprise to establish an inventory commission out of representatives of the enterprise management, accounting service (representatives of an audit firm, centralized accounting office, business entity/natural person who performs accounting at the enterprise on a contractual basis), and experienced employees of the enterprise who know the object of inventory, pricing, and primary accounting (engineers, technologists, mechanics, contractors, stock managers, economists, accountants). The inventory commission is headed by the head of the enterprise (his/her deputy) or the head of the structural subdivision of the enterprise authorized by the head of the enterprise. This regulation also stipulates that</p>

Internal control components and elements	Summary of observations
	financially responsible persons are not included in the inventory commission to check the assets held in their custody.
3.3 Controls over access to resources and records	<p>Reports of external independent audits are published on the websites of utility companies. In addition, the website of the State Audit Office of Ukraine and the Office of the Northern Office of the State Audit Office in Zhytomyr region publishes the results of audits and audits, including executive bodies of the City Council and subordinate utilities and institutions.</p> <p><b>Processes for ensuring the reliability of financial data are rated 'B' under PI-27.4.</b> Only authorized staff have access to financial records. All changes to these records are duly authorized by the head of department and/or budget institution; changes result in audit trail. There is however no special unit or body in the city responsibility for financial data integrity.</p>
3.4 Verifications	<p>According to the Law of Ukraine No. 996 of July 16, 1999 "On Accounting and Financial Reporting in Ukraine," enterprises are required to keep inventory of assets and liabilities in order to ensure the accuracy of accounting and financial statements. Such audits verify the existence, condition and valuation of assets and liabilities, and document their existence. The regulation on inventory was approved by the Order of the Ministry of Finance No. 879 of 2<sup>nd</sup> September 2014. It specifies all types of liabilities and all assets of an enterprise, regardless of their location, are covered by a complete inventory prior to the preparation of the annual financial statements, and partial inventory in the case of leases, changes of materially liable persons, etc.</p> <p><b>Accuracy of annual budget reports is rated 'C' under PI-28.3.</b> At present, there is no functional independent internal audit to validate the accuracy of in-year budget execution reports. Also, external audit has not been conducted to equally authenticate the integrity of these reports.</p>
3.5 Reconciliations	<p><b>Reconciliation of bank accounts is rated 'A' under PI-27.1.</b> The 26 bank accounts are directly linked to the Treasury Single Account (TSA). The Finance and Budget Department received daily transactional report on the movement of funds from each of the 26 accounts, which it reconciles with its cash ledgers. In addition to this, there is a complete weekly bank reconciliation for all 26 accounts; this is done within a day or two following the end of the week in question.</p>
3.6 Reviews of operations, processes and activities	<p><b>Monitoring of procurement is rated 'A' in PI 24.</b></p> <p>Procurement of goods, works, and services is carried out on a competitive basis using electronic services defined at the state level. From April 2020, all purchases in excess of UAH 50,000 take place on a competitive basis (simplified procedure and tender procedure), which for individual executive bodies of the City Council and utilities subordinate to the council is more than 70% of all procurements. Information about this is publicly available on the portal prozorro.gov.ua. In addition, other purchases (up to UAH 50,000) must be published in the relevant Prozorro system.</p> <p>The monitoring portal DOZORRO is used to control and monitor procurement, procurement complaints and applications</p> <p>The Control and Analytical Department, in their analysis of activity of executive bodies of council and the enterprises and other establishments subordinated to the City Council, pays considerable attention to this question (the tender documentation, grounding of the conclusion of additional agreements, observance of the established procedures, etc. is analyzed).</p>

Internal control components and elements	Summary of observations
<p><b>4. Information and communication</b></p>	<p>Each budgetary unit prepares and submits monthly in-year budget execution reports to the local Treasury office. Comprehensive interim financial statements are prepared by the Treasury and submitted to management on a monthly and quarterly basis. The reports indicate revenues by detailed codes of revenue classification and expenditure (recurrent and capital) by budget programs, detailed functional and economic classifications and KSU's indication (administrative category), and the financing of the budget (PI-28). The annual financial statements present information on revenue and expenditure according to programmatic, functional and economic classifications, cash balances and receivables, tangible assets, payables and long-term liabilities, and a reconciled cash flow statement (PI-29). Though the local government has not been audited within the last three completed years 2016-2018, it prepares annual financial statements in accordance with National Public Sector Accounting Regulations prescribed by MoF which are generally in line with IPSAS (PI-29). Consolidated financial statements do not contain information on tangible assets that is only included in the statement at each institution level.</p> <p>Access to information for the public is multi-fold through the city web portal. Due to the official public procurement portal (PI-24), public also has full access to procurement information.</p>
<p><b>5. Monitoring</b></p>	
<p>5.1 Ongoing monitoring</p>	<p>The assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p><b>Resources received by service units are rated 'A' under PI-8.3.</b> Each service delivery unit prepares a detailed report on resources received in kind; these resources are quantified in monetary terms and consolidated by the Treasury.</p> <p><b>Monitoring of public corporations is rated 'D' under PI-10.1.</b> The FY2020 financial reports of 65.7% of public corporations (by their value) have been audited. The local government received the annual financial statements for FY2020 by the 1<sup>st</sup> of March 2021 (within two months after year end) for all public corporations.</p> <p><b>Monitoring of local governments (PI-10.2) is not applicable,</b> as there is no first-tier lower-level government.</p> <p><b>Contingent liabilities and other fiscal risks not applicable under PI-10.3.</b> The sub-national government does not have implicit and explicit contingent liabilities and any other fiscal risks that could arise out of their operations.</p> <p><b>Monitoring of investment projects is rated 'A' under PI-11.4.</b> The local government undertakes M&amp;E of capital projects. Annual physical and financial progress reports are prepared and published on the city council website.</p> <p><b>Quality of monitoring of government financial assets is rated 'C' under PI-12.1.</b> All budget institutions of Zhytomyr City Council maintain their individual records of all items of financial assets which are recognized at fair value. Information on financial assets performance portfolio is not being consolidated and is not published.</p> <p><b>Quality of monitoring of government non-financial assets is rated 'C' under PI-12.2.</b> Each local government institution maintains a fixed asset register of buildings, vehicles, fixtures and fittings, indicating their cost, age and usage. However, such information is not being consolidated and is not published.</p> <p><b>Monitoring of revenue arrears is rated 'NA' under PI-19.4.</b> This dimension is not applicable.</p> <p><b>Monitoring of expenditure arrears is rated 'A' under PI-22.2.</b> There is no stock of expenditure arrears. Statement of arrears together with the monthly financial</p>

Internal control components and elements	Summary of observations
	<p>report are prepared every month within one week after the end of the previous month.</p> <p>In accordance with the approved Regulations, the Control and Analytical Department of the Zhytomyr City Council is entrusted with control functions on financial and economic activities of enterprises subordinated and (or) accountable to the City Council, providing conclusions and proposals to eliminate identified shortcomings and optimize financial and economic activities of such organizations. The mayor approves the work plan of the Department and approves the plan of inspections of institutions, enterprises and organizations for the year. In addition, in case of urgent need, a decision may be made to conduct unscheduled control measures by order of the mayor.</p>
5.2 Management responses	<p>No External audit by the ACU was performed and submitted to the city, neither any reports from the SAS, so the management responses were of course nonexistent. Financial and economic activities of the public corporations and budget institutions accountable to the City Council and inspected by the Internal Control Department provides for recommendations on actions of the detected violations.</p> <p>The head of the Control and Analytical Department of the City Council reports on the results of the inspection directly to the mayor in the form of a report. Based on the results of consideration of the materials, the mayor makes management decisions (bringing the perpetrators to justice, making personnel decisions, transferring materials to law enforcement agencies, developing and approving a set of measures to improve work and eliminate existing shortcomings at the governing body, etc.). The heads of enterprises and institutions also develop and approve a set of measures to eliminate violations and shortcomings and further report on the measures taken to eliminate violations and shortcomings to the managing authority and the Control and Analytical Department of the City Council, which carried out the inspection.</p>

## Annex 3.1 Evidence for scoring indicators

Indicator	Dimension	Data used
<b>SNG Pillar: Intergovernmental fiscal relations</b>		
<b>HLG-1. Transfers from a higher level government</b>	HLG-1.1 Outturn of transfer from higher level government	Treasury reports FY2018-2020 City Council Decision on the Zhytomyr city budget FY2018-2020 City Government budget execution reports FY2018-2020
	HLG-1.2 Transfer composition outturn	Treasury reports FY2018-2020 Decisions on the Zhytomyr city budget FY2018-2020
	HLG-1.3 Timeliness of Transfer from higher level government	Annual budget and monthly allocation plan FY2020 Zhytomyr City Government daily transfers cash flows FY2020 Cabinet Decree dated December 24, 2019, No. 1101 Cabinet Decree dated December 15, 2010, No. 1132 "On approval of Procedure for transferring budget grants"
	HLG-1.4 Predictability of transfers	Letters of the Ministry of Finance dated August 1, 2017, No. 05110-14-21/20701; August 3, 2018, No. 05110-14-21/20720; September 9, 2019, No. 05110-14-6/22263
<b>HLG-2 Fiscal rules and monitoring of fiscal position</b>	HLG-2.1 Fiscal rules for sub-national governments	BCU
	HLG-2.2 Debt rules for sub-national governments	BCU
	HLG2.3 Monitoring of sub-national governments	Treasury reports FY2020
<b>I. The budget Reliability</b>		
<b>1. Aggregate Expenditure Outturn</b>	1.1 Aggregate Expenditure Outturn	Treasury reports FY2018-2020 City Council Decision on the Zhytomyr city budget FY2018-2020
<b>2. Expenditure Composition Outturn</b>	2.1 Expenditure Composition Outturn by Function	Treasury reports FY2018-2020 City Council Decision on the Zhytomyr city budget FY2018-2020
	2.2 Expenditure Composition Outturn by Economic Type	Treasury reports FY2018-2020 City Council Decision on the Zhytomyr city budget FY2018-2020 Monthly allocation plan FY2018-2020
	2.3 Expenditure from Contingency Reserves	Treasury reports FY2018-2020 City Council Decision on the Zhytomyr city budget FY2018-2020

<b>3. Revenue Outturn</b>	3.1 Aggregate Revenue Outturn	Treasury reports FY2018-2020 City Council Decision on the Zhytomyr city budget FY2018-2020
	3.2 Revenue Composition Outturn	Treasury reports FY2018-2020 City Council Decision on the Zhytomyr city budget FY2018-2020
<b>II. Transparency of Public Finances</b>		
<b>4. The budget Classification</b>	4.1 Budget Classification	MoF Order as of 14.01.2011 No. 11 "On Budget Classification" The GFS Classification In-year and annual budget execution reports FY 2020
<b>5. The budget Documentation</b>	5.1 Budget Documentation	FY2020 and FY2021 budget documentation, including those available on the Zhytomyr City Council website with budget documentation: <a href="https://zt-rada.gov.ua/miscvybudget">https://zt-rada.gov.ua/miscvybudget</a> City Council Decision on Zhytomyr city budget FY2018-2020
<b>6. Central Government Operations Outside Financial Reports</b>	6.1 Expenditure Outside Financial Reports	Financial reports of health care budget institutions of Zhytomyr City Council FY2020
	6.2 Revenue Outside Financial Reports	Financial reports of health care budget institutions of Zhytomyr City Council FY2020
	6.3 Financial Reports of Extra Budgetary Units	Dates of submission of financial reports of health care budget institutions of Zhytomyr City Council FY2020 MoF Order dated 24.01.2012 No. 44 "On approval of the Procedure for preparation of budget reports by spending units and recipients of budget funds"
<b>7. Transfers to Sub-national Governments</b>	7.1 System for Allocating Transfers	N/A
	7.2 Timeliness of Information on Transfers	N/A
<b>8. Performance Information for Service Delivery</b>	8.1 Performance Plans for Service Delivery	BCU MoF Order as of 26.08.2014 No. 836 "Some Issues on PBB for local budgets planning and execution" Zhytomyr City Council website: <a href="https://zt-rada.gov.ua/passports">https://zt-rada.gov.ua/passports</a>
	8.2 Performance Achieved for Service Delivery	Zhytomyr City Council website: <a href="https://zt-rada.gov.ua/reports">https://zt-rada.gov.ua/reports</a>
	8.3 Resources Received by Service Delivery Units	MoF Order as of 23.08.2012 No. 938 "On approval of the Procedure for Treasury servicing of local budgets" Report on receipts and use of resource in-kind and in cash FY2020
	8.4 Performance Evaluation for Service Delivery	BCU MoF Order as of 17.05.2011 No. 608 "On approval of the Methodological recommendations for the evaluation of the effectiveness of budget programs" MoF Guidance for the Local Governments "Methodology of the comparative analysis for evaluation of effectiveness of the local budget programs"

		Summary results of the analysis and evaluation of the effectiveness of budget programs (FY2020): Zhytomyr City Council website: <a href="https://zt-rada.gov.ua/results">https://zt-rada.gov.ua/results</a>
<b>9. Public Access to Fiscal Information</b>	9.1 Public Access to Fiscal Information	Zhytomyr City Council website: <a href="https://zt-rada.gov.ua/miscevybudjet">https://zt-rada.gov.ua/miscevybudjet</a>
<b>9bis. Public consultation</b>	9bis.1 Public consultation in budget preparation	<a href="https://zt-rada.gov.ua/budgetgromad">https://zt-rada.gov.ua/budgetgromad</a>
	9bis.2 Public consultation in the design of service delivery	
	9bis.3 Public consultation in investment planning	
<b>III. Management of Assets and Liabilities</b>		
<b>10. Fiscal Risk Reporting</b>	10.1 Monitoring of Public Corporations	2020 annual financial statements of Zhytomyr city PCs
	10.2 Monitoring of Sub-national Governments	N/A
	10.3 Contingent Liabilities and Other Fiscal Risks	N/A
<b>11. Public Investment Management</b>	11.1 Economic Analysis of Investment Proposals	2020 Zhytomyr city annual budget Zhytomyr city budget forecast for 2022-2024
	11.2 Investment Project Selection	Cabinet Decree dated 18.03.2015 No. 196 "Some issues of State Regional Development Fund"
	11.3 Investment Project Costing	
	11.4 Investment Project Monitoring	Zhytomyr City Program on Economic and Cultural Development (City Council Decree as of 18.12.2019 No. 1713)
<b>12. Public Asset Management</b>	12.1 Financial Asset Monitoring	The Law of Ukraine "On Accounting and Financial Reporting in Ukraine" dated 16.07.1999 No. 996-XIV Cabinet Decree No. 351 "On Approval of the Procedure for Monitoring the Effectiveness of Asset Management" "Regulation on Accounting Policy Implementation for the Executive Committee of the Zhytomyr City Council" approved by the City Mayor Resolution dated 30.03.2015 No. 103-r Treasury reports FY2020
	12.2 Nonfinancial Asset Monitoring	
	12.3 Transparency of Asset Disposal	Law "On Privatization of the State and Communal Property" No. 2269-VIII as of 18.01.2018 Law "On Local Self-Governance in Ukraine" No. 280/97-BP as of 21.05.1997 The Procedure for disposal of communal property (Decree dated 29.09.2005 No. 550)

<b>13. Debt Management</b>	13.1 Recording and Reporting of Debt and Guarantees	Treasury report FY2020 Debt records FY2020
	13.2 Approval of Debt and Guarantees	BCU Cabinet Decree dated February 16, 2011, No. 110 Cabinet Decree dated May 14, 2012, No. 541 Cabinet Decree dated August 1, 2012, No. 815
	13.3 Debt Management Strategy	2020 Local Debt Management Program of Zhytomyr CTC and report on its implementation: <a href="https://zt-rada.gov.ua/files/upload/sitefiles/doc1581079771.pdf">https://zt-rada.gov.ua/files/upload/sitefiles/doc1581079771.pdf</a> ; <a href="https://zt-rada.gov.ua/files/upload/sitefiles/doc1617195143.pdf">https://zt-rada.gov.ua/files/upload/sitefiles/doc1617195143.pdf</a>
<b>IV. Policy-Based Fiscal Strategy and Budgeting</b>		
<b>14. Medium-term budget strategy</b>	14.1 Underlying forecasts for medium-term budget	Budget documentation FY2021, Zhytomyr city budget forecast for 2022-2024
	14.2 Fiscal impact of policy proposals	Budget documentation FY2021, Zhytomyr city budget forecast for 2022-2024
	14.3 Medium-term expenditure estimates	Local budget forecast template and Instruction on its preparation are approved by the Ministry of Finance Order dated 02.06.2021 No. 314 Budget documentation FY2021, Zhytomyr city budget forecast for 2022-2024
	14.4 Consistency of Budgets with Previous Year's Estimates	Budget documentation FY2021, Zhytomyr city budget forecast for 2022-2024
<b>17. The budget Preparation Process</b>	17.1 Budget Calendar	FY2021 budget calendar (Decree dated 20.08.2020 No.707)
	17.2 Guidance on Budget Preparation	Budget circular FY2021 issued to key spending units
	17.3 Budget Submission to the Legislature	The Executive Committee Decision on approval of draft city budget and its submission to city council (FY2018-2020)
<b>18. Legislative Scrutiny of Budgets</b>	18.1 Scope of Budget Scrutiny	Interview with city council officials Budget documentation FY2021 Budget requests prepared by KSUs for 2021 budget
	18.2 Legislative Procedures for Budget Scrutiny	The Zhytomyr Council Budget Regulation (Zhytomyr City Council Decree dated 23.10.2021 No. 1231)
	18.3 Timing of Budget Approval	Dates of budget approval FY2018-2020
	18.4 Rules for Budget Adjustment by the Executive	BCU (Article 23)
<b>V. Predictability and Control in Budget Execution</b>		
<b>19. Tax Administration</b>	19.1 Rights and Obligations for Tax Measures	Not applicable
	19.2 Property tax register and valuation	Not applicable



	19.3 Tax risk management, audit and investigations	Not applicable
	19.4 Tax Arrears Monitoring	Not applicable
<b>20. Accounting for Revenue</b>	20.1 Information on Revenue Collections	Data on revenues for 2018-2020, provided by the Finance and Budget Department
	20.2 Transfer of Revenue Collections	Treasury bank accounts; interview with government officials
	20.3 Revenue Accounts Reconciliation	The reconciliation reports provided by State Tax Service and the Finance and Budget Department of the City Council
<b>21. Predictability of In-Year Resource Allocation</b>	21.1 Consolidation of Cash Balances	Daily summary cash/bank balances – balance on July 1, 2021
	21.2 Cash Forecasting and Monitoring	Annual cash flow plan (budget allocation plan) FY2020
	21.3 Information on Commitment Ceilings	MoF Order dated January 28, 2002, No. 57 “On approval of documents used in the process of budget execution”
	21.4 Significance of In-Year Budget Adjustments	Data on budget adjustments for FY2020; interview with the Finance and Budget Department’s representatives of city council
<b>22. Expenditure Arrears</b>	22.1 Stock of Expenditure Arrears	Treasury reports on expenditures arrears FY2018-2020
	22.2 Expenditure Arrears Monitoring	Monthly report on expenditure arrears
<b>23. Payroll Controls</b>	23.1 Integration of Payroll and Personnel Records	Interview with HR and payroll staff of sampled KSUs; personnel and payroll records FY2020
	23.2 Management of Payroll Changes	Interview with HR and payroll staff of sampled KSUs; personnel and payroll records FY2020
	23.3 Internal Control of Payroll	Interview with HR and payroll staff of sampled KSUs; personnel and payroll records FY2020; payroll software
	23.4 Payroll Audit	Interview with payroll staff of Executive Committee of the Zhytomyr City Council
<b>24. Procurement</b>	24.1 Procurement Monitoring	Public Procurement Law No. 922 dated December 25, 2015 (Article 2) Procurement data of Zhytomyr City Council for 2020 (verified by the procurement authority) Electronic system <a href="https://prozorro.gov.ua">https://prozorro.gov.ua</a> Website <a href="https://bi.prozorro.org">https://bi.prozorro.org</a>
	24.2 Procurement Methods	Public Procurement Law No. 922 dated December 25, 2015 (Article 2)

		Procurement data of Zhytomyr City Council for 2020 (verified by the procurement authority); consolidated data on methods of procurement FY2020 Electronic system <a href="https://prozorro.gov.ua">https://prozorro.gov.ua</a> Website <a href="https://bi.prozorro.org">https://bi.prozorro.org</a>
	24.3 Public Access to Procurement Information	Public Procurement Law No. 922 dated December 25, 2015 (Articles 2, 4, 7-1, 8, 9, 10) Electronic system <a href="https://prozorro.gov.ua">https://prozorro.gov.ua</a> Website <a href="https://bi.prozorro.org">https://bi.prozorro.org</a>
	24.4 Procurement Complaints Management	Public Procurement Law No. 922 dated December 25, 2015 (Article 18) Cabinet Decree dated 22.04.2020 No. 292: <a href="https://zakon.rada.gov.ua/laws/show/292-2020-%D0%BF#Text">https://zakon.rada.gov.ua/laws/show/292-2020-%D0%BF#Text</a>
<b>25. Internal Controls on Non salary Expenditure</b>	25.1 Segregation of Duties	Law of Ukraine dated July 16, 1999, No. 996 Interview with city government officials
	25.2 Effectiveness of Expenditure Commitment Controls	MoF Order dated March 2, 2012, No. 309 BCU (Article 55)
	25.3 Compliance with Payment Controls	Interview with KSUs and Zhytomyr City Government officials
<b>26. Internal Audit</b>	26.1 Coverage of Internal Audit	Interview with KSUs and Zhytomyr City Government officials
	26.2 Nature of Audits and Standards Applied	Internal Audit Standards (MoF Order No. 1247 dated October 4, 2011)
	26.3 Implementation of Internal Audits and Reporting	Interview with Zhytomyr City Government officials
	26.4 Response to Internal Audits	Interview with Zhytomyr City Government officials
<b>VI. Accounting and reporting</b>		
<b>27. Financial Data Integrity</b>	27.1 Bank Account Reconciliation	Treasury's Order No.122 as of June 26, 2002 "On the approval of the Regulation on the Single Treasury Account" Cabinet Decree No. 215 dated April 15, 2015 "On approval of the Regulation of the State Treasury Service of Ukraine" MoF Order No. 938 dated August 23, 2012 "On approval of Procedures of the Treasury Services for local budgets" MoF Order No. 758 dated June 22, 2012 "On approval of the Procedure for opening and closing accounts in national currency with the bodies of the State Treasury Service of Ukraine"
	27.2 Suspense Accounts	MoF Order No. 1219 dated December 29, 2015 "On the approval of certain regulatory acts on accounting in the public sector"

		MoF Order No. 1203 dated December 31, 2013 “On Approving the Public Sector Accounting Chart of Accounts” Treasury’s Order No. 1 dated May 17, 2000 “Chart of accounts for the implementation of state and local budgets”
	27.3 Advance Accounts	Cabinet Decree No. 117 dated April 23, 2014 “On the advance payment of goods, works and services purchased for budgetary funds” Data on advance accounts FY2020
	27.4 Financial Data Integrity Processes	Regulation on the Department (division) of the State Treasury of Ukraine in rayons, districts in cities, cities of oblast's, republican's significance, approved by MoF Order No. 1280 dated October 12, 2011 Information received in the meetings with the Finance and Budget Department and the City Treasury Office
<b>28. In-Year Budget Reports</b>	28.1 Coverage and Comparability of Reports	The Ministry of Finance Order dated 17.01.2018 No. 12 “On organizational issues related to preparation by the State Treasury Service of Ukraine budget reports local budget performance”
	28.2 Timing of In-Year Budget Reports	Treasury’s letters about submission of the monthly reports in 2020
	28.3 Accuracy of In-Year Budget Reports	Interview with officials of the Finance and Budget Department of the city council
<b>29. Annual Financial Reports</b>	29.1 Completeness of Annual Financial Reports	Annual financial reports FY2020 Approved city budget FY2020
	29.2 Submission of Reports for External Audit	Interview with the Finance and Budget Department
	29.3 Accounting Standards	BCU (Articles 43, 80) MoF Order dated 17.01.2018 No. 12 “On organizational issues related to preparation by the State Treasury Service of Ukraine budget reports local budget performance” Treasury Order dated February 6, 2018, No. 36 “On the organization of the work of the State Treasury Service of Ukraine on the preparation of budget reporting on the implementation of local budgets”
<b>VII. External Scrutiny and Audit</b>		
<b>30. External Audit</b>	30.1 Audit Coverage and Standards	Interview with officials of Accounting Chamber of Ukraine
	30.2 Submission of Audit Reports to the Legislature	Interview with officials of Accounting Chamber of Ukraine
	30.3 External Audit Follow-Up	Interview with officials of Accounting Chamber of Ukraine
	30.4 Supreme Audit Institution Independence	Law dated July 2, 2015, No. 576 “On the Accounting Chamber” BCU

<b>31. Legislative Scrutiny of Audit Reports</b>	31.1 Timing of Audit Report Scrutiny	Law "On Local Self-Governance in Ukraine" No. 280/97-BP as of 21.05.1997 Interview with city council officials
	31.2 Hearings on Audit Findings	
	31.3 Recommendations on Audit by the Legislature	
	31.4 Transparency of Legislative Scrutiny of Audit Reports	

## Annex 3.2 List of persons interviewed

No.	NAME	POSITION	INSTITUTION	TELEPHONE
1.	Tetiana Hrytsun	Head of Department	Interbudgetary Policy and Local Budgets Department, Ministry of Finance of Ukraine	(044) 277-54-53
2.	Olena Gogol	Head of Division	Interbudgetary Policy and Local Budgets Department, Ministry of Finance of Ukraine	(044) 277-54-59
3.	Oleksandr Chernyuk	Deputy Head of Division	Interbudgetary Policy and Local Budgets Department, Ministry of Finance of Ukraine	(044) 277-54-43
4.	Yuliia Guzyr	Senior Specialist	Interbudgetary Policy and Local Budgets Department, Ministry of Finance of Ukraine	(044) 277-54-44
5.	Volodymyr Yushchuk	Deputy Head of Department – Head of Division	Interbudgetary Policy and Local Budgets Department, Ministry of Finance of Ukraine	(044) 277-54-44
6.	Serhiy Yuriychuk	Senior Specialist	Interbudgetary Policy and Local Budgets Department, Ministry of Finance of Ukraine	(044) 277-54-61
7.	Oksana Bura	Head of Division	Debt Policy Department, Ministry of Finance of Ukraine	-
8.	Oksana Kaplenko	Deputy Head of Division	Debt Policy Department, Ministry of Finance of Ukraine	-
9.	Oksana Chorna	Head of Division	Department for Public Administration Control and Interbudgetary Relations, Accounting Chamber of Ukraine	(044) 298-74-49
10.	Yuliia Solianik	Deputy Chair	State Audit Service of Ukraine	(044) 425-80-20
11.	Inna Tykhomyrova	Head of International Relation Department	State Audit Service of Ukraine	(066) 433 21 23
12.	Dina Prokhorchuk	Head of Department	Finance and Budget Department, Zhytomyr City Council	(0412) 48-12-25
13.	Valentyna Tymoschuk	Deputy Head of Department	Finance and Budget Department, Zhytomyr City Council	(098) 318-97-89
14.	Tetiana Gryshchuk	Deputy Head of Department	Finance and Budget Department, Zhytomyr City Council	(0412) 48-12-32
15.	Nila Boretska	Head of Division - Chief accountant	Finance and Budget Department, Zhytomyr City Council	093-797-49-67
16.	Olena Sydorova	Deputy Head of Division	Finance and Budget Department, Zhytomyr City Council	067-791-19-60
17.	Iryna Svitselska	Head of Division	Finance and Budget Department, Zhytomyr City Council	(0412) 48-12-31
18.	Anna Vertakhivska	Head of Division - Chief accountant	Finance and Budget Department, Zhytomyr City Council	063-413-63-16
19.	Svitlana Lytvyn	Deputy Head Division	Finance and Budget Department, Zhytomyr City Council	068-219-09-43 budjet@zt-vlada.gov
20.	Larisa Dmitrenko	Chief Specialist	Finance and Budget Department	097-195-99-66
21.	Olena Yurchenko	Head of Department	Economic Development Department, Zhytomyr City Council	<a href="mailto:ooyrchenko.zt@gmail.com">ooyrchenko.zt@gmail.com</a> 067-978-66-93
22.	Maryna Bilous	Head of Division	Economic Development Department, Zhytomyr City Council	<a href="mailto:bilous.marine@gmail.com">bilous.marine@gmail.com</a> 096-946-89-32

23.	Viktor Derkach	Chief Specialist	Economic Development Department, Zhytomyr City Council	067-136-14-43 der.ztn@gmail.com
24.	Oleksandr Goncharuk	Head of Division	Economic Development Department, Zhytomyr City Council	096-945-23-37
25.	Borys Pakhotnyuk	Director	Municipal Agency for City Development	063-145-72-74 ku.qvm.zt@gmail.com
26.	Olena Kravchuk	Head of Department	Communal Property Department, Zhytomyr City Council	067-937-45-23
27.	Olena Zavorotnyuk	Head of Division	Department of Urban Planning and Land Relations, Zhytomyr City Council	097-930-21-06
28.	Olena Otschepa	Chief Accountant	Department of Urban Planning and Land relations, Zhytomyr City Council	067-367-09-36
29.	Valentina Kozyar	Head of Unit	Stand-alone Unit on Internal control, Zhytomyr City Council	(0412) 48-11-89
30.	Svitlana Kovtunenکو	First Deputy Director	Education Department, Zhytomyr City Council	(0412) 47-03-94
31.	Nina Shchedrakova	Chief Accountant	Education Department, Zhytomyr City Council	097-262-43-64
32.	Nataliia Bashinskaya	Chief Specialist	Department of Public Utilities, Zhytomyr City Council	063-377-77-79
33.	Ihor Zadorozhny	Head of Department	Housing Department, Zhytomyr City Council	093-161-10-91
34.	Oleksandr Sayenko	Deputy Head of the SFS Office in Zhytomyr region	SFS Office in Zhytomyr region	097-997-97-39
35.	Yanina Glinchevska	School Principal	Municipal institution "Secondary School No.28" of the Zhytomyr City Council	067-145-68-93
36.	Valeriia Puhachova	Chief Accountant	Municipal institution "Secondary Educational Institution No.28" of the Zhytomyr City Council	097-993-26-86 school28-zt@ukr.net
37.	Tetiana Bas	Director	Preschool Institution No. 51	Zdnz-51@ukr.net
38.	Volodymyr Mordiuk	Director	Primary Healthcare Centre	(0412) 55-42-47
39.	Valentyna Pietukhova	Deputy Director on Economic Affairs	Municipal Clinical Hospital No.1	admin@cml1.zt.ua

## Annex 4. Calculation of budget outturns for HLG-1, PI-1, PI-2 and PI-3

**Table 1: HLG-1 and HLG-2 calculations**

**Table 1.1 - Fiscal years for assessment**

Year 1 =	2018
Year 2 =	2019
Year 3 =	2020

*UAH million*

**Table 1.2**

Data for year =		2018				
Transfer types	budget	actual	adjusted budget	deviation	absolute deviation	percent
Education subventions	285,6	296,8	321,4	-24,6	24,6	7,7%
Medical subventions	210,4	264,3	236,8	27,5	27,5	11,6%
Socioeconomic development subvention	-	24,0	0,0	24,0	24,0	-
Utilities (electricity, gas, water, fuel etc.) subvention	475,0	501,7	534,5	-32,8	32,8	-
Family care subventions	312,4	295,1	351,6	-56,5	56,5	-
Housing subventions	-	38,4	0,0	38,4	38,4	-
Road maintenance subvention	-	-	0,0	0,0	0,0	-
Other subventions	-	24,1	0,0	24,1	24,1	-
<b>Total transfers</b>	<b>1 283,4</b>	<b>1 444,3</b>	<b>1 444,3</b>	<b>0,0</b>	<b>227,9</b>	
overall variance						<b>112,5%</b>
composition variance						<b>15,8%</b>

**Table 1.3**

<b>Data for year = 2019</b>						
Transfer types	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
Education subventions	357,9	363,9	340,3	23,6	23,6	6,9%
Medical subventions	203,3	214,3	193,3	21,0	21,0	10,9%
Socioeconomic development subvention	-	24,7	0,0	24,7	24,7	
Utilities (electricity, gas, water, fuel, etc.) subvention	265,5	176,7	252,4	-75,7	75,7	30,0%
Family care subventions	344,5	304,8	327,5	-22,7	22,7	6,9%
Housing subventions	-	13,6	0,0	13,6	13,6	-
Road maintenance subventions	-	-	0,0	0,0	0,0	-
Other subventions	3,0	18,3	2,9	15,5	15,5	-
<b>Total transfers</b>	<u>1 174,2</u>	<u>1 116,3</u>	1 116,3	0,0	196,8	
overall variance						<b>95,1%</b>
composition variance						<b>17,6%</b>



**Table 1.4**

Data for year = 2020						
Transfer types	budget	actual	adjusted budget	deviation	absolute deviation	percent
Education subvention	416,1	459,7	510,5	-50,8	50,8	9,9%
Healthcare subvention	54,2	64,5	66,5	-2,0	2,0	3,0%
Socioeconomic development subvention	-	9,4	0,0	9,4	9,4	-
Housing subventions	-	8,7	0,0	8,7	8,7	-
Road maintenance subventions	-	20,8	0,0	20,8	20,8	-
Election subvention	-	6,1	0,0	6,1	6,1	-
COVID subventions	-	8,6	0,0	8,6	8,6	-
Other subventions	5,9	6,4	7,2	-0,8	0,8	-
<b>Total transfers</b>	<u>476,2</u>	<u>584,2</u>	584,2	0,0	107,1	
overall variance						<b>122,7%</b>
composition variance						<b>18,3%</b>

**Table 1.5 - Results Matrix**

year	total transfer deviation	composition variance
2018	112,5%	15,8%
2019	95,1%	17,6%
2020	122,7%	18,3%

**Table 2: PI-1 and PI-2.1, PI-2.2, PI-2.3 calculations**

**Table 2.1 - Fiscal years for assessment**

Year 1 =	2018
Year 2 =	2019
Year 3 =	2020

*UAH million*

**Table 2.2**

Data for year =		2018				
Administrative or functional head	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
General public services	141,2	134,4	158,1	-23,7	23,7	15,0%
Economic affairs	348,0	360,8	389,6	-28,9	28,9	7,4%
Health care	261,4	368,4	292,6	75,8	75,8	25,9%
Cultural and physical development	41,3	41,2	46,2	-5,0	5,0	10,9%
Education	934,8	1 031,9	1 046,6	-14,7	14,7	1,4%
Social protection and social security	837,6	886,8	937,7	-51,0	51,0	5,4%
Intergovernmental transfers	84,1	89,2	94,2	-5,0	5,0	5,3%
(= sum of rest)	157,6	228,9	176,5	52,5	52,5	29,7%
allocated expenditure	2 806,1	3 141,6	3 141,6	0,0	256,6	
interests	6,5	5,5				
contingency	20,0	0,0				
total expenditure	<u>2 832,6</u>	<u>3 147,1</u>				
aggregate outturn (PI-1)						<b>111,1%</b>
composition (PI-2) variance						<b>8,2%</b>
contingency share of budget						<b>0,0%</b>

**Table 2.3**

<b>Data for year = 2019</b>						
Administrative or functional head	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
General public services	160,0	159,3	169,5	-10,2	10,2	6,0%
Economic affairs	340,9	423,3	361,2	62,1	62,1	17,2%
Health care	326,0	326,0	345,4	-19,4	19,4	5,6%
Cultural and physical development	52,0	54,1	55,0	-1,0	1,0	1,8%
Education	1 170,6	1 225,1	1 240,1	-15,0	15,0	1,2%
Social protection and social security	668,5	563,4	708,1	-144,7	144,7	20,4%
Intergovernmental transfers	98,4	99,4	104,3	-4,8	4,8	4,6%
(= sum of rest)	159,2	301,7	168,6	133,0	133,0	78,9%
allocated expenditure	2 975,7	3 152,3	3 152,3	0,0	390,2	
interests	5,6	4,4				
contingency	20,0	0,0				
total expenditure	<u>3 001,5</u>	<u>3 156,7</u>				
aggregate outturn (PI-1)						<b>105,2%</b>
composition (PI-2) variance						<b>12,4%</b>
contingency share of budget						<b>0,0%</b>

**Table 2.4**

<b>Data for year = 2020</b>						
Administrative or functional head	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
General public services	174,7	160,4	183,8	-23,4	23,4	12,7%
Economic affairs	400,0	465,7	420,8	44,9	44,9	10,7%
Health care	138,5	187,2	145,8	41,5	41,5	28,5%
Cultural and physical development	48,0	45,7	50,6	-4,9	4,9	9,7%
Education	1 354,5	1 311,1	1 425,2	-114,1	114,1	8,0%
Social protection and social security	69,7	77,1	73,3	3,7	3,7	5,1%
Intergovernmental transfers	117,0	141,0	123,1	17,9	17,9	14,5%
(= sum of rest)	231,5	278,0	243,6	34,4	34,4	14,1%
allocated expenditure	2 533,9	2 666,1	2 666,1	0,0	284,8	
interests	4,4	3,8				
contingency	17,9	0,0				

total expenditure	2 556,2	2 669,9	
aggregate outturn (PI-1)			<b>104,4%</b>
composition (PI-2) variance			<b>10,7%</b>
contingency share of budget			<b>0,0%</b>

**Table 2.5 - Results Matrix  
(function classification)**

year	for PI-1.1 total exp. Outturn	for PI-2.1 composition variance	for PI-2.3 contingency share
2018	111,1%	8,2%	
2019	105,2%	12,4%	0,0%
2020	104,4%	10,7%	

**Table 2.6**

Data for year = 2018						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	875,6	942,3	972,8	-30,5	30,5	3,1%
Use of goods and services	527,9	592,4	586,5	5,9	5,9	1,0%
Consumption of fixed capital	42,5	142,4	47,2	95,1	95,1	201,6%
Interest	6,5	5,5	7,2	-1,7	1,7	23,6%
Subsidies	454,1	501,8	504,5	-2,7	2,7	0,5%
Grants	84,1	125,7	93,5	32,3	32,3	34,5%
Social benefits	820,5	835,8	911,6	-75,8	75,8	8,3%
Other expenses	21,4	1,2	23,8	-22,6	22,6	94,8%
<b>Total expenditure</b>	<b>2 832,6</b>	<b>3 147,1</b>	<b>3 147,1</b>	<b>0,0</b>	<b>266,7</b>	
composition variance						<b>8,5%</b>

**Table 2.7**

<b>Data for year = 2019</b>						
Economic head	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	1 055,0	1 101,9	1 109,6	-7,7	7,7	0,7%
Use of goods and services	667,3	390,8	701,8	-311,1	311,1	44,3%
Consumption of fixed capital	61,5	195,9	64,7	131,2	131,2	202,8%
Interest	5,6	4,4	5,9	-1,5	1,5	25,8%
Subsidies	449,0	815,0	472,2	342,9	342,9	72,6%
Grants	98,6	113,0	103,7	9,3	9,3	8,9%
Social benefits	642,6	534,3	675,9	-141,6	141,6	21,0%
Other expenses	21,8	1,4	22,9	-21,5	21,5	93,8%
<b>Total expenditure</b>	<u>3 001,5</u>	<u>3 156,7</u>	3 156,7	0,0	966,7	
composition variance						<b>30,6%</b>

**Table 2.8**

<b>Data for year = 2020</b>						
Economic head	<b>budget</b>	<b>actual</b>	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	1 241,6	1 248,8	1 296,9	-48,1	48,1	3,7%
Use of goods and services	392,8	286,8	410,3	-123,5	123,5	30,1%
Consumption of fixed capital	105,7	162,7	110,4	52,3	52,3	47,4%
Interest	4,4	3,8	4,6	-0,8	0,8	18,0%
Subsidies	638,6	758,9	667,0	91,9	91,9	13,8%
Grants	117,0	149,7	122,2	27,5	27,5	22,5%
Social benefits	36,7	56,8	38,3	18,5	18,5	48,4%
Other expenses	19,4	2,3	20,3	-18,0	18,0	88,5%
<b>Total expenditure</b>	<u>2 556,2</u>	<u>2 669,9</u>	2 669,9	0,0	380,6	
composition variance						<b>14,3%</b>

**Table 2.9 - Results Matrix**

year	composition variance
2018	8,5%
2019	30,6%
2020	14,3%

### Table 3: PI-3 calculations

**Table 3.1 - Fiscal years for assessment**

Year 1 =	2018
Year 2 =	2019
Year 3 =	2020

**Table 3.2**

Data for year = 2018						
Revenue types	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	207,0	228,3	218,2	10,0	10,0	4,6%
Taxes on payroll and workforce	915,4	977,3	965,1	12,3	12,3	1,3%
Taxes on property	194,1	144,8	204,6	-59,8	59,8	0,3
Taxes on goods and services	141,0	128,4	148,7	-20,3	20,3	13,7%
Other taxes	1,0	1,1	1,0	0,1	0,1	5,8%
Grants						
Grants from other government units	0,0	0,0	0,0	0,0	0,0	
Other revenue						
Property income	45,9	61,1	48,4	12,8	12,8	26,4%
Sales of goods and services	54,7	96,6	57,7	38,9	38,9	67,5%
Fines, penalties and forfeits	0,2	0,7	0,2	0,6	0,6	356,6%
Sum of rest	5,6	11,4	5,9	5,5	5,5	93,9%
<b>Total revenue</b>	<b>1 564,8</b>	<b>1 649,7</b>	<b>1 649,7</b>	<b>0,0</b>	<b>160,3</b>	
overall variance						<b>105,4%</b>
composition variance						<b>9,7%</b>

**Table 3.3**

Data for year = 2019						
Revenue types	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	250,8	283,9	273,5	10,4	10,4	3,8%
Taxes on payroll and workforce	1 137,8	1 181,6	1 240,9	-59,3	59,3	4,8%
Taxes on property	160,0	172,8	174,5	-1,6	1,6	0,9%
Taxes on goods and services	130,5	139,5	142,4	-2,8	2,8	2,0%
Other taxes	1,3	1,7	1,4	0,3	0,3	20,2%
Grants						
Grants from other government units	0,0	0,0	0,0	0,0	0,0	
Other revenue						
Property income	72,3	130,0	78,9	51,1	51,1	64,8%
Sales of goods and services	85,9	91,1	93,7	-2,6	2,6	2,7%
Fines, penalties and forfeits	0,0	1,5	0,0	1,5	1,5	
Sum of rest	10,2	14,1	11,1	3,0	3,0	26,6%
<b>Total revenue</b>	<b>1 848,9</b>	<b>2 016,4</b>	<b>2 016,4</b>	<b>0,0</b>	<b>132,7</b>	
overall variance						<b>109,1%</b>
composition variance						<b>6,6%</b>

**Table 3.4**

Data for year = 2020						
Revenue types	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	292,6	305,1	297,9	7,1	7,1	2,4%
Taxes on payroll and workforce	1 314,3	1 284,3	1 338,0	-53,7	53,7	4,0%
Taxes on property	174,5	166,9	177,6	-10,7	10,7	6,0%
Taxes on goods and services	133,1	156,0	135,5	20,5	20,5	15,1%
Other taxes	1,6	1,4	1,6	-0,2	0,2	9,9%
Grants						
Grants from other government units	0,0	0,0	0,0	0,0	0,0	
Other revenue						
Property income	52,8	84,1	53,7	30,4	30,4	56,6%
Sales of goods and services	95,1	83,5	96,8	-13,3	13,3	13,7%
Fines, penalties and forfeits	0,0	1,0	0,0	1,0	1,0	
Sum of rest	11,3	30,4	11,5	18,9	18,9	163,9%
<b>Total revenue</b>	<b>2 075,2</b>	<b>2 112,6</b>	<b>2 112,6</b>	<b>0,0</b>	<b>155,7</b>	
overall variance						101,8%
composition variance						7,4%

**Table 3.5 - Results Matrix**

year	total revenue deviation	composition variance
2018	105,4%	9,7%
2019	109,1%	6,6%
2020	101,8%	7,4%



## Annex 5. Gender-responsive PFM Assessment

### Annex 5.1. Introduction

#### **Purpose**

The purpose of the gender-responsive PFM (hereinafter – GRPFM) assessment is to gather information on the budgeting and reporting systems of the Zhytomyr City Council in order to assess the extent to which public financial management responds to the needs of gender (male and female) and other vulnerable groups in the city.

This is one of the first pilots of gender-responsive PFM assessment at the sub-national government level. By this pilot, the gender-responsive PFM assessment, together with the present PEFA assessment, will not only provide a basis for aligning the Swiss SECO ELocFin project design with gender-responsive PFM mindset, but it is also expected to offer additional insights that may be used not only by SECO but also by other development partners and provide them with a better understanding of underlying concepts.

The assessment team used the Supplementary Framework for Assessing Gender-responsive Public Financial Management published by the PEFA Secretariat in January 2020.

The fieldwork was carried out at the same time the main PEFA assessment was conducted, in order to maximise the use of time and to reduce the level of interaction with government staff due to their busy schedule. Furthermore, some of the information gathered during the main PEFA assessment was used to assess the GRPFM; additional data were also gathered where necessary.

The GRPFM report (annexed to the main PEFA report) was subjected to the same PEFA Check requirements in terms of peer review and quality assurance.

#### **Background**

The central government of Ukraine is advanced in terms of the promulgation and development of gender equality laws, regulations and procedures/processes. These laws and procedures are equally applicable at the local government level. That said, local governments, including Zhytomyr City Council, have not mainstreamed these procedures and processes into the entire budget cycle. Table A-5.1 below provides a list of legislative instruments and policies adopted by the central government, applicable at the sub-national level yet to be actualised. At the city government level, it appears that there is less political will and an inadequate technical capacity for gender-responsive budgeting and reporting.

***Table A-5.1: Legal and policy framework for gender equality***

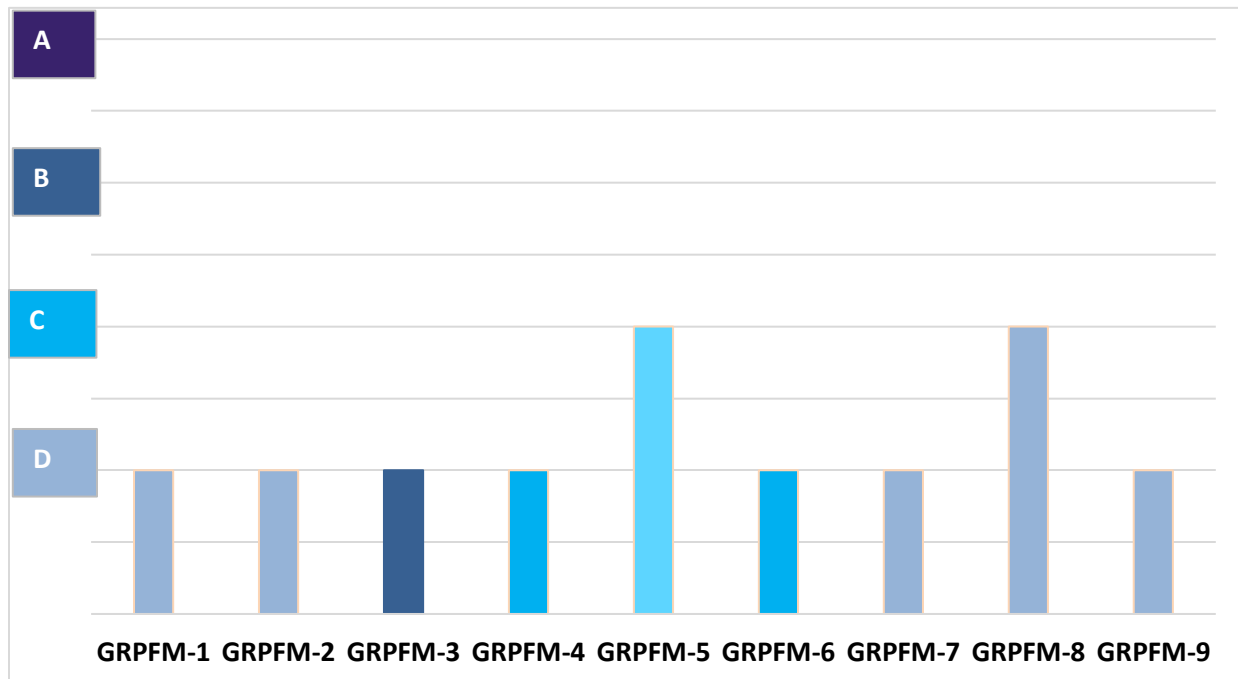
<b>Legal and regulatory framework for promotion of gender equality</b>
<ul style="list-style-type: none"><li>• Constitution of Ukraine</li><li>• Law of Ukraine on Ensuring Equal Rights and Opportunities of Women and Men</li><li>• Law of Ukraine on the Fundamentals of Prevention and Prevention of Discrimination in Ukraine</li><li>• Law of Ukraine on the Prevention and Remediation of Home Violence</li><li>• Law of Ukraine on the Prevention of Human Trafficking</li></ul>

<ul style="list-style-type: none"> <li>• International treaties of Ukraine that the Parliament of Ukraine agreed to be bound by, and resolutions of international conferences, international organization, and their bodies used in the gender legal expert examination according to the Procedure approved by the Cabinet of Ministers of Ukraine Resolution No. 997 of November 28, 2018</li> <li>• The Eighth Periodic Report of Ukraine Implementation of the Convention on the Elimination of All Forms of Discrimination Against Women</li> <li>• National Review of Implementation of the Beijing Declaration and Platform for Action (1995) and the outcomes of the 23rd Special Session of the UN General Assembly (2000) in the context of the 20th anniversary of the Fourth World Conference on Women and the adoption of the Beijing Declaration and Platform for Action (2015)</li> <li>• Strategy for the Public Finance Management System Reform for 2017-2020, approved by the Cabinet of Ministers of Ukraine Order No. 142-p of February 8, 2017</li> <li>• Draft Strategy for the Public Finance Management System Reform for 2021-2025 (not approved yet)</li> <li>• Basic Directions of the Budget Policy for 2018-2020, approved by the Cabinet of Ministers of Ukraine Order No. 411-p of June 14, 2017</li> <li>• Methodological Recommendations on Implementing and Using the Gender-responsive Approach in the Budget Process, approved by the Ministry of Finance of Ukraine Order No. 1 of January 2, 2019</li> <li>• MoF Order No. 130 of March 29, 2019 "On approval of the Methodological Recommendations on preparation of local budgets for a medium-term period in 2019"</li> <li>• MoF Order No. 145 of April 8, 2019 "On approval of the Amendments to the General Requirements to definition of performance indicators of budget programs"</li> <li>• Ministry of Finance of Ukraine instruction letter on the preparation of budget requests for 2022-2024, No. 04110-08-2/23829 of July 29, 2021</li> <li>• Order of the Ministry of Finance of Ukraine of October 23, 2019, No. 446 "On State Budget Expenditure Reviews" published on August 1, 2020, at <a href="https://www.mof.gov.ua/uk/decrees_2020-412">https://www.mof.gov.ua/uk/decrees_2020-412</a>)</li> </ul>
<p><b>Policies and plans for the implementation of gender equality programmes</b></p>
<ul style="list-style-type: none"> <li>• State Social Program on Ensuring Equal Rights and Opportunities of Women and Men for the period until 2021, approved by the Cabinet of Ministers of Ukraine Order No. 273 of April 11, 2018</li> <li>• National Action Plan to implement UN SC Resolution No. 1325 "Women, Peace and Security" through 2020, adopted by the Cabinet of Ministries of Ukraine on February 24, 2016, No.113, revised on September 5, 2018, No. 637-p)</li> <li>• National Action Plan to implement recommendations of CEDAW to The Eighth Periodic Report of Ukraine Implementation of the Convention on the Elimination of All Forms of Discrimination Against Women</li> </ul>
<p><b>Local legal acts of Zhytomyr City Council</b></p>
<ul style="list-style-type: none"> <li>• Conception of the City Programme "Zhytomyr is a city of equal opportunities" through 2020-2025 approved by the City Council on the 7<sup>th</sup> of February, 2019</li> </ul>

## Annex 5.2. Overview of assessment findings

Chart 1 below summarises graphically GRPFM performance. Annex 5.3 below also summarises the narrative performance of GRPFM performance.

**Chart 1: Summary of GRPFM Scores**



At this stage, the City Government does not analyse the proposed changes in expenditure and revenue policies with information on gender impacts (GRP-FM-1 rated 'D'); this does not compare with the rating of the main PEFA assessment with regards to the analysis of the fiscal impact of policy proposals (PI-14.1 rated 'A').

The City Government's public investment management system has no gender-responsive analysis to determine its impact (GRP-FM-2 rated 'D'), even though economic analysis of investment projects is, to some extent, conducted prior to selection and funding (PI-11 rated 'C+').

The City Government's budget circular, issued by the Finance and Budget Department, does not contain information on gender and does not require or, at least, recommend KSUs to consider gender during budget formulation and preparation (GRP-FM-3 rated 'D'). The main PEFA indicator related to GRP-FM-3 is PI-17, which has an overall score of 'D+'.

Budget proposal documentation submitted to the City Council contains no specific policy priorities that promote gender equality (GRP-FM-4 rated 'D'); the absence of this information means that the public has no crucial data on measures to ensure gender equality. There is, however, a good dissemination (publication on the website) of key fiscal information to the public (PI-9 rated 'A'); therefore, policy proposals and priorities on gender equality, if available, are likely to be published due to the transparency and accountability framework already in existence.

The assessment affirmed availability of sex-disaggregated performance information on service delivery in both planned and achieved outputs (GRPFM-5 is rated 'C'). This compares better (than 'D') with the main PEFA indicator PI-8 "performance evaluation on service delivery" which was rated 'A'.

The absence of gender-responsive budget proposal documentation implies that tracking of expenditure for gender equality is almost non-existent; this was the assessment finding (GRPFM-6 rated 'D'). The absence of expenditure tracking for gender equality also led to non-reporting based on gender (GRPFM-7 rated 'D').

The Social Policy Department, Healthcare Department and Department for Family, Youth and Sports, evaluated the efficiency and effectiveness of service delivery programs based on gender responsive indicators. The evaluation provides information on the performance of their programmes (GRPFM-8 rated 'C'). This relatively compares with the main PEFA score of PI-8.4, rated 'B'.

The City Council's scrutiny of the budget is limited to information contained in the budget documentation; therefore, if there is no information on gender-responsive budgeting, gender equality, sex-disaggregated data, just to mention a few, the City Council has no chance to provide gender-responsive scrutiny of budget proposal (GRPFM-9 rated 'D'). The rating for PI-18 is 'C+', which is higher than the gender score because of the absence of gender information in the budget proposal documentation.

### *Annex 5.3. Detailed assessment of gender-responsive budgeting*

There are nine (9) PEFA gender-responsive PFM indicators in the Supplementary Framework for Assessing Gender-responsive Public Financial Management. These nine (9) indicators were designed to assess the processes and systems across the government's budget cycle for the promotion and empowerment of women's rights. Table A-5.2 below summarises the performance of GRPFM at Zhytomyr City Council, with a more detailed analysis and explanations of scores in the following sections.

*Table A-5.2: GRPFM Scores 2021*

GRPFM Indicators		Scoring Method	Dimension Score		Overall Score
			i	ii	
GRPFM-1	Gender Impact Analysis of Budget Policy Proposals	M1	D	D	<b>D</b>
GRPFM-2	Gender-responsive Public Investment Management		D		<b>D</b>
GRPFM-3	Gender-responsive Budget Circular		D		<b>D</b>
GRPFM-4	Gender-responsive Budget Proposal Documentation		D		<b>D</b>
GRPFM-5	Sex-Disaggregated Performance Information for Service Delivery	M2	C	C	<b>C</b>
GRPFM-6	Tracking Budget Expenditure for Gender Equality		D		<b>D</b>
GRPFM-7	Gender-responsive Reporting		D		<b>D</b>
GRPFM-8	Evaluation of Gender Impacts of Service Delivery		C		<b>C</b>
GRPFM-9	Legislative Scrutiny of Gender Impacts of the Budget	M2	D	NA	<b>D</b>

## GRPFM-1: Gender impact analysis of budget policy proposals

### Summary of scores

GRPFM-1 (M1)	Indicator/Dimension	Score 2021	Justification for 2021 score
	<b>Gender impact analysis of budget policy proposals</b>	<b>D</b>	
	1.1 Gender impact analysis of expenditure policy proposals	D	The government of Zhytomyr city does not analyse the proposed changes to expenditure policies with information that affects both male and female.
	1.2 Gender impact analysis of revenue policy proposals	D	The government of Zhytomyr city does not analyse the proposed changes of revenue policies with information that has an impact on gender.

### Guiding question

Does the government's analysis of proposed changes in expenditure and revenue policies include information on gender impacts?

### Description

This indicator assesses the extent to which the government prepares an assessment of the gender impacts of proposed changes in government expenditure and revenue policy. It contains two dimensions (sub-indicators) and uses the M1 (weakest link) method for aggregating dimension scores.

### Related PEFA indicator or dimension

PI-14.2 Fiscal impact of policy proposals

### Coverage

Sub-national government

### Time period

Last completed fiscal year

### **GRPFM-1.1. Gender impact analysis of expenditure policy proposals**

The government of Zhytomyr city does not analyse proposed changes to expenditure policies with information that has an impact on male and female. GRPFM, at the sub-national level, is a new concept which is yet to be considered and mainstreamed into the entire budget cycle.

**The score for this dimension is D.**

### **GRPFM-1.2. Gender impact analysis of revenue policy proposals**

Changes to revenue policy proposals affect budget implementation, since they lead to respective changes in expenditure policy, and these changes can be both positive and negative depending on the lack or overfulfilment of revenue. Consequently, it may have impact on gender, either male or female.

Zhytomyr City Government does not analyse proposed changes of revenue policies with information that has an impact on gender.

**The score for this dimension is D.**

## GRPFM-2: Gender-responsive public investment management

### Summary of scores

GRPFM-2	Indicator/Dimension	Score 2021	Justification for 2021 score
	<b>Gender-responsive public investment management</b>	<b>D</b>	
	2.1 Gender-responsive public investment management	D	Currently, Zhytomyr City Government does not analyse the impact of major public investment projects on gender as part of the economic analyses of investment proposals.

#### **Guiding question**

Does the government analyse the impacts of major public investment projects on gender as part of the economic analysis of investment proposals?

#### **Description**

This indicator assesses the extent to which robust appraisal methods, based on economic analysis, of feasibility or prefeasibility studies for major investment projects include analysis of the impacts on gender. There is one dimension for this indicator.

#### **Related PEFA indicator or dimension**

PI-11 Public investment management  
PI-11.1 Economic analysis of investment proposals

#### **Coverage**

Sub-national government

#### **Time period**

Last completed fiscal year

### **GRPFM-2.1. Gender-responsive public investment management**

In 2017, the Ministry of Economy of Ukraine issued Methodological Guidelines (Order No. 1865 dated 22<sup>nd</sup> December 2017) on the Development and Assessment of Public Investment Projects. These guidelines were aimed at assisting all KSUs at the national and sub-national levels, to plan their public investment projects properly and effectively to be gender sensitive.

The City Government emphasized on considering gender approach when developing and discussing some of the investment projects. Particularly, it refers to elaborating the investment project documentation for such projects as “Reconstruction of the city river embankment” and “Landscaping and mapping of the city parks and squares.” However, the City Government did not provide for the evidence for that.

**The score for this dimension is D.**

### GRPFM-3: Gender-responsive budget circular

#### Summary of scores

GRPFM-3	Indicator/Dimension	Score 2021	Justification for 2021 score
<b>Gender-responsive budget circular</b>		<b>D</b>	
3.1	Gender-responsive budget circular	D	The budget circular issued by the Finance and Budget Department of the Zhytomyr City Council in FY 2020 did not contain any requirement for KSUs to provide information on the on the gender-related impacts of their budget proposals.

#### Guiding question

Does the budget circular(s) require budgetary units to include information on the gender-related impacts of their spending proposals?

#### Description

This indicator measures the extent to which the government's budget circular(s) is gender-responsive. There is one dimension for this indicator.

#### Related PEFA indicator or dimension

PI-17 Budget preparation process  
PI-17.2 Guidance on budget preparation

#### Coverage

Budgetary sub-national government

#### Time period

Last budget submitted to the legislature

#### **GRPFM-3.1. Gender-responsive budget circular**

The budget circular issued by the Finance and Budget Department of the Zhytomyr City Council for FY2021 does not require KSUs to provide information on the gender impact of their budget policies and expenditure proposals.

**The score for this dimension is D.**

### GRPFM-4: Gender-responsive budget proposal documentation

#### Summary of scores

GRPFM-4	Indicator/Dimension	Score 2021	Justification for 2021 score
<b>Gender-responsive budget proposal documentation</b>		<b>D</b>	
4.1	Gender-responsive budget proposal documentation	D	The City Government's annual budget documentation as well as medium-term strategic documents do not specifically mention or provide an overview of its policy priorities for improving gender equality. Furthermore,

		there are no details of budget measures aimed at strengthening gender equality, nor an assessment of the impacts of budget policies on gender equality.
--	--	---

**Guiding question**

Does the government’s budget proposal documentation include information on gender priorities and budget measures aimed at strengthening gender equality?

**Description**

This indicator assesses the extent to which the government’s budget proposal documentation includes additional information on gender priorities and budget measures aimed at strengthening gender equality. There is one dimension for this indicator.

**Related PEFA indicator or dimension**

PI-5 Budget documentation

PI-9 Public access to fiscal information (basic element 1)

**Coverage**

Budgetary sub-national government

**Time period**

Last budget submitted to the legislature

**GRPFM-4.1. Gender-responsive budget proposal documentation**

The City Government’s medium-term strategic documents as well as annual budget documentation do not specifically mention or provide an overview of its policy priorities for improving gender equality. Furthermore, there are no details of budget measures aimed at strengthening gender equality, nor an assessment of the impacts of budget policies on gender equality.

**The score for this dimension is D.**

***GRPFM-5: Sex-disaggregated performance information for service delivery***

**Summary of scores**

GRPFM-5	Indicator/Dimension	Score 2021	Justification for 2021 score
	<b>Sex-disaggregated performance information for service delivery</b>	<b>C</b>	
	5.1 Sex disaggregated performance plans for service delivery	C	In 2020, Social Policy Department, Healthcare Department, and Department for Family, Youth and Sports, had a cumulative percentage budget of about 28.5% of total city budget, which provide and publish sex-disaggregated information on planned outputs of service delivery; information for FY2020 is published on Zhytomyr City Council website.



5.2 Sex-disaggregated performance achieved for service delivery	C	All three KSUs mentioned above (constituting about 28.5% of total city budget) prepare and publish sex-disaggregated information on actual performance achieved for service delivery. Relevant information for FY2020 is published on Zhytomyr City Council website.
---	---	--

**Guiding question**

Do the executive’s budget proposal or supporting documentation and in-year or end-year reports include sex-disaggregated information on performance for service delivery programs?

**Description**

This indicator measures the extent to which the executive’s budget proposal or supporting documentation and in-year or end-year reports include sex-disaggregated information on performance for service delivery programs. It contains two dimensions (sub-indicators) and uses the M2 (averaging) method for aggregating dimension scores

**Related PEFA indicator or dimension**

PI-8 Performance information for service delivery

PI-8.1 Performance plans for service delivery (for GRPFM-5.1)

PI-8.2 Performance achieved for service delivery (for GRPFM-5.2)

**Coverage**

Sub-national government. Services managed and financed by other tiers of government should be included if the sub-national government significantly finances such services through reimbursements or earmarked grants or uses other tiers of government as implementing agents.

**Time period**

For GRPFM-5.1, next fiscal year

For GRPFM-5.2, last completed fiscal year

**GRPFM-5.1. Sex disaggregated performance plans for service delivery**

Even though the gender-neutral budget circular in at least three (3) KSUs – Social Policy Department, Healthcare Department, and Department for Family, Youth and Sports – developed for FY2020, gender-responsive (sex-disaggregated) performance indicators were included in the respective budget programs.

Based on the information and evidence received from Zhytomyr City Government the total amount of the gender-responsive budget programs for 2020 is 31: Social Policy Department – 15 out of 16 programs, Healthcare Department – 5 out of 13 programs, Department for Family, Youth and Sports – 11 out of 13 programs are gender sensitive, containing sex-disaggregated performance indicators.

Relevant information is published on as Zhytomyr City Council website:

Social Policy Department – <https://zt-rada.gov.ua/?3398%5B0%5D=1118>,

Healthcare Department – <https://zt-rada.gov.ua/?3398%5B0%5D=1117>,

Department for Family, Youth and Sports – <https://zt-rada.gov.ua/?3398%5B0%5D=1116>.

**The score for this dimension is C.**

## **GRPFM–5.2. Sex-disaggregated performance achieved for service delivery**

Just as Social Policy Department, Healthcare Department, and Department for Family, Youth and Sports prepare and publish sex-disaggregated information on planned outputs for the forthcoming year, they also prepare and publish sex-disaggregated information on actual performance achieved for service delivery for the previous year; FY2020 information is published on Zhytomyr City Council website:

Social Policy Department – <https://zt-rada.gov.ua/reportsDSPMR>,

Healthcare Department – <https://zt-rada.gov.ua/reportsYOZ>,

Department for Family, Youth and Sports – <https://zt-rada.gov.ua/reportsYSSMS>.

**The score for this dimension is C.**

## ***GRPFM–6: Tracking budget expenditure for gender equality***

### **Summary of scores**

<b>GRPFM-6</b>	<b>Indicator/Dimension</b>	<b>Score 2021</b>	<b>Justification for 2021 score</b>
	<b>Tracking budget expenditure for gender equality</b>	<b>D</b>	
6.1	Tracking budget expenditure for gender equality	D	There is currently no tracking of budget expenditure for gender equality. The budget proposals of key spending units do not include expenditure allocations according to gender, nor specific budget policies that would allow traceability of expenditure for gender equality.

### ***Guiding question***

Does the government have the capacity to track gender equality-related expenditure?

### ***Description***

This indicator measures the government’s capacity to track expenditure for gender equality throughout the budget formulation, execution, and reporting processes. There is one dimension for this indicator

### ***Related PEFA indicators or dimensions***

PI-4 Budget classification

### ***Coverage***

Budgetary sub-national government

### ***Time period***

Last completed fiscal year

## **GRPFM–6.1. Tracking budget expenditure for gender equality**

The Chart of Accounts (CoA) has the capacity to track expenditure based on economic, administrative, functional and program classifications. This functionality of budget tracking provides a framework for tracking budget expenditure for gender equality as well; however, there is currently no tracking of budget expenditure for gender equality. The budget proposals of key spending units do not include expenditure

allocations according to gender, nor specific budget policies that would allow traceability of expenditure for gender equality.

**The score for this dimension is D.**

### **GRPFM–7: Gender-responsive reporting**

#### **Summary of scores**

<b>GRPFM-7</b>	<b>Indicator/Dimension</b>	<b>Score 2021</b>	<b>Justification for 2021 score</b>
	<b>Gender-responsive reporting</b>	<b>D</b>	
	7.1 Gender-responsive government annual reports	D	The City Government of Zhytomyr prepares and publishes budget and financial reports annually, but these reports do not include specific gender-related expenditure and, consequently, cannot present and explain the impact of budget and sectoral policies on gender equality.

#### **Guiding question**

Do the government’s published annual reports include information on gender-related expenditure and the impact of budget policies on gender equality?

#### **Description**

This indicator measures the extent to which the government prepares and publishes annual reports that include information on gender-related expenditure and the impact of budget policies on gender equality. There is one dimension for this indicator.

#### **Related PEFA indicator or dimension**

PI–9 Public access to fiscal information

PI–28 In-year budget reports

PI–29 Annual financial reports.

#### **Coverage**

Budgetary sub-national government

#### **Time period**

Last completed fiscal year

#### **GRPFM–7.1. Gender-responsive government annual reports**

The City Government of Zhytomyr prepares and publishes annual financial reports every year, but the reports do not include specific gender-related expenditure. The reports also do not include the impact of budget policies on gender equality. A gender-responsive reporting would benefit from four important budget information, namely: (i) an analysis of gender equality outcomes, (ii) information regarding gender-related expenditure, (iii) a critical assessment of the implementation of budget policies and how they impact on gender, and finally (iv) sex-disaggregated employment data.

**The score for this dimension is D.**

## **GRPFM–8: Evaluation of gender impacts of service delivery**

### **Summary of scores**

<b>GRPFM-8</b>	<b>Indicator/Dimension</b>	<b>Score 2021</b>	<b>Justification for 2021 score</b>
	<b>Evaluation of gender impacts of service delivery</b>	<b>C</b>	
	8.1 Evaluation of gender impacts of service delivery	C	The Social Policy Department, Healthcare Department, and Department for Family, Youth and Sports of Zhytomyr City Council conducted gender analysis and evaluation of their budget programs indicated before under GRPFM-5. In FY2020, these three KSUs constituted about 28.5% of total city budget expenditure.

### **Guiding question**

Does the government include an assessment of gender impacts as part of evaluations of efficiency and effectiveness of service delivery?

### **Description**

This indicator measures the extent to which independent evaluations of the efficiency and effectiveness of public services include an assessment of gender impacts. There is one dimension for this indicator.

### **Related PEFA indicator or dimension**

PI-8.4 Performance evaluation for service delivery

### **Coverage**

Sub-national government

### **Time period**

Last three completed fiscal years

### **GRPFM–8.1. Evaluation of gender impacts of service delivery**

The Social Policy Department, Healthcare Department, and Department for Family, Youth and Sports of Zhytomyr City Council conducted gender analysis and evaluation of their budget programs (indicated before under GRPFM-5). In FY2020, these three KSUs constituted about 28.5% of total city budget.

Results of evaluation are published on the city council website:

Social Policy Department – [https://zt-rada.gov.ua/?3398\[0\]=7259](https://zt-rada.gov.ua/?3398[0]=7259),

Healthcare Department – [https://zt-rada.gov.ua/?3398\[0\]=10960](https://zt-rada.gov.ua/?3398[0]=10960),

Department for Family, Youth and Sports – [https://zt-rada.gov.ua/?3398\[0\]=13240](https://zt-rada.gov.ua/?3398[0]=13240).

**The score for this dimension is C.**

## **GRPFM–9: Legislative scrutiny of gender impacts of the budget**

### **Summary of scores**

GRP FM-9	Indicator/Dimension	Score 2021	Justification for 2021 score
	<b>Legislative scrutiny of gender impacts of the budget</b>	<b>D</b>	
	9.1 Gender-responsive legislative scrutiny of budgets	D	Since the budget proposals submitted by the Executive Committee to the City Council have no specific gender-related expenditure policies and proposals, the budget scrutiny is thus limited to the policies, programmes, and expenditure proposals submitted by the City Government. There is no review of gender impacts of service delivery programmes.
	9.2 Gender-responsive legislative scrutiny of audit reports	NA	This dimension is not applicable, since the external audit of local budget execution reports is not required by the legislature. Consequently, audited reports are not submitted to the City Council.

### ***Guiding question***

Does the legislature’s budget and audit scrutiny include the examination of the gender impacts of the budget?

### ***Description***

This indicator measures the extent to which the legislature’s budget and audit scrutiny include a review of the government’s policies to understand whether policies equally benefit men and women by ensuring the allocation of sufficient funds. It contains two dimensions (sub-indicators) and uses the M2 (averaging) method for aggregating dimension scores.

### ***Related PEFA indicator or dimension***

PI-18 Legislative scrutiny of budgets (for GRPFM-9.1)

PI-31 Legislative scrutiny of audit reports (for GRPFM-9.2)

### ***Coverage***

Budgetary sub-national government

### ***Time period***

For GRPFM-9.1, last completed fiscal year

For GRPFM-9.2, last three completed fiscal years

### **GRP FM-9.1. Gender-responsive legislative scrutiny of budgets**

Zhytomyr City Council has five (5) sectoral committees in various budget areas, including budget and finance, housing and utility services, social security and protection. There is no specific committee on gender budgeting or gender equality.

Since the budget proposals submitted by the Executive Committee to the City Council have no specific gender-related expenditure policies and proposals, the budget scrutiny is thus limited to the policies, programmes, and expenditure proposals submitted by the City Government. There is no review of gender impacts of service delivery programmes.

**The score for this dimension is D.**

## **GRPFM–9.2. Gender-responsive legislative scrutiny of audit reports**

This dimension is not applicable since external audit of local budget execution reports is not required by the legislature. Consequently, audited reports are not submitted to the City Council.

**The score for this dimension is NA.**

### *Annex 5.4. Summary of performance indicators for the GRPFM assessment*

No.	Indicator/Dimension	Score 2021	Justification/Description of requirement met
<b>GRPFM-1</b>	<b>Gender impact analysis of budget policy proposals</b>	<b>D</b>	
1.1	Gender impact analysis of expenditure policy proposals	D	The government of Zhytomyr city does not analyse proposed changes to expenditure policies with information that affects both male and female.
1.2	Gender impact analysis of revenue policy proposals	D	The government of Zhytomyr city does not analyse proposed changes of revenue policies with information that has an impact on gender.
<b>GRPFM-2</b>	<b>Gender-responsive public investment management</b>	<b>D</b>	
2.1	Gender-responsive public investment management	D	Currently, the local government of Zhytomyr does not analyse the impact of major public investment projects on gender as part of the economic analyses of investment proposals.
<b>GRPFM-3</b>	<b>Gender-responsive budget circular</b>	<b>D</b>	
3.1	Gender-responsive budget circular	D	The budget circular issued by the Finance and Budget Department of the Zhytomyr City Council in FY 2020 did not contain any requirement for KSUs to provide information on the on the gender-related impacts of their budget proposals.
<b>GRPFM-4</b>	<b>Gender-responsive budget proposal documentation</b>	<b>D</b>	
4.1	Gender-responsive budget proposal documentation	D	The City Government’s annual budget documentation, as well as medium-term strategic documents, do not specifically mention or provide an overview of its policy priorities for improving gender equality. Furthermore, there are no details of budget measures aimed at strengthening gender equality, nor an assessment of the impacts of budget policies on gender equality.
<b>GRPFM-5</b>	<b>Sex-disaggregated performance information for service delivery</b>	<b>C</b>	

5.1	Sex-disaggregated performance plans for service delivery	C	In 2020, the Social Policy Department, Healthcare Department, and Department for Family, Youth and Sports, had a cumulative percentage budget of about 28.5% of total city budget, providing and publishing sex-disaggregated information on planned outputs of service delivery; information for FY2020 is published on Zhytomyr City Council website.
5.2	Sex-disaggregated performance achieved for service delivery	C	All three KSUs mentioned above (constituting about 28.5% of total city budget) prepare and publish sex-disaggregated information on actual performance achieved for service delivery. Relevant information for FY2020 is published on Zhytomyr City Council website.
<b>GRPFM-6</b>	<b>Tracking budget expenditure for gender equality</b>	<b>D</b>	
6.1	Tracking budget expenditure for gender equality	D	There is currently no tracking of budget expenditure for gender equality. The budget proposals of key spending units do not include expenditure allocations according to gender, nor they include specific budget policies that would allow traceability of expenditure for gender equality.
<b>GRPFM-7</b>	<b>Gender-responsive reporting</b>	<b>D</b>	
7.1	Gender informative annual financial reports	D	The City Government of Zhytomyr prepares and publishes annual financial reports each year, but the reports do not include specific gender-related expenditure. The reports also do not include the impact of budget policies on gender equality.
<b>GRPFM-8</b>	<b>Evaluation of impacts of service delivery on gender equality</b>	<b>C</b>	
8.1	Evaluation of impacts of service delivery on gender equality	C	The Social Policy Department, Healthcare Department, and Department for Family, Youth and Sports of Zhytomyr City Council conducted gender analysis and evaluation of their budget programs indicated before under GRPFM-5. In FY2020, these three KSUs constituted about 28.5% of total city budget expenditure.
<b>GRPFM-9</b>	<b>Legislative scrutiny of gender impacts of the budget</b>	<b>D</b>	
9.1	Gender-responsive legislative scrutiny of budgets	D	Since the budget proposals submitted by the Executive Committee to the City Council have no specific gender-related expenditure policies and proposals, the budget scrutiny is thus limited to the policies, programmes and expenditure proposals submitted by the City

			Government. There is no review of gender impacts of service delivery programmes.
9.2	Gender-responsive legislative scrutiny of audit reports	NA	This dimension is not applicable since external audit of local budget execution reports is not required by the legislature. Consequently, audited reports are not submitted to the City Council.

### Annex 5.5. Data source

No.	Indicator/Dimension	Data source
GRPFM-1	Gender impact analysis of budget policy proposals	Interview with city government officials; budget documentation for FY2020
GRPFM-2	Gender-responsive public investment management	Interview with city government officials; budget documentation for FY2020; documentation on public investment project implementation in FY2020
GRPFM-3	Gender-responsive budget circular	Interview with city government officials; budget circular and Instruction on budget request preparation for FY2020 and FY2021
GRPFM-4	Gender-responsive budget proposal documentation	Interview with city government officials; budget proposal documentation for FY2020
GRPFM-5	Sex-disaggregated performance information for service delivery	Interview with city government officials; budget passports and performance evaluation reports for the Social Policy Department, Healthcare Department and Department for Family, Youth and Sports of Zhytomyr City Council
GRPFM-6	Tracking budget expenditure for gender equality	Interview with city government officials; Chart of Accounts; Treasury reports on Zhytomyr city budget performance in FY2020
GRPFM-7	Gender sensitive reporting	Interview with city government officials; Chart of Accounts; City Treasury reports on Zhytomyr city budget performance; Annual Financial Statements for FY2020
GRPFM-8	Evaluation of impacts of service delivery on gender equality	Interview with city government officials; Performance evaluation reports for the Social Policy Department, Healthcare Department and Department for Family, Youth and Sports of Zhytomyr City Council
GRPFM-9	Gender-responsive legislative scrutiny	Interview with City Council's representatives and legislators; budget documentation FY2020

### Annex 5.6. Comparison of SNG PEFA Scores with GRPFM Scores

No.	PEFA Indicator/Dimension	Score 2021	No.	GRPFM Indicator/Dimension	Score 2021
<b>SNG Pillar: Intergovernmental fiscal relations</b>					
<b>HLG-1</b>	<b>Transfer from higher levels of government</b>	<b>C</b>			



No.	PEFA Indicator/Dimension	Score 2021	No.	GRPFM Indicator/Dimension	Score 2021
1.1	Outturn of transfers from higher levels of government	C			
1.2	Transfers composition outturn	D			
1.3	Timeliness of transfers from higher levels of government	A			
1.4	Predictability of transfers	D			
<b>HLG-2</b>	<b>Fiscal rules and monitoring of fiscal position</b>	<b>A</b>			
2.1	Fiscal rules for sub-national governments	A			
2.2	Debt rules for sub-national governments	A			
2.3	Monitoring of sub-national governments	A			
<b>Pillar I: Budget reliability</b>					
<b>PI-1</b>	<b>Aggregate expenditure outturn</b>	<b>B</b>			
<b>PI-2</b>	<b>Expenditure composition outturn</b>	<b>C+</b>			
2.1	Expenditure composition by function	C			
2.2	Expenditure composition by economic type	C			
2.3	Expenditure from contingency	A			
<b>PI-3</b>	<b>Revenue outturn</b>	<b>B+</b>			
3.1	Aggregate revenue outturn	A			
3.2	Revenue composition variance	B			
<b>Pillar II: Transparency of public finances</b>					
<b>PI-4</b>	<b>Budget classification</b>	<b>D</b>	<b>GRPFM-6</b>	<b>Tracking Budget Expenditure for Gender Equality</b>	<b>D</b>
<b>PI-5</b>	<b>Budget documentation</b>	<b>B</b>	<b>GRPFM-4</b>	<b>Gender-responsive Budget Documentation</b>	<b>D</b>
<b>PI-6</b>	<b>Central government operations outside the budget</b>	<b>B+</b>			
6.1	Expenditure outside financial reports	B			
6.2	Revenue outside financial reports	B			
6.3	Financial reports of extra-budgetary units	A			

No.	PEFA Indicator/Dimension	Score 2021	No.	GRPFM Indicator/Dimension	Score 2021
<b>PI-7</b>	<b>Transfers to sub-national government</b>	<b>NA</b>		Not Applicable	
7.1	System for allocating transfers	NA		Not Applicable	
7.2	Timeliness of information on transfers	NA		Not Applicable	
<b>PI-8</b>	<b>Performance information for service delivery</b>	<b>A</b>	<b>GRPFM-5</b>	<b>Sex-disaggregated Data</b>	<b>C</b>
8.1	Performance plans for service delivery	A	5.1	Sex-disaggregated performance plans for service delivery	C
8.2	Performance achieved for service delivery	A	5.2	Sex-disaggregated performance achieved for service delivery	C
8.3	Resources received by service delivery units	A			
8.4	Performance evaluation for service delivery	B	<b>GRPFM-8</b>	Evaluation of impacts of service delivery on gender equality	<b>C</b>
<b>PI-9</b>	<b>Public access to fiscal information</b>	<b>A</b>	<b>GRPFM-4</b>	<b>Gender-responsive Budget Documentation</b>	<b>D</b>
			<b>GRPFM-7</b>	<b>7. Gender-responsive reporting</b>	<b>D</b>
<b>PI-9bis</b>	<b>Public consultation</b>	<b>D+</b>			
9bis.1	Public consultation in budget preparation	D			
9bis.2	Public consultation in the design of service delivery programs	C			
9bis.3	Public consultation in investment planning	D			
<b>Pillar III: Management of assets and liabilities</b>					
<b>PI-10</b>	<b>Fiscal risk reporting</b>	<b>D</b>			
10.1	Monitoring of public corporations	D			
10.2	Monitoring of sub-national governments	NA			
10.3	Contingent liabilities and other fiscal risks	NA			
<b>PI-11</b>	<b>Public investment management</b>	<b>C+</b>	<b>GRPFM-2</b>	Gender Impact Analysis of Investment Projects	<b>D</b>

No.	PEFA Indicator/Dimension	Score 2021	No.	GRPFM Indicator/Dimension	Score 2021
11.1	Economic analysis of investment proposals	C	GRPFM-2	Gender Impact Analysis of Investment Projects	D
11.2	Investment project selection	C			
11.3	Investment project costing	C			
11.4	Investment project monitoring	A			
<b>PI-12</b>	<b>Public asset management</b>	<b>B</b>			
12.1	Financial asset monitoring	C			
12.2	Non-financial asset monitoring	C			
12.3	Transparency of asset disposal	A			
<b>PI-13</b>	<b>Debt management</b>	<b>B</b>			
13.1	Recording and reporting of debts and guarantees	A			
13.2	Approval of debts and guarantees	A			
13.3	Debt management strategy	D			
<b>Pillar IV: Policy based fiscal strategy and budgeting</b>					
<b>PI-14</b>	<b>Medium-term budget strategy</b>	<b>C+</b>			
14.1	Underlying forecasts for medium-term budget	A			
14.2	Fiscal impact of policy proposals	D	<b>GRPFM-1</b>	<b>Gender Impact Analysis of Budget Policy Proposals</b>	<b>D</b>
14.3	Medium-term expenditure and revenue estimates	B			
14.4	Consistency of budget with previous year's estimates	D			
<b>PI-17</b>	<b>Budget preparation process</b>	<b>D+</b>			
17.1	Budget calendar	C			
17.2	Guidance on budget preparation	C	<b>GRPFM-3</b>	<b>Gender-responsive Budget Circular</b>	<b>D</b>
17.3	Budget submission to the legislature	D			
<b>PI-18</b>	<b>Legislative scrutiny of budgets</b>	<b>C+</b>	<b>GRPFM-9.1</b>	<b>Gender-responsive legislative scrutiny of budgets</b>	<b>D</b>
18.1	Scope of budget scrutiny	A			

No.	PEFA Indicator/Dimension	Score 2021	No.	GRPFM Indicator/Dimension	Score 2021
18.2	Legislature procedures budget scrutiny	C			
18.3	Timing of budget approval	A			
18.4	Rules for budget adjustment by the executive	B			
<b>Pillar V: Predictability and control in budget execution</b>					
<b>PI-19</b>	<b>Tax administration</b>	<b>NA</b>			
19.1	Rights and obligation for tax measures	NA			
19.2	Property tax register and valuation	NA			
19.3	Tax risk management, audit and investigation	NA			
19.4	Tax arrears monitoring	NA			
<b>PI-20</b>	<b>Accounting for revenues</b>	<b>A</b>			
20.1	Information on revenue collections	A			
20.2	Transfer of revenue collections	A			
20.3	Tax account reconciliation	NA			
<b>PI-21</b>	<b>Predictability of in-year resource allocation</b>	<b>B+</b>			
21.1	Consolidation of cash balances	A			
21.2	Cash forecasting and monitoring	A			
21.3	Information on commitment ceilings	A			
21.4	Significance of in-year budget adjustments	C			
<b>PI-22</b>	<b>Expenditure arrears</b>	<b>A</b>			
22.1	Stock of expenditure arrears	A			
22.2	Expenditure arrears monitoring	A			
<b>PI-23</b>	<b>Payroll controls</b>	<b>C+</b>			
23.1	Integration of payroll and personnel records	B			
23.2	Management of payroll changes	A			
23.3	Internal controls of payroll	A			
23.4	Payroll audits	C			

No.	PEFA Indicator/Dimension	Score 2021	No.	GRPFM Indicator/Dimension	Score 2021
<b>PI-24</b>	<b>Procurement</b>	<b>B+</b>			
24.1	Procurement monitoring	A			
24.2	Procurement methods	C			
24.3	Public access to procurement information	A			
24.4	Procurement complaints management	B			
<b>PI-25</b>	<b>Internal controls on non-salary expenditure</b>	<b>B</b>			
25.1	Segregation of duties	A			
25.2	Effectiveness of expenditure commitment controls	C			
25.3	Compliance with payment controls	B			
<b>PI-26</b>	<b>Internal audit</b>	<b>D</b>			
26.1	Coverage of the internal audit	D			
26.2	Nature of audits and standards applied	N/A			
26.3	Implementation of internal audits and reporting	N/A			
26.4	Response to internal audits	N/A			
<b>Pillar VI: Accounting and reporting</b>					
<b>PI-27</b>	<b>Financial data integrity</b>	<b>A</b>			
27.1	Bank account reconciliation	A			
27.2	Suspense accounts	NA			
27.3	Advance accounts	A			
27.4	Financial data integrity process	B			
<b>PI-28</b>	<b>In-year budget reports</b>	<b>D+</b>	<b>GRPFM-7</b>	<b>Gender-responsive reporting</b>	<b>D</b>
28.1	Coverage and comparability of reports	D			
28.2	Timing of in-year reports	A			
28.3	Accuracy of in-year budget reports	C			
<b>PI-29</b>	<b>Annual financial reports</b>	<b>D+</b>	<b>GRPFM-7</b>	<b>Gender-responsive reporting</b>	<b>D</b>

No.	PEFA Indicator/Dimension	Score 2021	No.	GRPFM Indicator/Dimension	Score 2021
29.1	Completeness of annual financial reports	D			
29.2	Submission of reports for external audit	D			
29.3	Accounting standards	B			
<b>Pillar VII: External scrutiny and audit</b>					
<b>PI-30</b>	<b>External audit</b>	<b>D</b>			
30.1	Audit coverage and standards	D			
30.2	Submission of audit reports to the legislature	D			
30.3	Extent of follow up	NA			
30.4	Supreme Audit Institution independence	D			
<b>PI-31</b>	<b>Legislative scrutiny of audit reports</b>	<b>D</b>	<b>GRPFM-9.2</b>	<b>Gender-responsive legislative scrutiny of audit reports</b>	<b>NA</b>
31.1	Timing of audit scrutiny	D			
31.2	Hearing on audit findings	NA			
31.3	Recommendations on audit by the sub-national council	NA			
31.4	Transparency of the legislative scrutiny of audit reports	NA			

## Annex 6: Service Delivery Assessment

### Background

The central government decentralization agenda has led to the transfer of some critical public service from the state government to sub-national government, not only to make these services easily assessable to the public but also to improve efficiency, build local government capacity in terms of additional responsibilities, as well as an increase in both revenues and expenditures. Therefore, as part of this main PEFA assessment, Swiss SECO, the state government, and the City Government of Zhytomyr agreed to conduct a service delivery assessment to ascertain the level of impact of PFM on service delivery. The result of the service delivery assessment will form the basis of aligning SECO’s ELocFin project to the needs of the public through improved PFM systems and processes.

The assessment team used the “Guidance for SNG PEFA Assessment: Service Delivery Module” dated October 2020. The fieldwork was conducted concurrently with the main PEFA assessment. The experts used data and information collected under the main PEFA assessment. As required by the Service Delivery Module, additional information was gathered through the interviews with two KSUs (the Education Department and the Healthcare Department) and respective four SD units, which are subordinated to selected KSUs in terms of supervising their operations and activity.

The four SD units were presented by two municipal budget institutions of education area (secondary school No.28 and preschool institution No.51) and two communal healthcare enterprises (primary healthcare centre and municipal clinic No.1). All of them are owned by Zhytomyr City Council. Names and positions of persons interviewed in each of the institution mentioned are indicated in Annex 3.2 above.

Supplementary questions included in the Service Delivery Module were used for conducting the interviews. Specific documents collected from the interviewees are: budget requests and justification of budget indicators calculation; budget program passports and reports; budget programs evaluation results; explanatory/instructive letters from KSUs to SD units on changes in sectoral policy foreseen; annual performance reports of the principals of the educational institutions and chief medical officers of the healthcare institutions interviewed.

The table below provides the results/findings of the Service Delivery Assessment.

**Table A-6.1: Service Delivery Assessment’s findings**

Indicator/dimension	Brief explanation
<b>SUB-NATIONAL PILLAR: INTERGOVERNMENTAL FISCAL RELATIONS</b>	
<b>HLG-1. Transfer from higher levels of government</b>	Zhytomyr City Council received earmarked grants from the state budget and oblast budget. These are: education subventions, healthcare subvention, subvention for socio-economic development of territories, subvention for housing for ATO fighters, road infrastructure subvention, election subvention, and COVID subvention.

Indicator/dimension	Brief explanation
	<p>To cope with unpredictable effects and implications of the COVID-19 pandemic, the Government established a special fund within the state budget that allowed the city budget to receive respective subvention in an amount of UAH 8.6 million.</p> <p>There is a high share of educational grants from the state budget which is a vital resource for ensuring salaries for teachers. However, that did not negatively affect the timeliness of relevant expenditure, since in each of the years under assessment (2018, 2019 and 2020), more than 90% of all budget grants were transferred timely to the city budget within the timelines prescribed by the law.</p> <p>Before the start of the next budget period, the Finance and Budget Department prepares an annual budget allocation plan (cash flow forecast) which establishes the schedule of transferring grants from the state budget to local budgets.</p>
<b>HLG-2. Fiscal rules and monitoring of fiscal position</b>	No direct impact on service delivery.
<b>PILLAR I: BUDGET RELIABILITY</b>	
<b>PI-1. Aggregate expenditure outturn</b>	<p>The variance of total actual expenditures from the original budget (PI-1 is rated 'B') was not significant in 2019 and 2020 (5.2% and 4.4% respectively). In 2018, it stood at 11.1%. It contributed positively to SD programs implementation through ensuring their funding on time and in the estimated amounts. There were not any delays in the distribution of budget resources to SD units, which could impact service delivery.</p>
<b>PI-2. Expenditure composition outturn</b>	
PI-2.1. Expenditure composition outturn by function	<p>The variance of expenditure composition outturn from the originally approved composition (by function categories) was more than 10% in two of the three years under assessment. This can be explained by the fact that during the year additional and/or new intergovernmental transfers were allocated from the state and oblast budgets to the city budget.</p> <p>The highest deviations occurred in health care and public administration (in 2018 and 2020), also in social security and economic affairs (in 2019).</p> <p>However, it does not affect the process of providing primary services because relevant budget institutions received more money than it was estimated in the original budget. If the central government had provided the City Government less revenue than anticipated, the city institutions would then have expenditure arrears, and healthcare institution might have resorted to overdraft.</p>



Indicator/dimension	Brief explanation
PI-2.2. Expenditure composition outturn by economic type	<p>When it comes to expenditure composition outturn by economic type, it was significant in 2019 (30.6%) and 2020 (14.3%).</p> <p>Analysis of the expenditure composition by economic type showed the biggest deviation in the consumption of fixed capital in each of the three years. At the same time, the city governments assured the experts on absence of any negative impact on the volume and completeness of expenditure as well as quality of service delivery.</p>
PI-2.3. Expenditure from contingency reserves	<p>Expenditures from contingency reserves originally approved by the City Council were not realized over 2018-2020 that means the SNG managed to cover all required needs with resources initially allocated by budget programs.</p>
<b>PI-3. Revenue outturn</b>	
PI-3.1. Aggregate revenue outturn	<p>Budgetary institutions forecast their revenues from services provided to citizens, parental fees, sponsorship fees, etc. (which constitute own revenues of budget institutions). Such funds make up a scanty amount – up to 10% of total revenues of budget institutions (an average for both educational and healthcare institutions sampled). The rest of funds required to cover budgetary institutions’ expenditure are derived from the national taxes and fees, budget transfers and other revenues of local budgets, which are forecasted by the Finance and Budget Department of Zhytomyr City Council.</p> <p>The forecast of revenues from state and city budgets for both educational and healthcare institutions was close to their needs. The planned services were fully provided.</p>
PI-3.2. Revenue composition outturn	
<b>PILLAR II: TRANSPARENCY OF PUBLIC FINANCES</b>	
<b>PI-4. The budget classification</b>	<p>Existing budget classification enables expenditure to be tracked at the sector, economic and administrative level for budgeting, monitoring and reporting purposes.</p> <p>All budget institutions develop a plan for using budget funds (budget allocation plan) and reports on its performance based on administrative, program, function, and economic classifications. SDUs submit plans and reports to the relevant KSUs (Healthcare Department, Education Department, Finance and Budget Department of Zhytomyr City Council) and to the Treasury. At the same time, consolidated budget reports prepared by the Treasury do not contain data by aggregate administrative codes (in other words, by KSUs). Only the budget documentation approved by the local council includes data on budget expenditure allocated by both budget programs (functions and sub-functions) and KSUs.</p>

Indicator/dimension	Brief explanation
<b>PI-5. The budget documentation</b>	<p>The explanatory note to the annual budget and medium-term budget forecast does not include implications of changes in revenues, expenditure, and intergovernmental fiscal relation policies.</p> <p>These implications could be a ground for KSUs to provide SD budget institutions with full and timely information on changes in the policy expected in the next budget period and midterm perspective.</p>
<b>PI-6. Sub-national government operations outside financial reports</b>	
PI-6.1. Expenditure outside financial reports	<p>The ratio of extra-budgetary expenditure of healthcare institutions to total City Government expenditures was 1.9% in FY2020 and extra-budgetary revenue – 1.8% of total City Government revenue for FY2020. These funds are not included in the budget and financial reports of the City Government, but they are presented in the financial statements of such SD units. Otherwise, revenue and expenditure outside financial reports can be a reason for the decrease in budget transparency.</p> <p>Educational institutions do not have operations outside financial reports. When they receive revenues in-kind, those revenues are reported in the Zhytomyr city financial reports.</p>
PI-6.2. Revenue outside financial reports	
PI-6.3. Financial reports of extrabudgetary units	<p>The preparation of financial statements of educational institutions is in accordance with the requirements of National Public Sector Accounting 101 "Submission of financial statements" and the Cabinet Decree dated 28.02.2000 No. 419. Separate sections of the Statement of Financial Performance reflect the income received and expenses incurred by educational institutions as well as assets and liabilities.</p> <p>Healthcare institutions, which are non-profit communal enterprises, submit financial statements in accordance with National Public Sector Accounting BU 1 "General requirements for financial reporting" and the Cabinet Decree dated 28.02.2000 No. 419 to the Healthcare and Education Department of the Zhytomyr City Council, as well as to the offices of the State Statistics Service and the State Tax services of Ukraine. The financial statements reflect all income and expenditure, assets, and liabilities. These reports are submitted on time.</p>
<b>PI-7. Transfers to sub-national governments</b>	
PI-7.1. Transfer distribution system	This dimension is not applicable, as there is no lower-tier government.
PI-7.2. Timeliness of transfer information	This dimension is not applicable, as there is no lower-tier government.
<b>PI-8. Performance information for service delivery</b>	

Indicator/dimension	Brief explanation
PI-8.1. Performance plans for service delivery	<p>Budget passport is a document which should be developed for each budget program (except for several cases prescribed by the law) after budget approval, and it contains performance indicators that can be divided into program output and program outcome.</p> <p>Budget program on secondary education includes the following outputs: the average annual number of students, the cost per student, the number of schools; whereas a share of students involved in secondary education is set as a budget outcome.</p> <p>Similar performance indicators serve as output for medical institutions. These are: the number of patients treated, the average cost of the primary/specialized medical service, and the number of doctors; outcomes are defined as a reduction in mortality and an increase in the level of disease detection in the early stages.</p> <p>Performance plans tied to sectoral strategies developed by the Education Department and the Healthcare Department and approved by the Zhytomyr City Council.</p>
PI-8.2. Performance achieved for service delivery	<p>All KSUs prepare and submit reports on budget passport implementation to the Finance and Budget Department of Zhytomyr City Council. The reports are also published on the official websites of KSUs and the city council.</p> <p>Based on information included in respective budget passports and reports on its implementation, there were no underperformed indicators in 2018-2020.</p>
PI-8.3. Resources received by service delivery units	<p>Information on resources (cash and in-kind) received by SD units is included in their financial reports to be submitted to respective KSUs who consolidate reports of all SD units accountable and submit the consolidated report to the Treasury.</p> <p>SD units report information on resources received is disaggregated by the source of funds and presented by the budget programs tasks with a clear link to performance indicators developed for each separate task. This means that it is possible to match outputs with resources received.</p>
PI-8.4. Performance evaluation for service delivery	<p>Performance evaluation for service delivery is done on a basis of information retrieved from performance indicators analysis, budget requests, budget passports, reports on their implementation, and other relevant budget documentation.</p> <p>Although there has been no independent evaluation of the effectiveness of local budget programs, KSUs are recommended to provide such evaluation at all stages of the budget process. The officials from the Education Department and the Healthcare Department interviewed reported on the consideration of the evaluation results when making decisions on budget allocation for the next budget period(s).</p> <p>Evaluation results/materials are available on the Zhytomyr City Council website (see PI-8.4).</p>

Indicator/dimension	Brief explanation
	The evaluation results can be used, in particular, to identify reasons for deviation in actual indicators outturn, to compare various service delivery programs based on their efficiency level, and to develop proposals on how to increase budget program efficiency and transparency.
<b>PI-9. Public access to fiscal information</b>	The summary budget proposal (Element 8) contains detailed information regarding service delivery (allocated budget, changes compared to the previous years). Any decision which affects service delivery must be approved by the local council. According to the Law dated 13.01.2011 No. 2939 “On the access to public information”, local council made available its draft decision to the public. Such draft decisions are published on the website of Zhytomyr City Council.
<b>PI-9bis. Public consultation</b>	
PI-9bis.1. Public consultation in budget preparation	Zhytomyr City Council does not conduct public consultation in the whole budget proposal preparation. It deals with a certain part (share) of the city budget funds, determined by the City Council, which can be allocated for implementation of the projects proposed and developed by citizens of Zhytomyr CTC (see PI-9bis.3 below).
PI-9bis.2. Public consultation in the design of service delivery programs	To involve citizens in public consultation in design of service delivery programs, there is “citizens budget” mechanism on the city council website. The City Government reported on the consultation for <i>secondary education budget program</i> in 2020. Based on the experience of the secondary school No.28 visited in Zhytomyr, citizens’ (parents of the students) submitted proposals on installment of the fire alarm system and construction of a mini sport complex on the territory of the school. These proposals were realized successfully.
PI-9bis.3. Public consultation in investment planning	The city governments have not provided any information supported by respective evidence on conducting public consultation in investment planning in 2020. At the same time, they reported on conducting consultation under preparation of “Reconstruction of the city river embankment” and “Landscaping and mapping of the city parks and squares” projects.
<b>PILLAR III: MANAGEMENT OF ASSETS AND LIABILITIES</b>	
<b>PI-10. Fiscal risk reporting</b>	
PI-10.1. Monitoring of public corporations	Public corporations are not engaged in delivering public services.
PI-10.2. Monitoring of sub-national governments	Not applicable.

Indicator/dimension	Brief explanation
PI-10.3. Contingent liabilities and other fiscal risks	Not applicable.
<b>Public investment management</b>	
PI-11.1. Economic analysis of investment proposals	<p>Public investment projects implementation in Zhytomyr in 2020 had an impact on the enhancement of the quality of SD through: renovation of premises of SD units (schools, kindergartens, clinics and hospitals); development of sport and physical training infrastructure in educational institutions (e.g., construction of the gym hall at the secondary school No.10); improvement of the conditions for the safe stay of children and students at educational institutions (the fire alarm system instalment at the secondary school No.28).</p> <p>In addition to information received from the SD units visited during the assessment, the local governments of the Zhytomyr city provided information, which allowed the conclusion of the improvement of other public services due to implementation of the investment projects in the city. Particularly, it refers to:</p> <ul style="list-style-type: none"> <li>- establishment of new centres for delivering public administrative services in the city that contributed to expanding accessibility of citizens to the services and shortening the time for its providing;</li> <li>- reconstruction of the Spartak Stadium;</li> <li>- reconstruction of the Teteriv river embankment in the city.</li> </ul> <p>All these mean that citizens of the city obtain the better conditions for their lives and leisures.</p>
PI-11.2. Investment project selection	
PI-11.3. Investment project costing	No direct impact foreseen.
PI-11.4. Investment project monitoring	<p>The implementation report on financial and physical progress provides information to analyse the impact of investment project progress on service delivery, since it presents information on compliance of progress with technical and economic documentation.</p> <p>Furthermore, the investment projects monitoring and the respective reports prepared by the city governments that are published on the city website help citizens to be informed on what projects are being implemented, what are the main outputs and outcomes of the projects, and if the target use of investment funds are ensured based on the goals and tasks of the projects' implementation.</p> <p>This, consequently, contributes to an increase in budget funds' transparency and the City Government's accountability.</p>
<b>PI-12. Public asset management</b>	
PI-12.1. Financial asset monitoring	No direct impact foreseen.

Indicator/dimension	Brief explanation
PI-12.2. Nonfinancial asset monitoring	The process of public asset management is mainly decentralized. SD units maintain full and up-to-date records of their fixed assets, with cards of individual assets and an inventory of all assets on their balance sheets, indicating the date of purchase, status, the responsible person, and the location of the asset. An inventory of fixed assets is conducted annually, and the availability and movement of fixed assets are reflected in the notes of the annual financial statements. All educational and healthcare institutions in the city have decentralized accounting offices.
PI-12.3. Transparency of asset disposal	No asset disposal has been done during the time of assessment in the healthcare and educational SD units interviewed. That is, the assets disposed in 2020 and analysed under PI-12.3 refer to the City Government in general, but not to the healthcare and educational institutions.
<b>PI-13. Debt management</b>	
PI-13.1. Recording and reporting of debt and guarantees	Schools are not allowed to borrow. Healthcare institutions can secure short-term bank overdrafts for operational purposes but with the approval of the City Government. In case of lack of cash, the overdrafts, on the one side, ensure stable and smooth operation, and, on the other side, increase the cost of public services. The interviewed healthcare institutions did not use this financial instrument in 2020.
PI-13.2. Approval of debt and guarantees	
PI-13.3. Debt management strategy	
<b>PILLAR IV: POLICY-BASED FISCAL STRATEGY AND BUDGETING</b>	
<b>PI-14. Medium-term budget strategy</b>	
PI-14.1. Underlying forecasts for medium-term budget	In accordance with the BCU, the Finance and Budget Department of Zhytomyr City Council prepares annually local budget forecast for the medium-term perspective (next budget year and two following fiscal years). As mentioned above, a medium-term budget forecast does not contain the justification for the impact of changes in revenues, expenditure, and implications of novelties in SD budget programs.
PI-14.2. Fiscal impact of policy proposals	
PI-14.3. Medium-term expenditure and revenue estimates	
PI-14.4. Consistency of budget with previous annual estimates	
<b>PI-17. The budget preparation process</b>	
PI-17.1. The budget calendar	Based on the measures and timelines defined in the budget calendar of the City Council KSUs prepare budget requests to be submitted to the Finance and Budget Department. However, the budget process is decentralized from KSUs to SD units. This means that each SD unit develops and submits to relevant KSU detailed estimates, which are bases for budget request finalization. After the city budget is adopted by the council, KSUs provide SD units with
PI-17.2. Guidance on budget preparation	
PI-17.3. Submission of the budget to the legislature	

Indicator/dimension	Brief explanation
	expenditure ceilings and budget allocation plan. Based on this, SD units develop their individual operational plans, that are a balance of their annual revenue and expenditure.
<b>PI-18. Legislative scrutiny of budget</b>	
PI-18.1. Scope of budget scrutiny	There are sectoral committees under the City Council (the committee on housing and utility services and the committee on social security and protection), which are closely related to and responsible for elaborating SD programs. When doing this, the officials from the City Council take into account citizens' proposals and requests received both in a documentary way and through the online tools available on the City Council ("citizens budget").
PI-18.2. Legislative procedure for budget scrutiny	No direct impact foreseen.
PI-18.3. Timing of budget approvals	During the assessment period (2018-2020), the city budget has been approved by the City Council on time (in December) before the start of the new fiscal year. SD units receive information of their allocations in the second part of December or in early January.
PI-18.4. Rules for budget adjustments	The Executive Committee has made budget adjustments to expenditure targeted to SD programs due to increase in budget transfers from the state budget. Cash-balance forecasts (annual allocation plans) have been reviewed and adjusted accordingly on a regular basis.
<b>PILLAR V: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION</b>	
<b>PI-19. Tax administration</b>	NA
PI-19.1. Right and obligation for tax measures	
PI-19.2. Property tax register and value assessment	
PI-19.3. Tax risk management, audit and investigation	
PI-19.4. Tax arrears monitoring	
<b>PI-20. Accounting for revenue</b>	
PI-20.1. Information on revenue collections	Educational and healthcare institutions prepare monthly reports, which include their own revenues and submit them to the Treasury. The Treasury then consolidates all revenues, including the revenues of educational institutions. The Budget Code of Ukraine allows SD units to open their own bank accounts at the state-owned banks. These bank accounts are used for collecting own revenues of budget institution and add up to the Treasury bank accounts through which budget funds are transferred.
PI-20.2. Transfer of revenue collections	

Indicator/dimension	Brief explanation
	The State Audit Service conducts audits of such own revenues and expenditures. It helps improving service delivery thanks to the implementation of issued recommendations.
PI-20.3. Tax accounts reconciliations	NA
<b>PI-21. Predictability of in-year resource allocation</b>	
PI-21.1. Consolidation of cash balances	An integral part of the budget management framework is the monthly cash allocation plan, which serves as a basis for financing educational and healthcare institutions. As a rule, financial management adheres to the allocated volumes of financing. However, if there is a lack of funds in the budget, then the Finance and Budget Department (based on the relevant KSU request) may resort to such an instrument for budget financing as TSA's funds (in line with the Procedure for Treasury servicing of local budgets approved by the Minfin Order dated 23.08.2012 No. 938). SD units prepare annual cash flow plans based on estimates issued by KSUs. Daily analysis of cash inflows and outflows helps to ensure that cash is properly managed and allocated to the needs of SD units. There were no cases of critical underfunding or cash shortages.
PI-21.2. Cash forecasting and monitoring	
PI-21.3. Information on commitment ceilings	
PI-21.4. Significance of in-year budget adjustments	
<b>PI-22. Expenditure arrears</b>	
PI-22.1. Stock of expenditure arrears	As of January 1, 2021, there are no arrears of expenditures of budget institutions of Zhytomyr City Council. SD units submit monthly financial statements to their supervisory budget units which contain information on expenditure arrears.
PI-22.2. Expenditure arrears monitoring	
<b>PI-23. Payroll controls</b>	
PI-23.1. Integration of payroll and personnel records	The city mayor appoints only the heads of SD units which are permitted to hire other staff without the approval of the local council.
PI-23.2. Management of payroll changes	Newly appointed staff usually receive a lower amount because they were appointed after the month is started.
PI-23.3. Internal control of payroll	
PI-23.4. Payroll audit	Staff payment structure includes salary, overtime, allowances, bonuses. It helps incentive staff performance since it tends to work increasingly productive. Only authorized persons (accountants) enter payroll data (new positions, changes, variable benefits, and deductions) into the payroll system. Changes are properly authorized and approved by the head of the SD unit. The SAS, the Pension Fund, and social security funds are empowered to conduct payroll audit. Five (5) payroll audits have been conducted over 2018-2020, including 4 audits provided by the Pension Fund Department in Zhytomyr Oblast (1 in 2018, 2 in 2019, 1 in 2020) and 1 audit carried out by the social security funds in 2019.



Indicator/dimension	Brief explanation
	Any payroll audit covering all entities of the Zhytomyr City Council has not been conducted in the last three completed fiscal years.
<b>PI-24. Procurement</b>	
PI-24.1. Procurement monitoring	Healthcare and educational institutions are responsible for all procurements within revenues they receive from the city budget and state budget and own revenues (when they have their own bookkeeping). Each institution prepares and publishes a detailed procurement plan on the public procurement database “Prozorro.” The information available on the “Prozorro” includes the procurement purpose, subject, conditions, value and winner(s) of the contract. All KSUs and SD units have full access to the “Prozorro” which allows recording all the procurement transactions within the system. That grants a comprehensive oversight of the procurement activity.
PI-24.2. Procurement methods	Regarding the value of procurement operations of the education sector, 67% of procurement operations have followed the competitive methods in FY2020. This low percentage is explained by the large number of bids by negotiations due to procurement of services for heat and water supply, electricity, suppliers of which, as a rule, are monopolists.
PI-24.3. Public access to procurement information	No direct impact on service delivery foreseen.
PI-24.4. Procurement complaints management	The total volume of contracts under the complaint procedure for educational and healthcare SDUs in 2020 is as follows: <ul style="list-style-type: none"> <li>- Education – 6 procurement contracts of UAH 4.2 million; all of them were canceled based on Antimonopoly Committee decision;</li> <li>- Healthcare – 2 procurement contracts of UAH 2.4 million; 1 procurement contract of UAH 1.7 million was canceled based on Antimonopoly Committee decision.</li> </ul> All the decisions of the Committee were issued within 10 business days from the date of acceptance of the complaint for consideration that is consistent with the Procurement Law’s requirement.
<b>PI-25. Internal control on non-salary expenditures</b>	
PI-25.1. Segregation of duties	In line with documented internal procedures and under the supervision of the intern control measures, KSUs provide control to make sure that commitments are kept only within the scope of budgets and monthly budget allocations. The Treasury Information System is applied to
PI-25.2. Effectiveness of expenditure commitment control	

Indicator/dimension	Brief explanation
PI-25.3. Compliance with payment rules and procedures	public administration bodies at all levels; it includes a module that provides for the registration of all budget commitments and this approach ensures that commitments are effectively limited within the budget allocations of the relevant KSU.
<b>PI-26. Internal audit</b>	
PI-26.1. Coverage of internal audit	There is no structural unit (division, department) or individual person (official) responsible for internal audit in Zhytomyr City Council.
PI-26.2. Nature of audits and standards applied	
PI-26.3. Implementation of internal audits and reporting	
PI-26.4. response to internal audit	
<b>PILLAR VI: ACCOUNTING AND REPORTING</b>	
<b>PI-27. Financial data integrity</b>	
PI-27.1. Bank account reconciliation	There are no suspense accounts related to SD units.
PI-27.2. Suspense accounts	
PI-27.3. Advance accounts	
PI-27.4. Financial data integrity processes	
<b>PI-28. In-year budget reports</b>	
PI-28.1. Coverage and comparability of reports	The in-year budget reports issued by the Treasury include information on budget execution by each SD program. Service delivery programs present the types of services, such as clinics, hospitals, schools, orphanages, theatres, etc.
PI-28.2. Timing of in-year budget reports	
PI-28.3. Accuracy of in-year budget reports	Report on budget passport performance includes the following information: budget program goal and tasks; budget resource allocation among budget program activities; actual performance indicators (output and outcome). All this information is prepared and consolidated by KSUs based on details provided by SD units. Each SD unit provides information for in-year budget execution reports to the Treasury. The Treasury prepares consolidated reports and submits them to the respective KSUs.
<b>PI-29. Annual financial reports</b>	
PI-29.1. Completeness of annual financial reports	SD units provide information for annual financial reports to the Treasury. The Treasury prepares a consolidated report and submits it to the respective sectoral departments as well as the Finance and Budget Department of the City Council.
PI-29.2. Submission of reports for external audit	

Indicator/dimension	Brief explanation
PI-29.3. Accounting standards	Annual financial reports issued by the Treasury include information on budget execution by each SD program.
<b>PILLAR VII: EXTERNAL SCRUTINY AND AUDIT</b>	
<b>PI-30. External audit</b>	
PI-30.1. Audit coverage	Over the last three completed fiscal years (2018-2020), the supreme audit institution, known as the Accounting Chamber of Ukraine, has not conducted any external audit of the financial reports and operation activities of the Zhytomyr City Council and its executive governments.
PI-30.2. Submission of audit reports to the sub-national council	
PI-30.3. External audit follow-up	
PI-30.4. Independence of the public audit institution in charge of sub-national government	
<b>PI-31. Legislative scrutiny of audit reports</b>	
PI-31.1. Timing of audit report scrutiny	The Accounting Chamber of Ukraine have not conducted any audits in Zhytomyr City Council during the period under the assessment.
PI-31.2. Hearing on audit findings	
PI-31.3. Recommendations on audit by the legislature	
PI-31.4. Transparency of scrutiny of audit reports	