



Public Expenditure and Financial Accountability (PEFA)

Assessment of Lviv City Sub-National Government (Ukraine)

Final Report
March 31, 2022

Funded by:



Implemented by:





Public Expenditure and Financial Accountability (PEFA)
Assessment of Lviv 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, OVERSIGHT, AND QUALITY ASSURANCE

The assessment management framework, oversight and quality assurance are summarised 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) Tatiana Hrytsun - Head of Inter-budgetary Relations and Local Budgets Planning, Inter-budgetary Policy and Local Budgets Department, MoF; and (ii) Mr. Andriy Moskalenko (Lviv First Deputy City Mayor). 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. Mr Taras Fryz, Head of Analysis and Planning Division of the Economic Development Department of Lviv City was the focal person; he organised all 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). The quality assurance process of this report is shown in Box 1.1 below. The first draft report was submitted for peer review on 16 December 2021.

Box 1.1: Assessment management and quality assurance arrangements

PEFA Assessment Management Organization	
<ul style="list-style-type: none"> • Oversight Team (OT) — See Table below. • Assessment Manager: Dr. Boris Petkov (Overall Team Leader, Linpico SARL) • Assessment Team Leader: Charles Komla Hegbor (International PFM/PEFA Expert) • Assessment Team Member: Inna Samchynska (national PFM/PEFA Expert) • Ministry of Finance, Ukraine and Lviv City Government • PEFA Secretariat • Peer Reviewers: PEFA Secretariat, SECO, EU, WB, Ministry of Finance of Ukraine and Lviv City Government 	
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Chairperson	<ul style="list-style-type: none"> • Tatiana Hrytsun, Head of Inter-budgetary Relations and Local Budgets Planning, Inter-budgetary Policy and Local Budgets Department, MoF
Ministry of Finance	<ul style="list-style-type: none"> • Tatiana Hrytsun, Head of Inter-budgetary Relations and Local Budgets Planning, Inter-budgetary Policy and Local Budgets Department, MoF
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Development Partners	<ul style="list-style-type: none"> • Mr. Thomas Stauffer, Programme Manager, Macroeconomics, Swiss SECO

- Ms. Ilona Postemska, Senior National Programme Officer, Embassy of Switzerland in Ukraine, Swiss SECO
- Natalia Starostenko, Sector Manager, Local development, EU Delegation to Ukraine, EU
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Review of concept note and/or terms of reference

- **Date of review - draft concept note by the PEFA Secretariat: 7 August 2021. Concept Note was approved on 29 August 2021**
- **Other invited reviewers (names) who submitted written comments:**
Iryna Shcherbyna (World Bank); Natalia Starostenko (EU); Ilona Postemska and Stefan Bruni (Swiss SECO)
- **National and Sub-national Governments of Ukraine:** Tatiana Hrytsun (MoF Ukraine); Mr. Andriy Moskalenko (Lviv First Deputy City Mayor)

Review of the assessment report

- **Peer reviewers (names and institutions):** Iryna Shcherbyna (World Bank), Andriy Moskalenko (Lviv First Deputy City Mayor), and Tatiana Hrytsun (Head of Inter-budgetary Relations and Local Budgets Planning, Inter-budgetary Policy and Local Budgets Department, MoF)
- **Ministry of Finance and Lviv City Administration**
- **PEFA Secretariat's review - (dates of reviews):** 1st draft – 19 January 2022; 2nd draft – 14 March 2022

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Acronyms and Abbreviations

ACU	Accounting Chamber of Ukraine
ATC	Amalgamated Territorial Community
BCU	Budget Code of Ukraine
CMU	Cabinet of Ministers of Ukraine
CPI	Consumer Price Index
EBU	Extra-budgetary units
EFF	Extended Fund Facility
EU	European Union
GDP	Gross Domestic Product
GFS	Government Finance Statistics
IMF	International Monetary Fund
KSU	Key Spending Unit
MOF	Ministry of Finance
OC	Oblast Capital
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PIM	Public Investment Management
PPP	Public Private Partnership
SAS	State Audit Service
SDU	Service Delivery Unit
STS	State Tax Service
SNG	Sub-national Government
SOE	State Owned Enterprise
TSA	Treasury Single Account
WB	World Bank

ASSESSMENT 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 the 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, as these oblast cities have had experiences in managing development partner grants including building of technical capacity for their 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) Lviv City, (ii) Chernivtsi City, (iii) Zhytomyr City, and (iv) Vinnytsia City.

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) such as the 2nd 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 Lviv City, as well as 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.

The assessment covered 32 performance indicators. The October 2020 guidance on SNG PEFA assessment has introduced two new indicators (HLG-2¹ and PI-9bis²) to the existing HLG-1³ 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; these include :

- (i) PI-7 (i.e., transfers to sub-national governments) – because there is no first-tier lower-level government below Lviv City Administration.
- (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 Lviv City Administration and also no contingent liabilities and PPP arrangements.
- (iii) PI-19 (i.e., tax administration) – because all taxes are administered by the State (national) Tax Service of Ukraine.
- (iv) PI-20.3 (i.e., tax reconciliation) - because all taxes are administered by the State (national) Tax Service of Ukraine.

¹ HLG-2 is “fiscal rules and monitoring of fiscal position”

² PI-9bis is “public consultation”

³ HLG-1 is “transfer from higher-levels of government”

- (v) PI-27.2 (i.e., suspense account) – because there are no suspense accounts.
- (vi) PI-30.3 (i.e., external audit follow-up) – because there are no external audits carried by ACU for the City Government of Lviv.

Assessment coverage and timing

Annexes 3A and 3B 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 Lviv City used for this assessment. The SNG PEFA assessment covered local government budgeted units (specifically Finance Office, Education and Health, Urban Development, and Infrastructure), extra-budgetary units, municipal (public) corporations/enterprises, the Accounting Chamber of Ukraine,⁴ the State Audit Service, local branch office of State Fiscal Service, and the City Council (legislature). Currently, there are sixty-seven municipal (public) corporations/enterprises but there are no social security funds at the level of Lviv City Administration. 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 as of the time of the fieldwork in September 2021. (June 2021 as cut-off period in accordance with the concept note).

Fieldwork

The field mission began on September 27, 2021 and ended on October 8, 2021 with a debriefing and discussion of preliminary scores with SNG officials. The team launched a PEFA training workshop on September 27 and 28, 2021. The workshop was organised to train key government officials of Lviv City Administration 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 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 organised based on a draft meeting schedule submitted by the assessment team to the SNG ahead of the proposed field mission in September 2021. Mr. Zabarylo Oleh, Deputy Director of the Department - Head of the Economic Department of the Department of Economic Development of Lviv City and Mr. Taras Fryz, Head of Analysis and Planning Division of the Economic Development Department of Lviv City were responsible for organising and coordinating all meetings; they ensured all 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; Mr. Zabarylo Oleh and Mr. Taras Fryz ensured that all responsible SNG officials gathered the requested data prior to the arrival of the assessment team. Where data gaps were identified, Mr. Zabarylo Oleh and Mr. Taras Fryz organised and gathered additional data for submission to the assessment team. Mr. Pavlo Briukhin provided translation services.

Fiscal year: 1st January to 31st December

Currency unit = Ukrainian hryvnia (UAH)

EUR1 = UAH31.59647 (as of September 2021)

⁴ Supreme Audit Institution

EXECUTIVE SUMMARY

Rationale and purpose

Ukraine's macroeconomic growth remained on track from 2016 following the 2014-2015 economic crisis, 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 that culminated in the reduction of public debt. The country was not spared by the global COVID-19 pandemic; the humanitarian and economic crisis have derailed efforts geared towards stronger and all-inclusive growth.

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

In accordance with the Budget Code of Ukraine, the main sources of revenue of the Oblast Capitals (OC) includes: 60% of the personal income tax (PIT), excise tax, 100% corporate income tax (CIT) from communal enterprises, and local taxes, whereas the expenditure responsibilities of the OCs include: pre-school education, secondary education, high-school communal establishments, extracurricular education, healthcare, local fire department, housing and communal services, transport and road infrastructure, mass media, social services, physical education, palaces of culture, libraries, museums, and communal zoos.

The bold decentralisation 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 Khmelnytskyi Oblast, Khmelnytskyi Oblast Capital, and Iziaslavskyi 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 Lviv 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).

The SNG PEFA assessment covered local government budgeted units (specifically Finance Office, Education and Health, Urban Development, and Infrastructure), extra-budgetary units, municipal (public) corporations/enterprises, the Accounting Chamber of Ukraine,⁵ the State Audit Service, local branch office of State Fiscal Service and the City Council (legislature). The FYs for the assessment are 2018, 2019, and 2020. The last budget submitted to the city council is that of FY2021.

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 OC level in Ukraine;

⁵ Supreme Audit Institution

- (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 as a result, for determining of the underlying causes of PFM performance. On the other hand, as the Ministry of Finance is directly involved in this PEFA assessment, as both a member of the Oversight Committee and as a peer reviewer; hence, the results can be directly used by the MoF for further adjustments (if necessary) in PFM or in decentralisation reforms.

Specific Objectives

The specific objective of this PEFA assessment is to improve public service delivery through supporting PFM reforms at the sub-national level (OC level) in line with Swiss SECO's ELocFin project. Following an evidence-based approach, in this preparatory stage, the strengths and weaknesses of PFM in the pre-selected OCs will be assessed using the PEFA 2016 methodology, including gender and service delivery modules. On one hand, the ensuing assessment reports will provide the basis for the final selection of participating OCs 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 the Ministry of Finance of Ukraine and the Lviv City SNG. 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 in order to facilitate the assessment and communication of results.

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/indicator. Chart 1 shows a graphical presentation of PFM performance at the indicator level.

Main strengths and weaknesses of PFM systems

PFM strengths

Compliance levels are high with respect to adherence to financial management laws and procedures. Additionally, PFM laws, regulations and guidelines established by the state government and applicable at all levels of government are adequate, which is a notable strength.

Citizen engagement during the budget formulation and preparation process and the design of service delivery programs through public consultation strengthens transparency and accountability; this could be further improved if the same mechanism is adopted for public investment projects.

A good approach has been noted to improve the transparency and accountability through the publication of fiscal data (budget, execution reports, procurement information, performance information for service delivery, etc.).

Cash management is strong, aided by a good TSA architecture, in addition to a good revenue reporting mechanism, leading to adequate resources made available for payment of expenditure, thereby eliminating expenditure arrears.

The City Government also uses the state E-procurement portal – Prozorro. As a result, there is good public access to all procurement information in a timely manner. Transparent procurement systems contribute to reducing service delivery cost, thereby leading to efficiency and effectiveness of resource allocation.

PFM weaknesses

The poor performance of transfers from higher levels of government has negatively affected the expenditure budget according to economic and functional classifications. It has also led to significant and frequent in-year budget adjustments, which could negatively affect the delivery of planned service delivery programs, and to minimise this effect, the state and City Government agree on predetermined services to be funded.

The non-comparability of annual financial statements to the approved budget makes it difficult to trace the use of public resources as allocated in the budget. That said, the annual financial statements are very comprehensive.

External audit coverage is partial, below 50% by value of city government operations, failing to provide a comprehensive independent overview of the operations of the City Government, mainly due to the legal limitations in ACU's oversight responsibilities which undermines its independence. The City Council (local parliament) also does not scrutinise external audit reports because these audit reports are not prepared and submitted to the Council for review.

Impact of PFM performance on budgetary and fiscal outcomes

Aggregate fiscal discipline

Strong PFM laws along with strict compliance enforcement measures contribute to fiscal discipline. Currently, fiscal discipline is strengthened by the existing robust state PFM laws, which are also applicable at the sub-national government level; stringent compliance enforcement measures are also in place, which has resulted in high degree of compliance with expenditure payment rules.

The revenue budget is less reliable but not to the extent of weakening fiscal discipline. Aggregate expenditures are reliable. Nevertheless, expenditure deviations according to economic and functional classifications due to high deviations in transfers from higher levels of government have weakened the fiscal discipline. The effects of these deviations have been minimized by the existing mechanism, which ensures that programs and services to be funded are predetermined prior to actual funds transfer, and therefore funds cannot be misallocated. Less than 3% by value of City Government operations are outside its budget and financial reports, thereby posing less threat to fiscal discipline. Payroll management and controls are good with very little or no negative impact on fiscal discipline.

The City Government has a considerable overview of the operations of municipal enterprises to the extent that at least 75% by value of municipal enterprises are audited annually with their audit reports published; monitoring and controlling the fiscal risk position of public enterprises strengthens fiscal discipline. Standard guidelines for public investment management are non-existent; this negatively affects the selection and economic analysis of public investment project to the extent that less economically viable projects may be implemented thereby weakening fiscal discipline. Fiscal discipline is weakened by the deficiencies in the oversight responsibilities of Accounting Chamber of Ukraine and the Lviv City Council.

Strategic allocation of resources

The City Government's revenue collection and accounting systems are strong. There is also an efficient cash management framework, which ensures that cash is available for payment of expenditure in a timely manner – this is a strength to strategic resource allocation. That said, strategic resource allocation has been weakened by the poor implementation of the budget classification; currently administrative budget classification is not used in the budget execution reports. Again, the budget documentation is not comprehensive as it fails to meet good international practice. Strategic resource allocation is also weakened by the absence of an estimation of fiscal impact of changes to policy proposals. This is further weakened by the frequent and significant in-year budget adjustments.

The time allocation for the budget formulation and preparation process is good – this strengthens strategic resource allocation since it allows more time for KSUs to better estimate. The timely approval of the annual budget strengthens the strategic resource allocation as it allows budget institutions to fully utilize their budget allocations for service delivery.

Efficient use of resources for service delivery

Sound public procurement systems support efficient use of resources for service delivery. The Lviv City Government uses the central government E-procurement system – Prozzoro which is effective and transparent; this strengthens efficiency in the use of resources for service delivery. Competitive procurement leads to reduction in the marginal cost of public service, which eventually increases service delivery output.

The frequent and significant in-year budget adjustments are a major concern as they weaken the efficient use of resources for service delivery. On the positive side, resources are sufficient and available for the provision of public service due to transfers from higher levels of government within the year and own local government resources.

There is good public access to fiscal information in addition to performance information for service delivery. This provides a basis for public accountability, which then strengthens the efficiency in the use of resources for service delivery. The framework for public consultation exists for the design of service delivery programs but could be further strengthened through adopting the same approach for public investment projects. Good public consultation for the design of service delivery programs strengthens the efficient use of resources for service delivery. Internal audit is functional but is not independent and with less coverage to critically assess the efficiency and effectiveness of service delivery. External audit is almost non-existent – a negative impact on efficient use of resources for service delivery. Fixed assets are properly recorded, monitored and accounted for; this shows that resources are used efficiently.

Performance changes since last assessment

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

Conclusions on service delivery

Service delivery has been positively impacted by the timely inflow of actual transfers from higher levels of government even though they were unpredictable as far as the budget is concerned. In Ukraine, the sub-national government budget suffers from considerable in-year reallocations for both economic and functional expenditure categories, mainly due to a budgeting system (from central government) which prohibits local governments to budget for unknown revenues and expenditures. Nevertheless, the negative impact of these frequent budget reallocations has been reduced by the predetermination of service delivery programs to be funded, thereby having less negative impact on the outcome of service delivery programs.

Transparency of public finances and fiscal data is generally good, as it provides a basis for the City Government's accountability, leading to improved service delivery. Public consultation for the development of service delivery programs as well as public investment projects with direct impact on service delivery needs to improve, as there is currently limited public consultation in this regard. There is a good accountability framework for SDUs own revenues, which ensures that these resources are used as intended, properly accounted and reported in a timely manner.

The Lviv City Government's satisfactory cash management system ensures that there are constant cash inflows to SDUs for payment of expenditures related to primary services. The good news is that there are no expenditure arrears. The national public procurement system, also used by SDUs, encourages the use of open tender for majority of SDU procurement activities, which then contributes to efficiency in the use of public funds for primary service delivery. The general internal control environment is satisfactory, but SDUs will, however, benefit from strong internal audit functions that are currently absent due to the lack of independency and limited staff numbers of the centralised Internal Audit Department of the Lviv City Government. Additionally, external oversight appears to be weak due to the limitation in ACU's coverage; nevertheless, the City Council scrutinizes the budgets and, in some cases, invites SDUs to response to financial management queries.

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

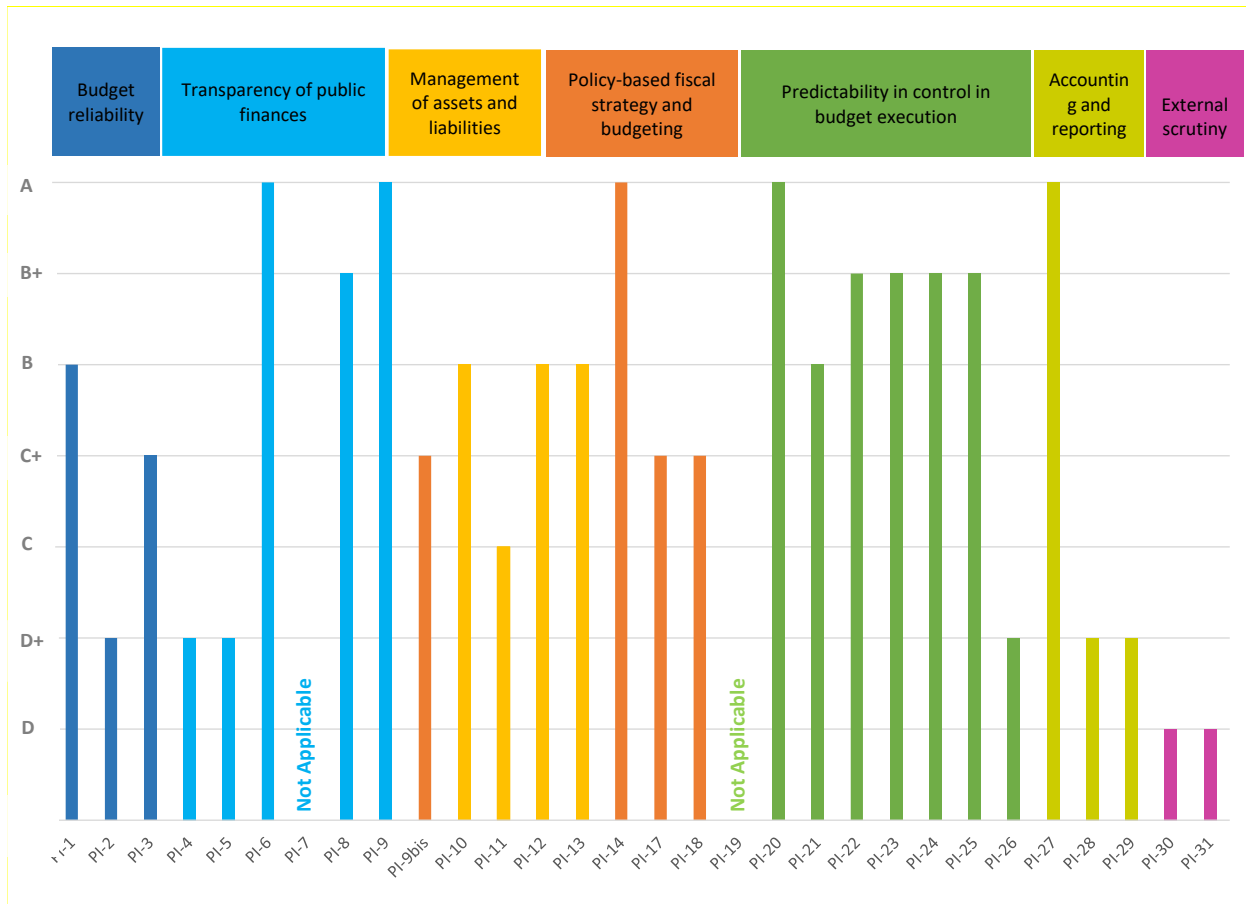


Table 1: Overall summary of PFM Performance Scores 2021

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

1 COUNTRY AND SNG BACKGROUND INFORMATION

1.1 Economic situation

Country economic situation

As a developing economy and with a population of 41.6 million⁶ of which more than 30% is rural, Ukraine's economy has been battered by the COVID-19 global pandemic. Economic growth was a little over 2% in 2016, increased to 3.5% in 2018 and then declined to 3.2% in 2019; this has, however, dropped sharply to -4.0% in 2020 due to the impact of the global COVID-19 pandemic. Unemployment figures were high at 8.8% in 2018 but declined by 0.6% in 2019 to 8.2%; unemployment in 2020 hit 9.5% mainly from the effects of COVID-19 which has slowed down economic activities needed to create more jobs. Inflationary pressures slowed down in 2019 at 4.1% from a high of 9.8% in 2018; it went to 5.0% in 2020 from the lowest of 4.1% within the last three completed fiscal years. Fiscal balance appears to be widening; in 2018, it was negative UAH75.1 billion. It increased further to negative UAH84.5 billion and negative 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 stabilise the economy. Debt levels are high, at 60.9% of GDP in 2018. It decreased to 50.2% of GDP in 2019 but went up again to 60.9% of GDP in 2020. Table 2 below provides some key national economic indicators.

Table 2: Selected national economic indicators

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, %)	9.8	4.1	5.0
Public finance (% of GDP)	41.9	41.6	45.7
Central government budget (GPB)			
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
Debt (% of GDP)	60.9	50.2	60.9

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

- ✓ Unemployment: 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
- ✓ CPI: http://www.ukrstat.gov.ua/operativ/menu/menu_u/cit.htm

Ministry of finance of Ukraine:

- ✓ Budget indexes: [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)

Main facts and economic indicators of the SNG

The main facts and selected economic indicators for the SNG are summarized in the Tables 3 and 4 below:

Table 3: Summary of main facts of the SNG

Name of the SNG	Lviv City
Tier of government	2 nd tier level of sub-national government
Population	753,830

⁶ <http://www.ukrstat.gov.ua/>

Main characteristics	Regional (Oblast) Capital
Economy	Food industry, textile industry, mechanical engineering, electricity, natural gas and water production and distribution
Services provided by the SNG	Education, healthcare, transport and road infrastructure, water and sanitation, energy, local fire department, housing and communal services, mass media, social services, physical education, palaces of culture, libraries, museums, and communal zoos

Data source: Lviv City Government Finance Department

Table 4: Selected economic indicators for the SNG (2018-2020)

Economic indicators	2018	2019	2020
Gross Regional Product per capita (US dollar thousand)	23.88	23.83	NA
Sold industrial products (UAH million)	45,965.4	46,483.4	48,488.2
Sold industrial products per capita (UAH)	61,453.1	62,127.8	64,998.5
Sold services (UAH million)	24,768.1	24,538.4	NA
Sold services per capita (UAH)	33,113.5	32,797.0	NA
Number of enterprises - business entities (units)	11,002.00	11,990.00	12,627.0
Foreign Trade Balance of Goods (US dollar million)	-930.8	-1,005.0	-1,007.8
Foreign Trade Balance of Services (US dollar million)	222.5	260.5	279.2
Foreign Trade Balance (US dollar million)	-708.3	-744.5	-728.6

Data source: Lviv Opened Data (https://dashboard.city-adm.lviv.ua/statystyka/ekonomichnyj_rozvytok_mista)

NA – data is not available.

1.2 Fiscal and budgetary trends in the SNG

Table 5 below outlines sub-national government's fiscal and budgetary trends. Actual total revenues increased marginally by 6.4% in FY2019 compared with FY2018, even though grants decreased by 21.3% in FY2019 compared with FY2018. Total revenues declined by as much as 11.8% in FY2020 in comparison with FY2019 figures, mainly due to the decrease in grants from state government by as much as 45.3% in FY2020 in relation to FY2019 figures. These decreases were due to the negative impact of COVID-19 on global economic activities, which also impacted Ukraine's economic outlook. Own revenues, on the other hand, increased by 22.1% in FY2019 in relation to FY2018 figures; they further increased marginally by 0.5% in FY2020 compared with FY2019 in spite of the negative impact of COVID-19. At the expenditure side, total expenditure increased by 4.2% in FY2019 compared with FY2018 and decreased by 7.5% in FY2020 as compared to FY2019 figures, also due to less government spending from the impact of COVID-19.

Table 5. Aggregate fiscal data of the sub-national government

	2018	2019	2020
Total revenue	9,662,682.9	10,279,614.3	9,070,425.4
Own revenue	6,159,005.3	7,522,222.4	7,562,855.0
Grants	3,503,677.6	2,757,391.9	1,507,570.4
Total expenditure	10,171,961.8	10,597,074.9	9,801,013.3
Non-interest expenditure	10,132,660.5	10,518,559.7	9,650,490.3
Interest expenditure	39,301.3	78,515.2	150,523.0

	2018	2019	2020
Total lending	12,480.0	5,507.0	4,364.8
Aggregate deficit (incl. grants)	-521,758.8	-322,967.6	-734,952.7
Primary deficit/surplus	-521,758.8	-322,967.6	-734,952.7
Net financing	521,758.8	322,967.6	734,952.7
External	0.0	0.0	0.0
Domestic	521,758.8	322,967.6	734,952.7

Data source: Treasury reports for 2018-2020

1.3 Intergovernmental fiscal arrangements

Assignment of expenditure responsibility

The expenditure responsibilities of the Lviv City Government (Oblast Capital) include: pre-school education, secondary education, high-school communal establishments, extracurricular education, healthcare, water and sanitation, energy, local fire department, housing and communal services, transport and road infrastructure, mass media, social services, physical education, palaces of culture, libraries, museums, and communal zoos.

PFM functions

- Payment - the regional/local governments commit and pay for their expenditure without central government interference;
- Revenue administration – it raises the local revenues and ensures timely and full receipt of local taxes, fees, and other local revenues to the local budgets (in fact these revenues go to the Unified Treasury Account) in line with the Budget and Tax Codes of Ukraine. As per the Budget Code of Ukraine, State Tax Service (STS) is responsible for tax and non-tax revenue collection at both central and local government levels;
- Monitoring of lower tiers of sub-national governments - the Regional Government (oblast) monitors sub-regional (rayon) and local (municipalities) levels including review of their budget decrees approved by local councils;
- Public investment - public investment management is managed by a respective executive of local council responsible for the economic policy development in a region/territory;
- Management, monitoring and recording of assets - the management, monitoring and recording of fixed assets is decentralised, with each budgetary unit responsible for managing and safeguarding its assets. Disposal of fixed assets requires a resolution/decision of the local council to be issued;
- Debt management – not all local governments are allowed to borrow (village councils have no borrowing powers); cities, such as Oblast Capital Lviv, have borrowing powers but subject to the MoF approval;
- Macroeconomic forecasting – the regional/local governments prepare three years' macroeconomic forecasts of some indicators related to the regional/local level economy;
- Cash monitoring and forecasting – annual cash forecasting is prepared by the City Treasury;

- Payroll – both personnel and payroll systems are decentralised, with each budgetary/extra-budgetary unit managing its own payroll and personnel;
- Procurement - each unit prepares procurement plans and these are published. Data on procurement is available on the website <https://prozorro.gov.ua/>;
- Internal audit – the Internal Audit Department is not independent;
- Financial reporting - annual financial reports are prepared but not submitted for external audit;
- External audit – the Accounting Chamber is responsible for conducting audit of the expenditure and revenue accounts of the local budgets (excluding local government own revenues and expenditures);
- The State Audit Service, which is a department under the Ministry of Finance of Ukraine, has most responsibility of auditing the revenues and expenditures of local governments.

Budgetary systems

- The Budget Code of Ukraine guides the budget process at both central and local government levels;
- Regional and local Governments prepare their own budgets. The budget is approved by the regional/local council without central government interference;
- Local budgets of Oblast Capitals are less dependent on actual transfers from the state (national) budget;
- Regional/local governments (local budgets) have their Treasury accounts that are kept at the Treasury; regional/local governments are allowed to decide servicing resources of their local investment budget and own revenues of budgetary institutions in public sector banking institutions;
- Not all local governments are allowed to borrow: only Supreme Council of Autonomous Republic of Crimea, oblast councils, and city councils can borrow; all borrowings must be approved by the Ministry of Finance.

Institutional (political and administrative) structures

- Regional/local governments are independent enough and experience economic autonomy and judicial powers. They have their own legislatures (local councils) and executive authorities.
- Local councils approve their budgets and enact decrees, resolutions and regulations for the territory; however, these legal acts must be in line with central government laws.
- Local self-governments have the power to appoint their own executives, budget officers, and accounts officers. The hiring and appointments are in accordance with the Law on Local Self-Governance in Ukraine and the Law on Servicing Local Self-Governments which are independent from oblast administrations and central government.
- The budget and financial management processes at the central and regional/local levels are unified based on the principle of unity of the budgetary system.

Tax revenue sharing

Tax revenue is administered and collected by the State Tax Service of Ukraine. The City Government of Lviv and all local governments in Ukraine have a revenue-sharing arrangement with the state government. In accordance with the Budget Code of Ukraine, the main sources of revenue of the Oblast Capitals (OC) include: 60% of the personal income tax (PIT), excise tax, corporate income tax (CIT) from communal enterprises, and local taxes.

Intergovernmental transfer

Prior to FY2021, Ukraine adopted a three-tier intergovernmental fiscal transfer framework. The central government transferred subventions (grants) to oblasts (Regions) and then the oblasts transferred subventions to city/municipal government, rayons, and village councils. In turn, the rayons provided transfers for villages, townships, and cities of regional significance. The budget transfer mechanism was reformed and became operational during the fiscal year 2021. This means that a two-tier transfer framework has now been adopted, where the central government transfers subventions/grants straight to the beneficiary sub-national government; i.e., from central government to community. The reform is intended to improve budget efficiency and reduce delays in transfers to beneficiary local governments.

Sub-national borrowing

Articles 16, 17, 18, and 74 of the Budget Code of Ukraine prescribes the borrowing rules for sub-national governments including oblasts (regions) and cities. 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, Ministry of Finance approval is mandatory.

1.4 Institutional arrangements for PFM

Overall institutional arrangements for PFM

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 government in the process of public finance management. According to the Constitution, local self-government is recognized and guaranteed in Ukraine, which in accordance with the Law of Ukraine "On Local Self-Government in Ukraine" (dated May 21, 2019, No.280/97-VR) is carried out by territorial communities of villages, towns, cities both directly and through rural village, town and city councils and their executive bodies.

The **city council is the legislative body** of the community. The powers of a city council are determined by the Law on Local Self-Government 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 the population;
- foreign economic activity;
- defence activities;
- resolving the issues of administrative and territorial structure;
- registration of the place of residence of individuals;
- ensuring law, order, protection of rights, freedoms and interests of citizens;
- provision of free primary legal aid.

The **executive power on the territory of the city is exercised by the executive committee** of the city government, 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 (legislature) for scrutiny and approval.

Since 2001, the Budget Code of Ukraine (BCU) has been a major piece of legislation governing:

- relations arising in the process of drafting, reviewing, approving, executing budgets of all levels, reporting on their implementation, monitoring compliance with budget legislation;
- issues of responsibility for violation of budget legislation;
- legal basis for the formation and repayment of public debt including local debt.

Issues directly related to the formulation of local budget indicators, their planning, approval and implementation, inter-government relations between budgets of different levels, and local borrowing are regulated in Section III (Articles 63-108) of the Budget Code of Ukraine (BCU).

The public procurement process is governed by the Law on Public Procurement, which regulates the public procurement process, as well as the responsibilities and functions of its various actors, such as procurement agencies, the responsible authority in this area and the dispute settlement institution (Anti-Monopoly Commission of Ukraine – AMCU).

The issues of collecting and administering taxes and levies, the procedure of their transfer to the budgets of different levels including city budgets, specifics of implementation of tax policy at the local level are regulated, primarily, by the Tax Code of Ukraine. Issues related to the customs policy and administration of customs duties are regulated by the Customs Code of Ukraine.

The list and content of functions and procedures performed by structural subdivisions of territorial bodies of the State Fiscal Service, assignment of functions and procedures to territorial tax authorities are defined in the Order of the State Fiscal Service of Ukraine dated October 19, 2016, No. 875 “On Functional Powers of Structural Subdivisions of Territorial Bodies of the State Fiscal Service.”

The system of state financial control in Ukraine, including internal control, is regulated by:

- the BCU, which defines the general regulatory environment for managerial accountability, internal control and internal audit within budget spending units (in particular, Chapter 17 of the Code (Articles 109-115) contains provisions for controlling compliance with budgetary legislation

including the deadlines for drafting, approval and implementation of local budgets, control of targeted and effective use of their funds, etc.);

- the Law of Ukraine “On Fundamental Principles of Exercising Public Financial Control in Ukraine” (dated 26 January 1993 No. 2939-XII), which regulates the functions and powers of the state financial control body concerning inspections (including audit);
- Cabinet of Ministers Decree No. 1001 of September 28, 2011, “Certain Issues of Internal Audit and Establishment of Internal Audit Units”;
- the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" (dated July 16, 1999, No. 996-XIV), according to which accounting departments are assigned with functions in the sphere of internal control.

In Ukraine, public financial control including internal control, is carried out directly by:

- authorized central bodies of legislative and executive power;
- territorial bodies (subdivisions) of central legislative and executive authorities;
- internal audit units (or officials) that should function within the structures of local self-government bodies.

Pursuant to Article 43 of the BCU, treasury servicing of budget funds is applied when executing local budgets in Ukraine, which involves opening accounts for budgetary institutions at the Treasury. The Procedure for Treasury Servicing approved by the Order of the Ministry of Finance dated 23 August 2012 No. 938 regulates organizational relations between the Treasury, local financial bodies, local councils and their executive bodies, taxpayers, budget spending units, and recipients of budgetary funds.

Accounting and reporting on local budget execution are among the functions of the Treasury (Part 1 of Article 43 of the BCU). Accounting of local budgets is based on legislative and regulatory acts that regulate budgetary relations and issues of accounting and reporting in Ukraine. In accordance with the provisions of Part 2 of Article 56 and Part 9 of Article 78 of the BCU, the bodies of the Treasury carry out accounting and reporting on execution of local budgets in accordance with the procedure established by the Ministry of Finance.

Sub-national institutional arrangements for PFM

Table 6 below outlines the units of Lviv City Government and the number of entities. Lviv City Council as a legislative body of the community and the Executive Committee of the City Council represents the system of local authorities (at the community level). Local authorities in Ukraine are sufficiently independent in their decision-making including budgetary issues. In particular, this has been caused by the numerous reforms in public finance and local government that have been implemented by the Government in recent years. Below are the institutional responsibilities for PFM:

Ministry of Finance of Ukraine (Local Budget Department) - providing the relevant local governments with the guidelines for budget preparation; bringing the indicators of intergovernmental budgetary relations and textual items, as well as organizational and methodological requirements for drafting local budgets as defined in the Law on the State Budget of Ukraine for the relevant budgetary period.

Territorial/Local unit of the Treasury (playing the same role as the State Treasury Service of Ukraine at the central government level) - treasury servicing of budgets; control over budgetary powers regarding the entry of budget revenues; control over the compliance of the budget estimates of the spending units with the indicators of the budget allocation plans; compliance of the budget commitments with the budget allocations and the passport of the budget program.

Territorial/Local unit of the STS (playing the same role as the State Tax Service of Ukraine at the central government level) - administration of taxes and duties of local budgets, control over the collection of budget revenues.

Accounting Chamber of Ukraine - responsible for both the central and the local government external audits for what concerns expenditures determined by the functions of the state and transferred to local self-government, based on the principle of subsidiarity.

State Audit Service of Ukraine - control over targeted, efficient and effective use of local budget funds (including state financial audit); targeted use and timely repayment of credits (loans) obtained against local guarantees; reliability of determining the need for budgetary funds when drawing up planned budget indicators; compliance of the budget indicators with the passport of the budget program; accounting, preparation of financial and budgetary reports, passports of budget programs and reports on their implementation and other documents.

Oblast State Administrations - control over the compliance with the budget legislation of the indicators of local budgets approved, the budget allocation plans, the budget institution's outlay and other documents used in the budget process (in particular, according to Article 115 of the BCU oblast state administrations provide such control in relation to the budgets of rayons, cities of oblast significance and amalgamated communities).

Local councils – review, approval and control over the implementation of the decisions on the local budget.

Local Financial Bodies (Executive authority of Local Councils) – development and approval of local budget forecasts and drafting of local budgets before submission to the local council; control over the observance of budget legislation at every stage of the budget process regarding local budgets.

The city of Lviv thus has a dual accountability framework in accordance with the Budget Code of Ukraine: (i) accountability, to the Ministry of Finance of Ukraine, which controls the compliance of the state budget and local budgets with budget legislation at each stage of the budget process in accordance with the BCU; (ii) accountability to Lviv Oblast State Administration and its Financial Department, which also exercises such control, in particular by reviewing the decisions of Lviv City Council's approval of the city's budget and other documents used in the budget execution process.

According to Article 133 of the Constitution of Ukraine, the system of the administrative and territorial structure of Ukraine is composed of: the Autonomous Republic of Crimea, oblasts, rayons, cities of oblast and rayon significance, districts and cities, towns and villages. The structure of the budgetary system of

Ukraine as well as the system of local budgets are defined by BCU. As per Article 5, the local budget system is represented with the budget of the Autonomous Republic of Crimea, oblast and rayon budgets, and budgets of local self-governments. The latter include budgets of territorial communities of villages, settlements, cities, and budgets of amalgamated territorial communities.

According to Article 7 of the BCU, all local budgets are independent, and this independence is ensured by the allocation of relevant sources of budget revenues, the right of the relevant authorities to determine the budget expenditure in accordance with the legislation, and the right of the respective local councils to independently debate and approve local budgets. The city of Lviv receives transfers from the state budget as earmarked subventions for specific sectors such as education, health and social services. There are no specific PFM rules and regulations pertaining to the City Government of Lviv.

Table 6. Units of the SNG – Number of entities – FY2020

	Budgetary units (KSU)	Extra budgetary units	Public corporations
Number	40	18	67
Expenditure (UAH'000)	9,801,013.3	82,693.7	5,016,596.24

Data source: Budget documents and Treasury reports FY2020

1.5 Arrangements for service delivery

Implementation of the concept of reforming local self-government and territorial organization of power became the basis for the gradual and partial transfer of authority and responsibility for the provision of public services from the central government to local authorities. At the same time, the process of transfer of the resources to lower-level executive bodies for the powers they have received is being established. The main purpose of these measures was to improve the quality and targeting of public services to residents of local communities.

In the first stage of decentralisation reform (2014-2019), the delegation of a number of administrative services to local authorities was ensured: registration of residence, issuance of passport documents, state registration of legal entities and individuals, entrepreneurs, associations of citizens, registration of civil status, property rights, and land issues. In addition, the authority to provide social services has been transferred. The mechanism is currently being worked out at the legislative level for the delimitation of functions of state authorities and local self-government bodies on issues of social protection of the population and protection of children's rights, as well as increasing the efficiency of their activities in this area. With regards to the provision of educational services, the administration of local educational policy was transferred to local authorities as part of the decentralisation agenda. Although the salaries of teachers are financed from the state budget, the material support of educational institutions is entrusted to local authorities (which, in turn, develop co-financing partnership programs).

The main regulatory and strategic documents on decentralisation, including the decentralisation reform implementation in Ukraine, are as follows:

- Constitution of Ukraine - Article 132, which states that “the territorial structure of Ukraine is based on the principles of unity and integrity of the state territory, combination of centralization and decentralisation in the state power execution...”;

- Laws on Amendments to the Budget Code and the Tax Code of Ukraine (due to these changes, the process of fiscal decentralisation is underway in Ukraine (starting 2014));
- Law "On Voluntary Amalgamation of Territorial Communities";
- Methodology of formation of capable territorial communities (Cabinet of Ministers Decree dated April 8, 2015, No. 214);
- Law "On Cooperation of Territorial Communities" created a mechanism for solving common problems of communities: waste treatment and recycling, development of common infrastructure, etc.;
- Law "On the Principles of State Regional Policy" (state support for regional and community infrastructure has increased thirty-nine times during the reform period; over 10,000 projects have been implemented in 2015-2018 in the regions and communities);
- A package of laws extending the powers of local governments and streamlining the provision of administrative services that allow local governments to delegate authority to provide basic administrative services (such as residence registration, issuance of passport documents, state registration of legal entities and individual entrepreneurs, citizens' associations, registration of acts of civil status, property rights, settlement of land issues, etc.);
- Concept of reforming local self-government and territorial organization of government in Ukraine (approved by the Cabinet of Ministers Decree dated 1 April 2014 No. 333-p).

The key legislative act that laid the foundation for fiscal decentralisation in Ukraine was the Law of Ukraine on "Amendments to the Budget Code of Ukraine with regard to the Reform of Intergovernmental Relations" (dated December 28, 2014, No. 79-VIII), which effectively introduced a new model of financial support for local budgets and intergovernmental relations. The main areas of fiscal reform in the context of decentralization were as follows:

- Ensuring budgetary autonomy and financial independence of local budgets. The innovations have ensured the right of local authorities to develop their local budgets on the basis of fixed stable long-term revenue sources and expenditures. The BCU only sets the deadline for approval of local budgets on December 25 of the year that precedes the budget year (Article 77, Part 2). In addition, since 2015, the Ministry of Finance has not defined or submitted to local budgets income indicators of relevant local budget. Furthermore, changes to the BCU have ensured the right of local authorities to independently select institutions (among the Treasury bodies or public sector banks) to serve the local budget development funds and own revenues of budget institutions (Article 78, Part 2).
- Fixing stable sources for local budgets and expanding the existing revenue base. In order to ensure that local governments execute their spending powers, the sources of replenishment of local budgets have been expanded through: (i) transfer from the state budget of 100% of the fee for administrative services, 100% of the state duty and 10% of the corporate income tax for private sector enterprises (the latter is credited to oblast budgets), (ii) expansion of the real estate tax base.
- Introducing a new mechanism for budgetary adjustment and equalisation. Changes to the BCU introduced a fundamentally new system of horizontal equalisation. The taxability of territories is aligned depending on the level of income per capita (Articles 98 and 99 of the BCU). At the same time, equalisation is carried out only with two taxes: the corporate income tax of the private sector (10%) for oblast budgets, and the personal income tax for the budgets of cities of the oblast

significance, rayon and oblast budgets, and budgets of amalgamated communities. The rest of the payments remain at the disposal of local governments. It is important to note that the new taxability equalisation system is more progressive than the previous “balancing” system and aims to promote the local authorities’ interest in attracting additional revenues and expanding their existing tax base.

- Decentralisation of expenditure powers by transferring more than 360 budgetary units in the fields of education, health, culture, physical education and sports from the state budget to local budgets.
- Transition from a three-tier to a two-tier budget system. Before, there was a three-tier budget system in Ukraine represented by the state budget, local budgets that have direct intergovernmental relations with the state budget, from which they receive transfers (oblast, rayon budgets, budgets of cities of oblast significance, and the budget of the Kyiv City), and budgets of local self-government bodies (budgets of the cities of rayon significance, towns and villages) that do not have direct relations with the state budget. Changes to the BCU have, in fact, motivated communities to amalgamate and increase their capacity through the mechanism of transition of amalgamated communities’ budgets to direct, intergovernmental relations with the state budget. The incentive was that, under Article 67 of the BCU, amalgamated communities were given the same powers and resources as cities of oblast significance.
- In accordance with the Budget Code of Ukraine, the main sources of revenue of the Oblast Capitals (OCs) include: 60% of personal income tax (PIT), excise tax, corporate income tax (CIT) from communal enterprises, local taxes. Expenditure responsibilities of the OCs include: pre-school education, secondary education, high-school communal establishments, extra curriculum education, healthcare, local fire department, housing and communal services, transport and road infrastructure, mass media, social services, physical education, palaces of culture, libraries, museums, and communal zoos.

2 ASSESSMENT OF PFM PERFORMANCE

2.1 SNG Pillar: Intergovernmental fiscal relations

HLG-1 Transfers from a higher-level government

This indicator assesses the extent to which transfers to the sub-national government from higher levels of the Government are consistent with the originally approved high-level government budgets and are provided according to agreed time frames. The indicator contains four dimensions.

There is no international development funding that is pooled at the HLG level and channelled to sub-national entities directly or through a line ministry. International development funding is to the state government, not specifically allocated to cities for specific projects/programs.

Summary of scores

HLG-1	Indicator/Dimension	Score 2021	Assessment of performance
	Transfers from higher levels of government (M2)	D+	
	HLG-1.1 Outturn of transfer from higher-levels of government	D	The analysis shows that aggregate outturn of transfers from central and oblast governments to the City Government were below 15% in one out of the three years under review. Actual transfer deviations were 148.1% in FY2018, 14.9% in FY2019 and 27.1% in FY2020.
	HLG-1.2 Transfer composition outturn	D	In all three years under assessment, transfer composition variance exceeded 15%. As shown in Table HLG.2 below (with detailed calculation in Annex 4), actual composition variances were 116%, 28.3% and 24.8% in FY2018, FY2019, and FY2020 respectively.
	HLG-1.3 Timeliness of transfer from higher-levels of government	A	At the beginning of each fiscal year, the higher-level governments agree on a disbursement schedule with the City Government. In all three years (FY2018-FY2020) under assessment, there were no delays in the transfer of actual disbursements from central and oblast governments to city governments. All (100%) planned disbursements were transferred within the month of disbursement requests.
	HLG-1.4 Predictability of transfers	D	There were no medium-term subvention projections within the assessment period FY2018-FY2020; therefore, there was no information on transfers for the following fiscal year. The only information on transfers made available to local governments is that of the budget year.

Dimension HLG-1.1 Outturn of transfer from higher-levels of government

Annex 4 provides details of HLG calculations, with summaries in Table HLG.1 below. The analysis shows that aggregate outturn of transfers from central and oblast governments to the City Government were below 15% in one out of the three years under review. Actual transfer deviations were 148.1% in FY2018, 14.9% in FY2019, and 27.1% in FY2020. The budgeting system in Ukraine does not allow local governments to plan for resources yet to be approved and allocated by the state government, which is the main reason for these deviations.

Table HLG.1 Outturn of transfer from higher levels of government

	2018	2019	2020
Original budget (UAH'000)	1,412,256.00	3,241,069.96	1,186,140.10
Actual transfer (UAH'000)	3,503,677.60	2,757,391.90	1,507,570.40
% Outturn	248.1%	85.1%	127.1%
% Deviation	148.1%	14.9%	27.1%

Source: Budget and Finance Departments of Lviv City Government

The score for this dimension is D.

Dimension HLG-1.2 Transfer composition outturn

The City Government of Lviv receives six types of subventions/transfers from higher-levels of government (central and oblast) in 2018 and 2020, and seven in 2019; these are: education, medical, housing and community amenities (in 2018-2019), social protection, economic affairs subventions (road maintenance and others), environmental protection subvention, sporting services (in 2019), and general public services (election subvention) (in 2020). In FY2019, the central government introduced a one-time sporting services subvention for the construction/reconstruction of sports palaces, and in FY2020 – election subvention since that was an election year for local parliaments and city mayors. The overall composition variance is affected by deviations in each type of the transfers.

Housing and community amenities subventions did not exist in FY2020, since the central government stopped the transfer subventions to local budgets for the provision of benefits and housing subsidies to the population (UAH 291.3 million in 2019). Social protection subventions have significantly decreased in FY2020, since the central government stopped the transfer subventions to local budgets for the payment of benefits to low-income people (UAH 800.6 million in 2019). These expenditures are currently carried out by the Ministry of Social Policy.

In all three years under assessment, transfer composition variance exceeded 15%. As shown in Table HLG.2 below (with detailed calculation in Annex 4), actual composition variances were 116%, 28.3% and 24.8% in FY2018, FY2019, and FY2020 respectively. The Budget Code of Ukraine prohibits local governments (including Lviv City Government) to make forecasts of unknown revenues and expenditure funded by the central government as part of their budget formulation and preparation framework. Local governments can only make provisions for such revenues and expenditures after the central government's budget has been approved by the parliament and reliable information on subventions is received – this then translates into annual budget adjustments. Delays in the notification process affects local government budget forecasts in terms of state subventions.

Table HLG.2 Transfer composition outturn

Year	Higher-levels transfer outturn	Transfer composition outturn
2018	248.1%	116.0%
2019	85.1%	28.3%
2020	127.1%	24.8%

Source: Budget and Finance Departments of Lviv City

The score for this dimension is D.

Dimension HLG-1.3 Timeliness of transfer from higher-levels of government

Annual transfers disbursement schedule to local governments are regulated by Cabinet Decree No. 1132. Therefore, at the beginning of the new fiscal year, the central government agrees with and makes available an annual disbursement schedule of all budgeted subventions to local governments. In all three years (FY2018-FY2020) under assessment, there were no delays in the transfer of actual disbursements from central and oblast governments to city governments. All (100%) planned disbursements were transferred within the month of disbursement requests. The Decree No. 1132 establishes the following deadlines for transferring grants: medical and educational subventions – every month, two times per month before 10th and 25th; other grants – every month within two operational days after the day of submission of financial authority payment directive to the Treasury. In practice, these deadlines are adhered based on evidence adduced.

The score for this dimension is A.

Dimension HLG-1.4 Predictability of transfers

There were no medium-term subvention projections within the assessment period FY2018-FY2020; therefore, there was no information on transfers for the following fiscal year. The only information on transfers made available to local governments is that of the budget year. For the first time in FY2021, the central government provided information on subventions with a medium-term perspective (subvention for budget year 2021 and the following two outer years 2022 and 2023).

The score for this dimension is D.

HLG-2 Fiscal rules and monitoring of fiscal position

This 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 three dimensions.

Summary of scores

HLG-2	Indicator/Dimension	Score 2021	Assessment of performance
	Fiscal rules and monitoring of fiscal position (M1)	A	

HLG-2.1 Fiscal rules for sub-national governments	A	Articles 72 and 74 of the Budget Code of Ukraine set out the fiscal rules for local governments. The law sets a 10% limit for debt servicing from general fund expenditures. In case of non-compliance, the rules prescribe a 5-year ban for local governments, in addition to legal prosecution for their officials. The law prohibits budget deficits for all local governments except in the case of the development budget of the local budget. These rules are strictly enforced by the Ministry of Finance. Available evidence from MoF Local Budget Department indicates that all sub-national governments complied with fiscal rules for FY2020.
HLG-2.2 Debt rules for sub-national governments	A	The debt rules of sub-national governments, including oblasts (regions), oblast cities, and rayons, are outlined under Articles 18 and 74 of the Budget Code of Ukraine. The debt rules set borrowing limits (200% of the average annual estimated development budget revenues for the next two budget periods defined in the local budget forecast) for sub-national government borrowing. Sanctions for non-compliance to debt rules are also prescribed in the law. The Ministry of Finance monitors the debt position of all local governments. Evidence obtained from MoF Local Budget Department indicates that all sub-national governments complied with debt rules for FY2020. Legislation also provides clear time-limited exemptions for specific circumstances.
HLG-2.3 Monitoring of sub-national governments	A	The law provides for the submission of annual financial statements up to three months after the end of the previous financial year. Available evidence from the National Treasury indicates that all sub-national governments submit their annual financial statements on or before the 31 st day of March following the previous financial year. Each year, the National Treasury also prepares a consolidated report of all local government financial statements.

Dimension HLG-2.1 Fiscal rules for sub-national governments

Articles 72 and 74 of the Budget Code of Ukraine set out the fiscal rules for local governments. The law sets a 10% limit for debt servicing for all deficit financing. This means that local governments cannot finance their budget (capital budget) deficit with short-term funding whose servicing cost exceeds 10%. In case of non-compliance, the rules prescribe a 5-year ban for local governments, in addition to legal prosecution for their officials. The law prohibits budget deficits for all local governments except in the case of the capital budget part of the total budget. Per the rule, under no circumstance shall a local government budget be promulgated by the respective local government council (parliament) with a deficit financing for recurrent part of the budget. These rules are strictly enforced by the Ministry of Finance. Available evidence from MoF Local Budget Department indicates that all sub-national governments complied with fiscal rules for FY2020.

The score for this dimension is A.

Dimension HLG-2.2 Debt rules for sub-national governments

The debt rules of sub-national governments, including oblasts (regions), oblast cities, and rayons, are outlined under Articles 18 and 74 of the Budget Code of Ukraine. The rules prohibit Amalgamated Territorial Communities (ATC), otherwise known as villages/village/cities which are not OC councils, from borrowing. The debt rules set borrowing limits (200% of the average annual estimated development budget revenues for the next two budget periods defined in the local budget forecast) for sub-national government borrowing. Sanctions for non-compliance to debt rules are also prescribed in the law. Per the law, local governments (oblasts, and cities) may borrow subject to approval of the local government council (local parliament), with ultimate authorisation and approval of the central government Ministry of Finance. The Ministry of Finance monitors the debt position of all local governments; this is done through the quarterly and annual financial reports submitted by sub-national governments which contain information on debt and its movements. Evidence obtained from MoF Local Budget Department indicates that all sub-national governments complied with debt rules for FY2020.

Article 18 of the Budget Code of Ukraine also provides clear time-limited exemptions for specific circumstances. In case the local debt ceiling is expected to be exceeded, the local financial authority shall apply to the city council without delay for permission to temporarily exceed such ceiling and submit a plan of action to bring such total debt into line with the provisions of the Budget Code for approval, on condition of the prior approval from Ministry of Finance of Ukraine.

The score for this dimension is A.

Dimension HLG-2.3 Monitoring of sub-national governments

The Budget Code of Ukraine (Articles 60 and 61) mandates all sub-national governments to prepare and submit annual financial statements to the National Treasury on or before the 31st day of March following the previous financial year. This deadline is strictly enforced by the Ministry of Finance. Available evidence from the National Treasury indicates that all sub-national governments submit their annual financial statements by the deadline prescribed under the law. Each year, the Treasury also consolidates all sub-national governments' annual financial statements into a report.

The score for this dimension is A.

2.2 Pillar I. Budget reliability

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

This indicator measures the extent to which aggregate budget outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. There is one dimension for this indicator.

Summary of scores

PI-1	Indicator/Dimension	Score 2021	Assessment of performance
	Aggregate expenditure outturn	B	
	PI-1 Aggregate expenditure outturn	B	As shown in Table 1.1 below (with detailed calculations in Annex 4), aggregate expenditure outturn was between 90% and 110% of the approved original budget in two out of the three fiscal years assessed. Actual outturns were 149.4%, 107.7% and 100.7% in FY2018, FY2019, and FY2020 respectively.

As shown in Table 1.1 below (with detailed calculations in Annex 4), aggregate expenditure outturn was between 90% and 110% of the approved original budget in two out of the three fiscal years assessed. Actual outturns were 149.4%, 107.7% and 100.7% in FY2018, FY2019, and FY2020 respectively. Such deviations could be explained by the unpredictable nature of some inter-governmental transfers from the state and oblast budget. This means the central and oblast governments allocate some transfers during budget execution, thereby increasing the originally approved city budget (both revenue and expenditure).

Table 1.1: Comparison between originally approved against actual outturn

	2018 UAH'000	2019 UAH'000	2020 UAH'000
Original Budget	6,807,678.50	9,841,257.90	9,736,420.00
Actual Outturn	10,171,961.80	10,597,074.90	9,801,013.30
Actual Outturn %	149.4%	107.7%	100.7%

Source: Budget and Finance Department of Lviv City - Original Approved Budget and Annual Accounts

The score for this dimension is B.

PI-2 Expenditure composition outturn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. Variations in expenditure composition may indicate an inability to spend resources in accordance with the government's plans, as expressed in the originally approved budget.

Summary of scores

PI-2 M1	Indicator/Dimension	Score 2021	Assessment of performance
	Expenditure composition outturn (M1)	D+	

2.1 Expenditure composition outturn by function	D	Expenditure composition outturns by functional classification exceeded 15% in two out of the three years under review but were below 10% in one out of the three years. As shown in Table 2.1 below (and Annex 4 for detailed calculations), actual composition variances by function were 42.7% in FY2018. In FY2019 and FY2020, variances by functional classification were 18.6% and 9.9% respectively.
2.2 Expenditure composition outturn by economic type	D	The analysis shows that expenditure composition outturn by economic classification exceeded 15% in all three years under review. As shown in Table 2.2 below (and in Annex 4 for details), actual variances were 69.3% in FY2018, 20.4% in FY2019, and 37.5% in FY2020.
2.3 Expenditure from contingency reserves	A	As shown in Table 2.1 below (and Annex 4 for detailed calculation), expenditures charged to contingency budget averaged 0.5%. Actual usage of contingency budget was 0.1% in FY2018, 0.3% in FY2019, and 1% in FY2020.

Dimension PI-2.1 Expenditure composition outturn by function

Expenditure composition outturns by functional classification exceeded 15% in two out of the three years under review but were below 10% in one out of the three years. As shown in Table 2.1 below (and Annex 4 for detailed calculations), actual composition variances by function were 42.7% in FY2018. In FY2019 and FY2020, variances by functional classification were 18.6% and 9.9% respectively. The huge deviation in 2018 was as a result of budget reallocation to housing and utilities.

Table 2.1 Result Matrix PI-2.1 & PI-2.3 Composition variance by functional classification and contingency

	for PI-1	for PI-2.1	for PI-2.3
Year	Total expenditure deviation	Composition variance by function	Contingency share
2018	149.4%	42.7%	0.5%
2019	107.7%	18.6%	
2020	100.7%	9.9%	

The score for this dimension is D.

Dimension PI-2.2 Expenditure composition outturn by economic type

The analysis shows that expenditure composition outturn by economic classification exceeded 15% in all three years under review. As shown in Table 2.2 below (and in Annex 4 for details), actual variances were 69.3% in FY2018, 20.4% in FY2019, and 37.5% in FY2020. The highest deviation from the original budget was in 2018, mainly due to grants and subsidies to enterprises (institutions, organizations).

Table 2.2: Result Matrix PI-2.2 Composition variance by economic classification

Year	Total Expenditure Deviation	Composition Variance by Economic Classification
2018	149.4%	69.3%
2019	107.7%	20.4%

2020	100.7%	37.5%
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The score for this dimension is D.

Dimension PI-2.3 Expenditure from contingency reserves

As shown in Table 2.1 above (and Annex 4 for detailed calculation), expenditures charged to contingency budget averaged 0.5%. Actual usage of contingency budget was 0.1% in FY2018, 0.3% in FY2019, and 1% in FY2020. The Budget Code of Ukraine prescribes a maximum of 1% of expenditure of the general fund of the budget as contingency reserve.

The score for this dimension is A.

PI-3 Revenue outturn

This indicator measures the change in revenue between the original approved budget and the end-of-year outturn. Accurate revenue forecasts are a key input to the preparation of a credible budget.

Summary of scores

PI-3 M2	Indicator/Dimension	Score 2021	Assessment of performance
Revenue outturn		C+	
	3.1 Aggregate revenue outturn	C	As shown in Table 3.1 below (with details in Annex 4), revenue outturns were between 97% and 106% in one out of the three years under review and between 92% and 116% in two out of the three years. Actual deviations were 13.9% in FY2018, 13.8% in FY2019, and 1.3% in FY2020.
	3.1 Revenue composition outturn	B	As depicted in Table 3.2 below (with detailed calculations in Annex 4), revenue composition outturns were less than 10% in two out of the three years under review. The analysis indicates that actual composition variances were 7.6% in FY2018, 12.1% in FY2019, and 7.1% in FY2020.

Dimension PI-3.1 Aggregate revenue outturn

In accordance with the Budget Code of Ukraine, the main sources of revenue (own revenue) of the Oblast Capitals (OCs) include: 60% of the personal income tax (PIT), excise tax, corporate income tax (CIT) from communal enterprises, and local taxes.

As shown in Table 3.1 below (with details in Annex 4), revenue outturns were between 97% and 106% in one out of the three years under review and between 92% and 116% in two out of the three years. Actual deviations were 13.9% in FY2018, 13.8% in FY2019, and 1.3% in FY2020.

Table 3.1: Comparison of approved budgeted revenue against actual outturn

	2018 UAH'000	2019 UAH'000	2020 UAH'000
Original Budget	5,405,572.5	6,612,487.9	7,663,979.9
Actual Outturn	6,159,005.30	7,522,222.4	7,562,855.0
Actual Outturn %	113.9%	113.8%	98.7%
% Deviation	13.9%	13.8%	1.3%

Source: Budget and Finance Department Lviv City, Original Approved Budget and Annual Accounts

The score for this dimension is C.

Dimension PI-3.2 Revenue composition outturn

Revenue composition outturns showed a satisfactory performance within the assessment period. As depicted in Table 3.2 below (with detailed calculations in Annex 4), revenue composition outturns were less than 10% in two out of the three years under review. The analysis indicates that actual composition variances were 7.6% in FY2018, 12.1% in FY2019, and 7.1% in FY2020.

Table 3.2 Revenue composition variance

Year	total revenue deviation	composition variance
2018	113.9%	7.6%
2019	113.8%	12.1%
2020	1.3%	7.1%

The score for this dimension is B.

2.3 Pillar II. Transparency of public finances

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 revenues and expenditures, including intergovernmental transfers; published information on service delivery performance; and ready access to fiscal and budget documentation

PI-4 Budget classification

PI-4.1 Budget and accounts classification is consistent with international standards

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.

Summary of scores

PI-4	Indicator/Dimension	Score 2021	Assessment of performance
4.1	Budget classification	D	The budget classification is close to the standards of the IMF Government Finance Statistics. The budget formulation is based on administrative, economic, and functional classifications, and budget execution reports are based on

PI-4	Indicator/Dimension	Score 2021	Assessment of performance
			functional and economic classification but not on administrative classification.

State and local budgets use unified revenue, financing and debt classifications, functional and economic expenditure classifications, and lending classifications. The MoF approves all these budget classifications by its Order and each SNG uses them while formulating, preparing, and executing their budgets. The budget classification is close to the standards of the IMF Government Finance Statistics Manual of 2001, in accordance with the Final Formulation of Methodology under the IMF Special Data Dissemination Standard.

Each SNG defines its administrative and program classification based on typical administrative and program classification of local budgets approved by the MoF. Each budget program code includes an administrative classification code (two digits) and corresponds to a sub-functional classification code (through a conversion table issued by the MoF).

The Lviv City Government's financial management system is capable of preparing in-year budget execution reports and annual financial reports based on administrative, programmatic, and economic classifications. Each SDU and KSU submit report to Treasury by administrative classification. However, in practice, Treasury, as well as the City Government, prepare in-year and annual budget execution reports without administrative classification even though functional, economic, and programme classifications exist. Though program classification contains administrative classification code, there are several KSUs with the same codes that are not shown separately in such reports but included in the same budget program. Therefore, the reporting of budget execution is not consistent with classifications used in budget formulation and preparation.

The score for this dimension is D.

PI-5 Budget documentation

PI-5.1 The comprehensiveness of the information provided in the annual budget documentation is measured against a list of 'basic' and 'additional items'

This indicator has one dimension to assess the comprehensiveness of the information provided in the annual budget documentation presented by the Executive to the Council. It is measured using a list of 'basic' and 'additional' elements included in the last budget submitted to the Parliament.

Summary of scores

PI-5	Indicator/Dimension	Score 2021	Assessment of performance
5.1	The comprehensiveness of the information provided in the annual budget documentation is measured against a list of 'basic' and 'additional items'	D	As shown in Table 5.1 below, the Lviv City Government meets two (2) out of four (4) basic elements and two (2) out of eight (8) additional elements.

As shown in Table 5.1 below, the Lviv City Government meets two (2) out of four (4) basic elements and two (2) out of eight (8) additional elements.

Budget documentation includes the documentation submitted by the Lviv Executive Committee to the City Council, along with the annual city budget proposals and the documents approved by the City Council (please refer to Table 5.1 below). According to the Budget Code of Ukraine, a local council's executive body must submit to a local council the socio-economic status of the relevant administrative and territorial unit and a forecast of its development for the next budget period⁷ (forecast of macroeconomic indicators). This information should be included in an explanatory note of a draft local budget. Furthermore, the budget must include the following information about the city's budget: total revenue, expenditure and lending, ceiling for annual deficit (surplus), debt at the end of the budget period, ceiling for the provision of local guarantees and the powers to provide them, revenue by budget classification, local budget financing by budget classification, and budget appropriations to the key spending units according to the budget classification detailed by consumption expenditures, wages and payments for utilities and energy resources, as well as development expenditures.

Table 5.1: Budget documentation benchmarks

No.	Budget documentation benchmarks	Availability	Evidence used/Comments
Basic elements			
1.	Forecast of the fiscal deficit or surplus (or accrual operating result).	Yes	Information is included in Annex 2 to budget decision. This Annex defines local budget financing by budget classification.
2.	Previous year's budget outturn, presented in the same format as the budget proposal	No	Budget proposal does not have the same format as previous year's budget outturn, since budget reporting is not based on administrative classification (see PI-4).
3.	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes	Annexes to the local budget for the current year, approved by the City Council, contains current year's revised budget, presented in 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 (ref. PI-4), including data for the current and previous year, in addition to the detailed breakdown of revenue and expenditure estimates	No	The budget document has no aggregate data on both revenue and expenditure according to the main heads of the classifications.
Additional elements			
5.	Deficit financing, describing anticipated composition	Yes	Same as under Criterion 1 above.
6.	Macro-economic assumptions, including at least GDP growth, inflation, interest rates and exchange rates	N/A	Not applicable; GDP, inflation, interest rates, and exchange are forecasted by the central government.
7.	Debt stock, including details at least for the beginning of the current year	No	Annual Treasury reports contain information about debt stock for the beginning of the current year presented in classification

⁷ According to Article 76 of the Budget Code of Ukraine.

No.	Budget documentation benchmarks	Availability	Evidence used/Comments
	presented in accordance with GFS or another comparable standard		comparable with GFS standard. However, this information is not provided to the local council.
8.	Financial assets, including details at least for the beginning of the current year presented in accordance with GFS or another comparable standard	No	Annual Treasury reports contain information about some receivables and funds in bank accounts for the beginning of the current year with a classification comparable to GFS standard. However, this information is not provided to the local council.
9.	Summary information of fiscal risks including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as PPP contracts, etc.	NA	The budget documentation contains the guaranteed repayment schedule until full repayment. The city of Lviv does not have contingent obligations embedded in structure financing instruments such as PPP contracts.
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	No	The explanatory note to the annual budget does not state or estimate budget implications of changes in revenues and/or expenditure policies.
11.	Documentation on the medium-term forecasts	Yes	The explanatory note to the city of Lviv draft budget contains information about medium-term forecast of revenue, expenditure, financing, and crediting even though the SNG does not receive medium-term forecasts of grants (see HLG-1).
12.	Quantification of tax expenditures	No	The budget documentation does not contain information about tax expenditures.

Source: Budget documentation from Lviv City Government

The score for this dimension is D.

PI-6 Sub-national government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside sub-national government financial reports.

Summary of scores

PI-6 (M2)	Indicator/Dimension	Score 2021	Assessment of performance
6	Sub-national government operations outside financial reports	A	
6.1	Expenditure outside financial reports	A	As shown in Table 6.1 below, the ratio of extra-budgetary expenditure of healthcare institutions to total City Government expenditures was 0.84% in FY2020. These expenditures are not included in the budget and financial reports of the City Government.

PI-6 (M2)	Indicator/Dimension	Score 2021	Assessment of performance
6.2	Revenue outside financial reports	B	As indicated in Table 6.1 below, the total extra-budgetary revenues outside the City Government budget and financial reports represent 1.7% of total City Government revenue for FY2020.
6.3	Financial reports of extra-budgetary units	A	Based on evidence adduced by the Department of Health of the City Government, the deadline for preparation and submission of annual financial reports (which is two months after the end of the previous financial year) is complied with as shown in Table 6.2 below. The annual financial statements contain full information on revenues, expenditures (from own resources plus subventions), financial and tangible assets, liabilities, and reconciled cash flow.

Background

Part 9 of Article 13 of the Budget Code of Ukraine stipulates that the creation of extra-budgetary funds by public authorities, local governments, and other budgetary institutions is not allowed. The same applies to the opening of extra-budgetary accounts, except when such accounts are opened to service local budgets in terms of development budget and own revenues of budgetary institutions in public sector banks (Part 2 of Article 78 of the BCU) and placement of temporarily free local budgets on deposits (part eight of Article 16 of the BCU). Based on the above, Order No.44 of the Ministry of Finance dated January 24, 2012, provides for the preparation of managers and recipients of budget funds to report on the balance of funds in extrabudgetary accounts mentioned above and submit it to the relevant financial authorities and Treasury. At the same time communal healthcare institutions are not budgetary institutions but are communal non-profit enterprises which can have extra-budgetary own revenues and expenditures along with funds received from the city budget and the central budget.

Table 6.1 Analysis of revenues and expenditures outside financial reports/budgets – FY2020.

Analysis of own revenues (consolidated)		Analysis of own expenditures (consolidated)	
Revenues of extra-budgetary units (UAH'000)	128,964.9	Expenditures of extra-budgetary units (UAH'000)	82,693.7
Total actual city government revenue (UAH'000)	7,562,855.0	Total city government expenditure (UAH'000)	9,801,013.30
% of total	1.7%	% of total	0.84%

Dimension PI-6.1 Expenditure outside financial reports

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 City Government expenditures was 0.84% in FY2020. These expenditures are not included in the budget and financial reports of the City Government. On the other hand, the expenditure budgets and actual expenditures of all public schools and other public educational institutions under the City Government of Lviv are part of the budget and financial reports of the Department of Education; therefore, there are no expenditures outside the budget and financial reports of the Department of Education.

The score for this dimension is A.

Dimension PI-6.2 Revenue outside financial reports

As indicated in Table 6.1 above, the total extra-budgetary revenues outside the City Government budget and financial reports represent 1.7% of total City Government revenue for FY2020.

The score for this dimension is B.

Dimension PI-6.3 Financial reports of extra-budgetary units

Resolution No. 419 of the Cabinet of Ministers of Ukraine dated 28th of February 2000 prescribes the deadlines for the preparation and submission of annual financial statements by all budget and extra-budgetary units to their respective supervisory departments/agencies. Based on evidence adduced by the Department of Health of the City Government, this deadline (which is two months after the end of the previous financial year) is complied with as indicated in Table 6.2 below. The annual financial statements contain full information on revenues, expenditures (from own resources plus subventions), financial and tangible assets, liabilities, and reconciled cash flow. By law, healthcare institutions cannot issue guarantees on behalf of other institutions; therefore, there is no information on guarantees in their financial reports.

Table 6.2 The list of extra-budgetary units and date of submission of annual financial report FY2020.

No	Name	Date of submission of annual financial statements for FY2020
1	First City Clinical Hospital	28 th February 2021
2	Third City Clinical Hospital	28 th February 2021
3	Fourth City Clinical Hospital	28 th February 2021
4	Fifth City Clinical Hospital	28 th February 2021
5	Eighth City Clinical Hospital	28 th February 2021
6	Tenth City Hospital	28 th February 2021
7	Emergency Hospital	28 th February 2021
8	City Children's Clinical Hospital	28 th February 2021
9	City Maternity Hospital No. 1	28 th February 2021
10	Hospital "Hospice"	28 th February 2021
11	First City Polyclinic	28 th February 2021
12	Second City Polyclinic	28 th February 2021
13	Third City Polyclinic	28 th February 2021
14	Fourth City Polyclinic	28 th February 2021
15	Fifth City Polyclinic	28 th February 2021
16	Sixth City Polyclinic	28 th February 2021
17	First Dental Clinic	28 th February 2021
18	Fourth Dental Clinic	28 th February 2021

The score for this dimension is A.

PI-7 Transfers to sub-national governments

This indicator assesses the transparency and timeliness of transfers from the sub-national government to the first-tier lower-level government along with fiscal relations with the sub-national government. It

reviews the basis for the transfers, including whether the first-tier lower-level government receives timely information about its allocations to facilitate fiscal planning.

Summary of scores

PI-7 (M2)	Indicator/Dimension	Score 2021	Assessment of performance
7	Transfers to sub-national governments	NA	
7.1	System for allocating transfers	NA	This dimension is not applicable, as there is no first-tier lower-level government.
7.2	Timeliness of information on the transfers	NA	This dimension is not applicable, as there is no first-tier lower-level government.

Dimension PI-7.1 System for allocating transfers

This dimension is not applicable, as there is no first-tier lower-level government.

The score for this dimension is NA.

Dimension PI-7.2 Timeliness of information on the transfers

This dimension is not applicable, as there is no first-tier lower-level government.

The score for this dimension is NA.

PI-8 Performance information for service delivery

This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information about resources received by service delivery units is collected and recorded.

Summary of scores

PI-8 M2	Indicator/Dimension	Score 2021	Assessment of performance
	PI-8 Performance information for service delivery	B+	
	8.1 Performance plans for service delivery	B	Order No. 836 dated 26 August 2014 of the Ministry of Finance directs key spending units of local governments to prepare and publish annual action plans with key performance indicators (KPIs) on outputs and outcomes to be achieved for the following fiscal year. In practice, outputs to be produced plus KPIs but excluding outcomes to be achieved are published most spending units as evidenced by the availability of performance plans for service delivery on the Lviv City Government website (https://city-adm.lviv.ua) as well as respective websites of key spending units.

PI-8 M2	Indicator/Dimension	Score 2021	Assessment of performance
8.2	Performance achieved for service delivery	B	Presently, the City Administration and its spending units prepare and publish outputs of performance achieved for service delivery as shown in Table 8.1 below; there are no outcomes achieved.
8.3	Resources received by service delivery	A	Available evidence suggests that each spending unit (budgetary and extra-budgetary) prepares monthly reports on all the resources disaggregated by source of funds. Reports of resources received in-kind are, however, prepared quarterly using the Treasury Form 4.2 and submitted to the Supervisory Department for consolidation. The consolidated report, which shows resources received disaggregated according to source of funds, is submitted to the oblast and then to the central government for a unified report on all resources received in-kind.
8.4	Performance evaluation for service delivery	B	There is no independent evaluation of service delivery programs. That said, each key spending unit evaluates the effectiveness and efficiency of its service delivery performance. The reports are published on the city government website (https://city-adm.lviv.ua).

Dimension PI-8.1 Performance plans for service delivery

Order No. 836 dated 26 August 2014 of the Ministry of Finance directs all spending units of local governments to prepare and publish annual action plans (budget program passports) with key performance indicators (KPIs) on outputs and outcomes to be achieved for the following fiscal year (the list is provided in the Table 8.1). In practice, outputs to be produced plus KPIs but excluding outcomes to be achieved, are published as evidenced by the availability of performance plans for service delivery on the Lviv City Government website (<https://city-adm.lviv.ua>) as well as respective websites of all spending units. The same cannot be said of extra-budgetary units; they prepare performance plans, but they are not published. The information on performance plans is disaggregated by programme for all budget units. All service delivery programs (for budgetary and extra budgetary units) account for 82% of the City Government budget. Examples of the programme codes are:

- (i) 0610160 – Governance in Education (maintenance of the education structural division)
- (ii) 0611010 – Pre-school education
- (iii) 0611021 – Secondary Education
- (iv) 0611070 – Extracurricular (out-of-school) Education
- (v) 0611130 – Methodical support to the Educational Institutions
- (vi) 0611141 – Other Educational Institutions costs
- (vii) 0611151 – Ensuring the activities of inclusive resource centres
- (viii) 0613112 – State policy activities on children and their social protection

Table 8.1 The list of Key Spending Units.

No	KSU Code	Name	Performance plans with outputs and KPIs published (planned and achieved)
1	0100000	Office of the Secretariat of the Council	Yes
2	0200000	Executive Committee of the Lviv City Council	Yes
3	0200000	Department of Administrative Services	Yes
4	3400000	Office of Service Administration	Yes
5	0200000	Legal Department	Yes
6	3300000	Office of State Registration	Yes
7	2200000	City Security Department	Yes
8	2300000	Mayor's Office Department	Yes
9	2900000	Department of Emergencies and Civil Protection	Yes
10	1800000	Department of Historic Environment Protection	Yes
11	1700000	Inspectorate of State Architectural and Construction Control in Lviv	Yes
12	3700000	Financial Policy Department	Yes
13	2700000	Economic Development Department	Yes
14	3100000	Communal Property Office	Yes
15	0200000	Department of Urban Development	Yes
16	1600000	Department of Architecture and Urban Planning	Yes
17	3600000	Land Resources Office	Yes
18	2800000	Department of Ecology and Natural Resources	Yes
19	1200000	Department of Housing and Infrastructure	Yes
20	1900000	Transport Office	Yes
21	1400000	Department of Waste Management	Yes
22	0200000	Department of Humanitarian Policy	Yes
23	0600000	Department of Education	Yes
24	0700000	Department of Health	Yes
25	1100000	Department of Sports	Yes
26	1100000	Department of Youth Policy	Yes
27	0800000	Department of Social Protection	Yes
28	0900000	Office for Children's Affairs	Yes
29	2000000	Department of Development	Yes
30	2600000	Department of Tourism	Yes
31	1000000	Department of Culture	Yes
32	4100000	Halytska District Administration	Yes
33	4200000	Zaliznychna District Administration	Yes
34	4300000	Lychakivska District Administration	Yes
35	4400000	Frankivska District Administration	Yes
36	4500000	Shevchenkivska District Administration	Yes
37	4600000	Sykhiv District Administration	Yes
38	1500000	Capital Construction Department	Yes

The score for this dimension is B.

Dimension PI-8.2 Performance achieved for service delivery

The same Ministry of Finance Order No. 836 issued in August 2014 mandates all key spending units to prepare and publish the performance achieved for service delivery by outputs and outcomes. The accompanying guidelines on Order No. 836 provide that key spending units are required:

- to submit performance reports to the local financial bodies following the deadlines established by the MoF for consolidated budgetary reporting (usually by the end of February of the year following the reporting period) – *Paragraph 2, Subparagraph 2*;
- to publish performance reports on their official websites – within 3 working days after the day of submission of these reports to the local financial bodies – *Paragraph 2, Subparagraph 3*

The current practice is that the City Government and key spending units prepare and publish outputs of performance achieved for service delivery but there are no outcomes achieved, as shown in Table 8.1 above.

The score for this dimension is B.

Dimension PI-8.3 Resources received by service delivery

The Ministry of Finance Order No. 938 dated 8 August 2021 is the revised legislation that regulates the reporting of resources received in-kind by all key spending units; the Budget Code of Ukraine also outlines the legal provisions for reporting on all resources received by all spending units. Available evidence suggests that each spending unit (budgetary and extra-budgetary) prepares monthly reports on all the resources disaggregated by source of funds. Reports of resources received in-kind are, however, prepared quarterly using the Treasury Form 4.2 and submitted to the Supervisory Department for consolidation. The consolidated report, which shows resources received disaggregated according to source of funds, is submitted to the oblast and then to the central government for a unified report on all resources received in-kind.

The score for this dimension is A.

Dimension PI-8.4 Performance evaluation for service delivery

The Ministry of Finance Order No. 608 dated 17 May 2011 “On approval of the Methodological recommendations for the evaluation of the effectiveness of budget programs” and the Ministry of Finance Guidance for the Local Governments “Methodology of the comparative analysis for evaluation of effectiveness of the local budget programs” form the legal basis for performance evaluation of service delivery. There is no independent evaluation of service delivery programs. That said, each key spending unit, including all KSUs with service delivery responsibilities, evaluates the effectiveness and efficiency of its service delivery performance each year. The reports are published on the city government website (<https://city-adm.lviv.ua>).

When assessing the effectiveness of the budget program for the reporting period, the analysis is carried out on:

- expenditure executions according to the directions of use of budgetary funds and according to codes of economic classification;
- changes in planned estimates;

- state of financial discipline;
- performance indicators execution by the directions of use of budgetary funds and, in comparison with the performance indicators of the previous reporting period.

For the fiscal years 2018, 2019, and 2020, the evaluation reports were dated 28 February 2019, 28 February 2020, and 28 February 2021 respectively. The evaluation reports compare annual performance plans and programs to actual achievements, reasons for deviations, coupled with inhibiting factors as well as recommendations for improvements going forward.

The score for this dimension is B.

PI-9 Public access to fiscal information

This indicator assesses public accessibility to fiscal information. It has only one dimension.

Dimension PI-9.1 The comprehensiveness of fiscal information available to the public

Summary of scores

PI-9	Indicator/Dimension	Score 2021	Assessment of performance
Public access to fiscal information		A	
9.1	Public access to fiscal information	A	As indicated in Table 9.1 below, the sub-national government makes available to the public four basic elements within the specified PEFA timeframe. These four basic elements are (i) annual executive budget proposal, (ii) enacted budget, (iii) in-year budget execution reports, and (iv) annual budget execution reports. Furthermore, one (1) additional element (the citizen's budget) is made available to the public within the stipulated time. Elements 5 and 7 are not applicable.

As indicated in Table 9.1 below, the sub-national government makes available to the public four basic elements within the specified PEFA timeframe. These four basic elements are (i) annual executive budget proposal, (ii) enacted budget, (iii) in-year budget execution reports, and (iv) annual budget execution reports. Furthermore, one (1) additional element (the citizen's budget) is made available to the public within the stipulated time. Elements 5 and 7 are not applicable.

Table 9.1: Public access to key fiscal information

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (Means of Availability)
Basic elements			
1.	Annual executive budget proposal documentation: A complete set of executive budget proposal documents (as assessed in PI-5) is available to the public within one	Yes	On Lviv City website within 24 hours (5 November 2019). https://city-adm.lviv.ua

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (Means of Availability)
	week of the executive submitting them to the legislature.		
2.	Enacted budget: The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	Yes	Published on the website with one week after promulgation (6 December 2019). https://city-adm.lviv.ua
3.	In-year budget execution reports: The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.	Yes	Published within one month after the end of previous month (for instance 23 April 2020 for March 2020 report; 17 July 2020 for June 2020 report; 21 October 2020 for September 2020 report). https://city-adm.lviv.ua
4.	Annual budget execution report: The report is made available to the public within six months of the fiscal year's end.	Yes	Published on the website within three months after the end of the previous financial year (10 February 2021 for FY2020 annual report). https://city-adm.lviv.ua
5.	Audited annual financial report, incorporating or accompanied by the external auditor's report: The report(s) are made available to the public within twelve months of the fiscal year's end.	NA	Not applicable. External audits are under the purview of the central government Supreme Audit Institution.
Additional elements			
6.	Pre-budget statement: 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 fiscal year.	No	Pre-budget statement is not published.
7.	Other external audit reports: All non-confidential reports on central government consolidated operations are made available to the public within six months of submission.	NA	Not applicable. External audits are under the purview of the central government Supreme Audit Institution.
8.	Summary of the budget proposal: A clear, simple summary of the executive's budget proposal or the enacted budget accessible to the non-budget 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 of the executive budget proposal's submission to the	Yes	Citizens' budget (Budget Proposal of Lviv Local Territorial Community) is published within two weeks after submission to the City Council (25 November 2019 for FY2020 budget). https://city-adm.lviv.ua Summary of the approved budget is, however, not published.

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (Means of Availability)
	legislature and within one month of the budget's approval.		

The score for this dimension is A.

Ongoing reforms

None.

PI-9bis Public consultation

This indicator assesses the extent to which the sub-national government conducts public consultation in preparing the budget, designing service delivery programs, and planning investments. It contains three dimensions.

Summary of scores

PI-9bis (M2)	Indicator/Dimension	Score 2021	Assessment of performance
Public consultation		D+	
9bis.1	Public consultation in budget preparation	C	The Lviv City Government consults its citizens during the budget preparation process in the part of the development budget, which is 34% of the total budget expenditure for FY2020. There is, however, no evidence to suggest that reader-friendly and understandable information is made available to the public.
9bis.2	Public consultation in the design of service delivery programs	C	During 2018-2020, the Lviv City Government considered petitions in the design of service delivery programs which covered 34.4% of the total budget expenditure for FY2020. Thereafter, positive decisions are published with the relevant explanation of how citizens' inputs have been considered. Nonetheless, summaries of the inputs received are not published.
9bis.3	Public consultation in investment planning	D	Public consultations are not conducted during the investment projects preparation process based on the key results of the economic analysis.

Background

Public consultations and hearings are done electronically via the following websites:

- (i) <https://www.lvivrada.gov.ua/gromadska-uchast/gromadski-sluhannja>
- (ii) <https://city-adm.lviv.ua/public-consultation/273473-pravy-la-provedennia-konsultatsii-iz-hromadskistiu>.

All information required for public consultation is published on these websites. The regulations, which are an appendix to the Statute of the Territorial Community of Lviv, guide the conduct of public consultation. Public consultation is mandatory particularly before City Government Executive Committee

or City Council decision-making on the approval of the list of local government projects (from the development budget) and services to be financed by the city budget. The subject of public consultations may be drafts of normative legal acts of the Lviv City Council including those related to the design of service delivery programs.

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

Public consultation in budget preparation is conducted in the part of the development budget which is 34% of total budget expenditure for FY2020. This consultation is conducted during the development budget expenditure allocation between objects after the local budget has been approved with unallocated amount for the development budget (please refer to: <https://city-adm.lviv.ua/public-consultation/274101-konsultatsii-z-hromadskistiu-shchodo-proektu-ukhvaly-pro-vnesennia-zmin-do-rozpodilu-koshtiv-biudzhetu-rozvytku-miskoho-biudzhetu-m-lvova-na-2020-rik>).

Dates and duration of public consultations were published prior to public consultations on the City Council website along with the proposed development budget expenditure allocation (https://drive.google.com/file/d/1tAh9NPs9hNAbq9Bo7hoT3C_6XHO0vuCU/view). The brief was not published for these consultations.

During consultation, citizens can submit their proposals through the Administrative Service Centres or electronic appeal (<https://city-adm.lviv.ua/services/application>), as well as through the online platform (<https://consult.e-dem.ua/consultations>). Some proposals could be taken into consideration and a respective amount of funds is allocated for proposed issues. The City Government prepares and publishes a protocol with all issues raised by citizens at consultations as well as responses to each issue raised. (<https://drive.google.com/file/d/15GF9q29Ea14G8-Msnho6qD0Sj7xPUtDY/view>). There is, however, no evidence to suggest that reader-friendly and understandable information is made available to the public.

The score for this dimension is C.

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

Based on Article 23-1 of the Law about citizens' appeals dated October 2, 1996, No. 393,⁸ citizens of relevant cities can appeal to the local authority through the electronic system, particularly with their proposals about the design of any service delivery program. Lviv City Council has a relevant mechanism on the website (<https://petition.e-dem.ua/lviv/>) for public appeal. The City Government considers petition(s) submitted by citizen(s) supported by at least 500,000 other citizens; an appropriate decision/action is taken and published on the website: <https://petition.e-dem.ua/lviv/Petition/ConsiderAll>.

During 2018-2020, the Lviv City Council considered such petitions in the design of service delivery programs, which covered 34.4% of the total budget expenditure for FY2020 (please refer to Table 9.bis.1 below). Thereafter, positive decisions are published with the relevant explanation of how citizens' inputs have been considered. Nonetheless, summaries of the inputs received are not published.

⁸ <https://zakon.rada.gov.ua/laws/show/393/96-%D0%B2%D1%80#Text>

Table 9.bis.1: Information on the design of service delivery programs in 2018-2020

Public service based on functional classification	UAH thousand in terms of FY2020 budget	Number of petitions (total)	Number of citizens supported (total)	Links
Preschool education	747,400.6	1	530	https://petition.e-dem.ua/lviv/Petition/View/1037
General secondary education	1,854,417.8	1	530	https://petition.e-dem.ua/lviv/Petition/View/1331
Medical and obstetric care for pregnant women, women in labour and new-borns	12,452.6	1	528	https://petition.e-dem.ua/lviv/Petition/View/1682
Outpatient and polyclinic care for the population, except for primary healthcare	87,321.2	1	515	https://petition.e-dem.ua/lviv/Petition/View/940
Maintenance and provision of activities of centres of social services for families, children and youth	19,801.7	1	521	https://petition.e-dem.ua/lviv/Petition/View/1428
Financial support of philharmonic halls, art and musical groups, ensembles, concert and circus organizations	6,992.7	1	529	https://petition.e-dem.ua/lviv/Petition/View/1470
Ensuring the activities of the water supply and sewerage system	20,679.1	1	522	https://petition.e-dem.ua/lviv/Petition/View/931
Organization of improvement of settlements	588,180.8	10	5,356	https://petition.e-dem.ua/lviv/Petition/View/1774 ; https://petition.e-dem.ua/lviv/Petition/View/1434 ; https://petition.e-dem.ua/lviv/Petition/View/1558 ; https://petition.e-dem.ua/lviv/Petition/View/1802 ; https://petition.e-dem.ua/lviv/Petition/View/1498 ; https://petition.e-dem.ua/lviv/Petition/View/1361 ; https://petition.e-dem.ua/lviv/Petition/View/1644 ; https://petition.e-dem.ua/lviv/Petition/View/1142 ; https://petition.e-dem.ua/lviv/Petition/View/1147 ;

Public service based on functional classification	UAH thousand in terms of FY2020 budget	Number of petitions (total)	Number of citizens supported (total)	Links
				https://petition.e-dem.ua/lviv/Petition/View/1263
Maintenance and development of bridges / overpasses	50.0	1	507	https://petition.e-dem.ua/lviv/Petition/View/1430
Maintenance and development of other objects of transport infrastructure	7,261.0	9	4,664	https://petition.e-dem.ua/lviv/Petition/View/1669 ; https://petition.e-dem.ua/lviv/Petition/View/1447 ; https://petition.e-dem.ua/lviv/Petition/View/1235 ; https://petition.e-dem.ua/lviv/Petition/View/1349 ; https://petition.e-dem.ua/lviv/Petition/View/1528 ; https://petition.e-dem.ua/lviv/Petition/View/1154 ; https://petition.e-dem.ua/lviv/Petition/View/1185 ; https://petition.e-dem.ua/lviv/Petition/View/1158 ; https://petition.e-dem.ua/lviv/Petition/View/1053
Total public services petitioned	3,344,557.5	27	14,202	X
Total expenditure budget	9,736,420.0	x	X	X
<i>The share of total public services costs under petitions as a percentage of total expenditure budget</i>	34.4	x	X	X

Data source: website <https://petition.e-dem.ua/lviv>; budget 2020.

Consultations about the design of separate service delivery programs with established dates and duration with the corresponding information are rarely published. The consultations occur when the subject of consultations is the draft of normative legal act of the Lviv City Council. For example, consultations on the organization of work with children with speech impairments in preschools (<https://city-adm.lviv.ua/public-consultation/267293-konsultatsii-z-hromadskistiu-shchodo-proektu-polozhennia-pro-orhanizatsiiu-roboty-z-ditmy-iz-porushenniamy-movlennia-v-zakladakh-doshkilnoi-osvity-lvova>) and regarding the intake of wastewater from consumers into the centralised wastewater system (<https://city-adm.lviv.ua/public-consultation/262889-konsultatsii-z-hromadskistiu-shchodo-proektu-rishennia-vykonavchoho-komitetu-pravyla-prymannia-stichnykh-vod-spozhyvachiv-do-systemy-tsentralizovanoho-vodovidvedennia-lvova>) took place in 2019. Consultations on the implementation and

operation of an automated fare collection system in public passenger transport (<https://city-adm.lviv.ua/public-consultation/286091-konsultatsii-z-hromadskistiu-shchodo>) took place in 2021.

The score for this dimension is C.

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

Public consultations are not conducted during the investment projects preparation process based on the key results of the economic analysis.

The score for this dimension is D.

2.4 Pillar III. Management of assets and liabilities

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

This indicator has three dimensions. Dimension 10.1 assesses the level of monitoring of fiscal risk implications of public corporations on sub-national government operations; dimension 10.2 examines the fiscal risk posed by sub-national governments; dimension 10.3 measures the level of sub-national government contingent liabilities and other fiscal risks.

Summary of scores

PI-10 M2	Indicator/Dimension	Score 2021	Assessment of performance
Fiscal risk reporting		B	
10.1	Monitoring of public corporations	B	The analysis of the data (based on the 10 largest by value of public corporations) indicates that 94.5% by value of public enterprises publish their audited financial statements on their respective websites within 6 months after the end of the previous year (please refer to Table 10.1 below). That said, the City Government does not prepare and publish a consolidated report on the financial performance of public corporations.
10.2	Monitoring of sub-national governments	NA	This dimension is not applicable, as there is no first-tier lower-level government.
10.3	Contingent liabilities and other fiscal risk	NA	This dimension is not applicable. There are neither PPP arrangements nor contingent liabilities.

Dimension PI-10.1 Monitoring of public corporations

There are 67 municipal enterprises (public corporations (PCs)) under the City Government of Lviv. The analysis is, however, based on the 10 largest by value of public corporations; the data indicates that 94.5% by value of the 10 largest (sampled) public enterprises published their audited financial statements on

their respective websites within 6 months after the end of the previous year. That said, the City Government does not prepare and publish a consolidated report on the financial performance of public corporations. The remaining 5.5% of the 10 largest (sampled) public corporations have not been audited, even though they prepare and submit annual financial statements to the supervisory agency of the City Government within three months after the end of the previous year (please refer to Table 10.1 below).

A further analysis of PCs shows the following results:

- Total expenditure of the 67 PCs equals UAH5,016,596.24;
- Total value of PCs that publish audit reports within 6 months equals UAH3,939,263.00;
- Percentage of PCs that publish audit reports within 6 months equals 78.5%.

The score will still be 'B,' since no consolidated financial performance report on PCs is prepared and published by the City Government.

Table 10.1 Financial reports of public corporations for FY 2020

No.	Name of the company	Total expenses	Expenditure as a % of total expenditure of municipal enterprises	Date of submission of annual financial statements	Availability of audited financial statements for FY2020	Disclosure of contingent liabilities in annual financial statements
1	LKP "Green City"	63,721.00	1.53%	1/03/2021	Yes	No
2	LKP "Lvovavtodor"	269,302.00	6.46%	1/03/2021	Yes	No
3	LKP "Road-repair enterprise of the Galician region"	75,738.00	1.82%	1/03/2021	No	No
4	LKP "Lvovsvet"	88,642.00	2.13%	1/03/2021	Yes	No
5	LGKP "Lvovteploenergo"	1,589,139.00	38.13%	1/03/2021	Yes	No
6	LKP "Zheleznodorozhnoe teploenergo"	389,871.00	9.36%	1/03/2021	Yes	No
7	LGKP "Lvivvodokanal"	880,850.00	21.14%	1/03/2021	Yes	No
8	LKP "Lvovelectrotrans"	657,738.00	15.78%	1/03/2021	Yes	No
9	LKP "Municipal Guard"	61,508.00	1.48%	1/03/2021	No	No
10	LKP "Transport company" Lvovspetskommuntrans "	90,813.00	2.18%	1/03/2021	No	No
	Total expenditure of sampled municipal enterprises	4,167,322.00				
	Value of sampled municipal enterprises with published audit reports	3,939,263.00	94.5%			
	Value of sampled municipal enterprises with unaudited annual financial statements	228,059.00	5.5%			

The score for this dimension is B.

Dimension PI-10.2 Monitoring of sub-national governments

This dimension is not applicable, as there is no first-tier lower-level government.

The score for this dimension is NA.

Dimension PI-10.3 Contingent liabilities and other fiscal risks

This dimension is not applicable. There are neither PPP arrangements nor contingent liabilities.

The score for this dimension is NA.

Ongoing reforms

None.

PI-11 Public investment management

This indicator assesses the process of economic appraisal, selection, costing, and monitoring of most significant public investment projects by the Government. This is a new indicator; it has four dimensions.

Summary of scores

PI-11 (M2)	Indicator/Dimension	Score 2021	Assessment of performance
11	Public investment management	C	
11.1	Economic analysis of investment projects	C	The Lviv City Government has no public investment management guidelines. That said, each key spending unit prepares a project appraisal document (which includes an economic analysis) for any capital investment project intended to be financed. The appraisal documents are then submitted to the City Government Economic Department for thorough review and analysis to ensure that the proposed project is in line with overall city strategic plan. Neither the individual project appraisal documents nor the result of the economic analysis is published.
11.2	Investment project selection	C	The selection of investment projects is not based on any established public investment management guidelines or standard criteria. The Economic Department of the City Government is responsible for prioritizing and recommending to the City Executive Committee project proposals received from key spending units. At this stage, the selection of projects by the City Economic Department is based on proposals received from key spending units with proper justification.

PI-11 (M2)	Indicator/Dimension	Score 2021	Assessment of performance
11.3	Investment project costing	C	Costing of investment projects is done only on the basis of total capital cost together with a three-year spending projection (i.e., capital cost for the budget year plus the following two years). There is no recurrent cost projection associated to the investment project.
11.4	Investment project monitoring	C	Presently, investment project monitoring is not based on any standard criteria. That said, each implementing key spending unit is responsible for monitoring and evaluating its investment project(s). Technical experts, together with monitoring and evaluation officials of the key spending unit, undertake physical inspections as well as analysis of the financial progress of investment projects. This is done quarterly, and a report is generated.

PEFA defines “major capital investment project” as follows:

- (i) the total investment cost of the project amounts to 1% or more of total annual budget expenditure; and/or
- (ii) the project is among the largest 10 projects (by total investment cost) for each of the 5 largest key spending units, measured by the units’ investment project expenditure.

Table 11.1 below lists the ten major capital investment projects for FY2020. The Table also shows the analysis of their corresponding total capital cost compared with local government expenditure budget for FY2020.

Table 11.1 List of major capital investment projects FY2020

Key Spending Unit	Name of the Project	Total capital cost of the project (UAH)	Total city government budget (UAH) - FY2020	% of total city government budget
Department of Economic Development	Construction of a mechanical and biological complex for solid waste (preparatory work, design)	37,426,321.0	9,736,420,000.0	0.4%
Department of Housing and Infrastructure	Reconstruction of Palace Square	226,349,196.0	9,736,420,000.0	2.3%
Department of Housing and Infrastructure	Reconstruction of T. Shevchenko St. (from Zheleznodorozhnaya St. to Levandovskaya St.) with the organization of a circular traffic along the streets of T. Shevchenko, Levandovskaya, Zheleznodorozhnaya	104,316,545.0	9,736,420,000.0	1.1%

Key Spending Unit	Name of the Project	Total capital cost of the project (UAH)	Total city government budget (UAH) - FY2020	% of total city government budget
Department of Housing and Infrastructure	Reconstruction of T. Shevchenko St. (from Croatian street to Yaroslav the Wise street)	66,324,118.0	9,736,420,000.0	0.7%
Department of Housing and Infrastructure	Reconstruction of St. Chernivtsi (from Gorodotskaya street to Dvortsova square)	110,394,628.0	9,736,420,000.0	1.1%
Department of Housing and Infrastructure	Reconstruction of Farmsteads St.	199,338,667.0	9,736,420,000.0	2.0%
Department of Housing and Infrastructure	Reconstruction of B. Khmelnitsky St. (from Promyshlennaya street to Lipinskogo street) in Lviv	200,023,838.0	9,736,420,000.0	2.1%
Department of Housing and Infrastructure	Overhaul of Pekarskaya St. (from Tershakovtsev street to I. Mechnikov street), St. Shimzerov	141,017,044.0	9,736,420,000.0	1.4%
Department of Housing and Infrastructure	Overhaul of Lychakivska St. (from Bukovaya street to the city border)	194,326,051.0	9,736,420,000.0	2.0%
Department of Housing and Infrastructure	Overhaul of General V. Kurmanovich St. (from A. Pyasetsky- St. to Daniel Apostol St.)	72,468,485.0	9,736,420,000.0	0.7%
Total		1,351,984,893.0		

Source: City Department of Economic Development

Dimension PI-11.1 Economic analysis of investment projects

The Lviv City Government has no public investment management guidelines. That said, each key spending unit prepares a project appraisal document (which includes an economic analysis) for any capital investment project intended to be financed. The appraisal documents indicate the project title, total project cost, project location, a brief description of the project, reasons for the projects, assumptions, and risk analysis including proposed mitigating measures for addressing the identified risk.

The appraisal documents are then submitted to the City Government Economic Department for thorough review and analysis to ensure that the proposed project is in line with overall city strategic plan. Neither the individual project appraisal documents nor the result of the economic analysis is published.

The score for this dimension is C.

Dimension PI-11.2 Investment project selection

The selection of investment projects is not based on any established public investment management guidelines or standard criteria. The Economic Department of the City Government is responsible for

prioritizing and recommending to the City Executive Committee project proposals received from key spending units. At this stage, the selection of projects by the City Economic Department is based on proposals received from key spending units with proper justification. The Executive Committee then reviews recommended projects and submits its findings/results to the City Council (local parliament) for a final selection decision. Therefore, the selection of investment projects is influenced by political consideration. Selection criteria also includes citizens' request of a particular project.

The score for this dimension is C.

Dimension PI-11.3 Investment project costing

Costing of investment projects is done only on the basis of total capital cost, together with a three-year spending projection (i.e., capital cost for the budget year plus the following two years). There is no recurrent cost projection associated to the investment project. Good practice suggests that project costing ought to include both the total investment cost and the forward-linked recurrent expenditure. As fiscal space is usually limited, a comprehensive cash flow forecasting is vital for decision-making of new projects, especially when there are ongoing capital investment projects.

The score for this dimension is C.

Dimension PI-11.4 Investment project monitoring

Presently, investment project monitoring is not based on any standard criteria. That said, each implementing key spending unit is responsible for monitoring and evaluating its investment project(s). The usual practice is that key spending units employ the services of independent technical consultants with the requisite expertise in capital investment projects to undertake the monitoring and inspection. The technical experts together with monitoring and evaluation officials of the key spending unit undertake physical inspections as well as analysis of the financial progress of investment projects. This is done quarterly, and a report is generated. Thereafter, a project completion report is produced; this could be annual if the investment project extends over only one budget year, otherwise the completion report is produced once the project is completed.

The score for this dimension is C.

Ongoing reforms

None.

PI-12 Public asset management

This indicator has three dimensions. Dimension 12.1 assesses the level at which financial assets (government investments in public or private companies) are monitored and reported; dimension 12.2 examines the extent to which non-financial assets (fixed assets) are monitored and reported; dimension 12.3 measures the level of transparency of asset disposal.

Summary of scores

PI-12 (M2)	Indicator/Dimension	Score 2021	Assessment of performance
12	Public asset management	B	
12.1	Financial asset monitoring	C	Available evidence obtained from the consolidated annual financial statements of the City Government indicates that bank balances as of 31 December 2020 stood at UAH387.4 million.
12.2	Non-financial asset monitoring	C	Evidence obtained from sampled budgetary units (Departments of Education, Health, Finance, Infrastructure) indicates that each budgetary unit maintains a comprehensive list of all fixed assets (buildings, vehicles, furniture & fittings, computers, office equipment, etc.) with information on the date of purchase (age), original cost, status of asset (usage), custodian, and location. The fixed assets registers are up-to-date and complete for assets recorded. At present, there is no complete data on land and sub-soil assets.
12.3	Transparency of asset disposal	A	The legal and regulatory framework for asset (financial and non-financial) disposal and transfer in Ukraine is well-established. The law on “Privatisation of State and Municipal Properties” Number 2269-VIII dated 18 January 2018 (applicable at all levels of government) guides all asset disposal and/or transfer. The legal provisions directs that all asset disposal and/or transfer must be done in accordance with the principle of transparency; one of the provisions entails a public auction after the approval of the authorised official and/or entity. The laws also require the approval of the local government council (parliament) prior to asset disposal and/or transfer. Information on transfer and disposal of assets is included in the financial reports. All proceeds realised in FY2020 from asset disposal were directly paid into the Treasury account.

Dimension PI-12.1 Financial asset monitoring

Cabinet Decree No. 351 “On Approval of the Procedure for Monitoring the Effectiveness of Asset Management” governs public asset management. Available evidence obtained from the consolidated annual financial statements of the City Government indicates that bank balances as of 31 December 2020 stood at UAH384.7 million. Nevertheless, the City Government does not maintain records and movement of other financial assets in terms of number and value of shares in public enterprises (67 in number) even though it is the mandate of the Lviv City Government to maintain such records as well as monitor and control these public enterprises within its jurisdiction.

The score for this dimension is C.

Dimension PI-12.2 Nonfinancial asset monitoring

The Lviv City Government maintains records of and manages its own fixed assets. Based on the law on local self-government,⁹ the local authority records and manages its property. Each local government maintains communal property register and required to publish the list of its non-financial assets based on the Cabinet of Ministers Decree No. 835 dated October 21, 2015 “On approval of the Regulations on data sets to be made public in the form of open data.” Lviv City published information on the opened data website: <https://opendata.city-adm.lviv.ua/dataset/komunalna-vlasnist-ivova>. According to the decision of the Executive Committee of the Lviv City Council No. 790 dated July 27, 2018 “On Certain Issues of Accounting and Inventory of Communal Property,”¹⁰ information in the register is updated annually. At the time of assessment, the data was updated on September 17, 2021 (as mentioned within information contained in the table via the link).¹¹ It gives a reason to consider the registers as complete and current for all material assets covered by the requirements.

Fixed assets management is decentralised with each budgetary unit responsible for recording, accounting, and maintaining all fixed assets in its custody. Evidence obtained from sampled budgetary units (Departments of Education, Health, Finance, Infrastructure) indicates that each budgetary unit maintains a comprehensive list of all fixed assets (buildings, vehicles, furniture & fittings, computers, office equipment, etc.) with information on the date of purchase (age), original cost, status of asset (usage), custodian and location. The fixed assets registers are up-to-date and complete for assets recorded. At present, there is no complete data on land and sub-soil assets.

The score for this dimension is C.

Dimension PI-12.3 Transparency of asset disposal

The legal and regulatory framework for asset (financial and non-financial) disposal and transfer in Ukraine is well-established. The law on “Privatisation of State and Municipal Properties” Number 2269-VIII dated 18 January 2018 (applicable at all levels of government) guides all asset disposal and/or transfer. The legal provisions directs that all asset disposal and/or transfer must be done in accordance with the principle of transparency; one of the provisions entails a public auction after the approval of the authorised official and/or entity. There are other supplementary and/subsidiary legislations that have been passed for the smooth implementation of the main law on privatisation of public properties. These include:

⁹ No. 280 dated May 21, 1997

¹⁰ [https://www8.city-adm.lviv.ua/Pool/Info/doclmr_1.NSF/\(SearchForWeb\)/D9DD1BBCF2C45D08C22582D70031265C?OpenDocument](https://www8.city-adm.lviv.ua/Pool/Info/doclmr_1.NSF/(SearchForWeb)/D9DD1BBCF2C45D08C22582D70031265C?OpenDocument)

¹¹ “Additional Information

Field	Value
Responsible person	Klim Oksana
Last updated	on September 17, 2021, 11:06 (UTC + 03: 00)
Created	on December 30, 2019, 9:48 PM (UTC + 02: 00)
Basis and Purpose of Information Collection	Law of Ukraine "On Access to Public Information", Decree of the Cabinet of Ministers of Ukraine No. 835 dated 10/21/2015, Decision of the Executive Committee of the Lviv City Council No. 790 dated 07/27/2018 "On Certain Issues of Accounting and Inventory of Communal Property"
Update frequency	Annually"

- (i) Cabinet Decree No. 386 “On approval of the procedure for the sale of objects of large privatization of state property”,
- (ii) Cabinet Decree No. 387 “Approval of the Procedure for Submitting Proposals for the Inclusion of Objects of State-owned Property to the List of Objects to be Privatized”,
- (iii) Cabinet Decree No. 432 “On approval of the procedure for conducting electronic auctions for the sale of small-scale privatization objects and the definition of additional terms of sale”,
- (iv) Cabinet Decree No. 433 “On approval of the Procedure for selection of operators of electronic platforms for the organization of electronic auctions for the sale of small privatization objects, authorization of electronic platforms and the definition of the administrator of the electronic trading system”,
- (v) Cabinet Decree No. 389 “On Approval of the Procedure for the Transfer (Return) of Functions for the Management of the Property of State-Owned Enterprises, the Management of Shareholding (Share) in connection with the adoption of the decision on privatization or the termination of the privatization of the privatization object”
- (vi) Article 26 (30) of the law on ‘Local Self-Governance in Ukraine’ No.280/97 dated 21st May 1997 as well as Article 11 (4) of law Number 2269-VIII on “Privatization of State and Municipal Properties” state that the legislative body must approve all sale and transfer of assets.

The laws on asset disposal and other relevant administrative procedures such as the publication of tenders for assets to be sold, public auction, and transfer of proceeds from asset disposal into the Treasury account indicate the level of transparency in asset disposal. Furthermore, the sub-national council is mandated by law to approve disposal and/or transfer of assets.

Information on transfer and disposal of assets is included in the financial reports. Proceeds from asset disposal in FY2020 amounted to UAH123.3 million. All proceeds were paid directly into the Treasury account.

The score for this dimension is A.

Ongoing reforms

No known reforms.

PI-13 Debt Management

There are three dimensions under this indicator; dimension 13.1 assesses the integrity and comprehensiveness of reporting local government debt (both domestic and foreign debts as well as guarantees); dimension 13.2 measures the legal and regulatory framework governing approval of loans and guarantees; dimension 13.3 assesses whether local government prepares medium-term debt strategy.

Summary of scores

PI-13 M2	Indicator/Dimension	Score 2021	Assessment of performance
	Debt management	B	

PI-13 M2	Indicator/Dimension	Score 2021	Assessment of performance
	13.1 Recording and reporting of debt and guarantees	A	The Financial Policy Department of the City Government of Lviv maintains complete and accurate information on all its borrowings (domestic and foreign debts) as well as guarantees issued to municipal enterprises. The records are reconciled with creditors and updated each month based on information received from these creditors. Guarantees issued to municipal enterprises are also updated monthly based on monthly financial information received from these municipal enterprises. The Treasury prepares comprehensive quarterly reports covering debt service within expenditures execution report, stock – within the report on the state of local debt, and operations – within reports on financing and on issued local guarantees. The Treasury submits those reports to the Financial Policy Department.
	13.2 Approval of debt and guarantees	A	The Budget Code of Ukraine (Article 74) grants authorization for local governments to borrow and issue loan guarantees for the city public enterprises. Thus, the Financial Policy Department of the Lviv City Government is the single responsible debt management entity. The local government has documented procedures that guide City Government borrowing and issuance of guarantees. The laws and procedures require the approval of Lviv City Council (local parliament) as well as the MoF.
	13.3 Debt management strategy	D	The Lviv City Government does not prepare a medium-term debt management strategy. The legislation does not mandate the preparation of such strategy.

Dimension PI-13.1 Recording and reporting of debt and guarantees

The Financial Policy Department maintains complete and accurate records on domestic and foreign debt and guarantees issued to municipal enterprises and the Treasury records all debt related transactions. The debt records are reconciled with creditors and updated each month based on information received from these creditors. Guarantees issued to municipal enterprises are also updated monthly based on monthly financial information received from these municipal enterprises. The Treasury prepares comprehensive quarterly reports covering debt service within expenditures execution report, stock – within the report on the state of local debt, and operations – within reports on financing and on issued local guarantees. The Treasury submits those reports to the Financial Policy Department.

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	Monthly	Yes	All records are reconciled monthly	Quarterly	N

Data source: Treasury's budget execution reports FY2020

The score for this dimension is A.

Dimension PI-13.2 Approval of debt and guarantees

The Budget Code of Ukraine¹² (Article 74) grants authorization to borrow, and issue loan guarantees for the city public enterprises. Thus, the Financial Policy Department of the Lviv City Government is the single responsible debt management entity. The CMU by its Decrees established procedures for local borrowing,¹³ for issuing local guarantees¹⁴ and for the controlling risks related to the local debt management.¹⁵

These Decrees on procedures for local borrowing and local guarantees contain requirements for the City Council (local parliament) approval, as well as the approval procedure by the MoF. The Decree on the procedure for the control over the risks related to the local debt management establishes requirements for monitoring of the debt management transactions through the Annual Local Debt Management Program.¹⁶ The Financial Policy Department approves such program at the beginning of the fiscal year and reports about its results also annually.¹⁷

¹² Part three of Article 16 and part two of the Article 17.

¹³ CMU Decree dated February 16, 2011 No. 110 on procedure for local borrowing <https://zakon.rada.gov.ua/laws/show/110-2011-%D0%BF#Text>.

¹⁴ CMU Decree dated May 14, 2012 No. 541 on procedure for issuing local guarantees <https://zakon.rada.gov.ua/laws/show/541-2012-%D0%BF#Text>.

¹⁵ CMU Decree dated August 1, 2012 No. 815 <https://zakon.rada.gov.ua/laws/show/815-2012-%D0%BF#Text>

¹⁶ https://city-adm.lviv.ua/public-information/budget/lviv/biudzhet-lvivskoi-miskoi-terytorialnoi-hromady-na-2021-rik/17213/download?cf_id=36

¹⁷ https://city-adm.lviv.ua/public-information/budget/lviv/biudzhet-lvova-na-2020-rik/17510/download?cf_id=36

Table 13.2: Approval of debt and 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	Yes; CMU Decree on procedure for local borrowing; CMU Decree on procedure for issuing local guarantees	N/A	Yes; Financial Policy Department	Yes; Financial Policy Department ¹⁸	Yes; June 17, 2021 ¹⁹

Data Source: website of the VRU "Legislation of Ukraine"; website of the Lviv City Council.

The score for this dimension is A.

Dimension PI-13.3 Debt management strategy

The Lviv City Government does not prepare a medium-term debt management strategy. The legislation does not mandate the preparation of such strategy.

The score for this dimension is D.

Ongoing reforms

No reforms.

2.5 Pillar IV. Policy-based fiscal strategy and budgeting

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

This indicator measures the ability of the SNG to prepare budget estimates on the basis of a fiscal strategy, the impact of the economic context, and policy changes. It assesses the ability of the sub-national government to develop a medium-term budget that is aligned with the strategic plans for service delivery.

¹⁸ Article 80 of the Budget Code; Order of the Treasury dated February 6, 2018 No 36 (<https://zakon.rada.gov.ua/rada/show/v0036840-18#n8>).

¹⁹ <https://www8.city-adm.lviv.ua/inTEAM/Uhvaly.nsf/91c21bb29b2b4f47c22571340037f910/3f0cd2c7fa27ea22c22586fc004896a5?OpenDocument>

It also examines the extent to which annual budgets are derived from medium-term estimates. It contains four dimensions.

Summary of scores

PI-14 (M2)	Indicator/Dimension	Score 2021	Assessment of performance
14	Medium-term budget strategy	D	
14.1	Underlying forecasts for medium-term budget	C	For FY2021, estimates of revenue and expenditure for the budget year and the two following fiscal years were presented at the aggregated level only and were based on historical information on transfers, revenue, and expenditure assignments as well as on key demographic indicators and medium-term macroeconomic indicators. The annual budget documentation submitted to the City Council (local parliament) contains medium-term estimates, but the underlying assumptions are not provided.
14.2	Fiscal impact of policy proposals	D	The Financial Policy Department does not prepare estimates of the fiscal impact of proposed changes in revenue and expenditure policy.
14.3	Medium-term expenditure and revenue estimates	D	While the annual budget for FY2021 covers expenditure estimates by administrative, economic, and programme (as well as functional) classifications for the budget year and the following two years (please refer to Table 14.1 below), there are no revenue estimates by type.
14.4	Consistency of budget with previous year's estimates	D	The budget documents do not provide any explanations of changes to expenditure forecasts between the current year's medium-term estimates and the second year of the last medium-term projections, even though differences arise.

Dimension PI-14.1 Underlying forecasts for medium-term budget

The Lviv City Council approves the Lviv socio-economic and cultural development program for medium-term,²⁰ it contains sectoral strategies, but they are not costed. This program contains the detailed list of sectoral activities with implementation years and responsible bodies. The Main Department of Statistics of Lviv Region (Oblast) prepares key demographic indicators (but on annual basis without a medium-term perspective); these are published on its website.²¹ There is no fiscal strategy. For FY2021, estimates of revenue and expenditure for the budget year and the two following fiscal years were presented only at the aggregated level and were based on historical information on transfers, revenue, and expenditure assignments as well as on key demographic indicators and medium-term macroeconomic indicators. The annual budget documentation submitted to the City Council (local parliament) contains medium-term estimates but the underlying assumptions are not provided.

The score for this dimension is C.

²⁰ <https://city-adm.lviv.ua/lmr/strategija/prohramy-sotsialno-ekonomichnoho-ta-kultumoho-rozvytku-m-lvova-na-2020-2022-roky>

²¹ <https://opendata.city-adm.lviv.ua/dataset/8c57f5f4-8c6a-4a74-bb8d-2e7b8aa1ae3e/resource/d11ad6b0-4bbb-44cb-862c-86ed67b7c220>

Dimension PI- 14.2 Fiscal impact of policy proposals

The Financial Policy Department does not prepare estimates of the fiscal impact of proposed changes in revenue and expenditure policy. The explanatory note contains a description of the total revenue and some explanations about calculations of expenditures for the budget year by functions, such as amount of salary, number of budgetary institutions, amount for particular sickness, etc.

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: Explanatory note to the draft budget 2021

The score for this dimension is D.

Dimension PI- 14.3 Medium-term expenditure and revenues estimates

The explanatory note to the draft budget for the FY2021 contains some description of the medium-term forecast of the total revenue, expenditure, financing, and lending. It does not contain estimates of expenditure and revenue by type.

For the last budget (FY2021) submitted to the City Council for approval, each KSU prepared medium-term expenditure estimates for the budget year FY2021 and the two outer years, FY2022 and FY2023, based on administrative, program, and economic classifications at GFS 3-digit level. The budget estimates of the local government follow the same pattern as the national government and are also based on standard forms of budget requests for the local budgets planning, approved by the Ministry of Finance Order No. 648 dated July 17, 2015. There is no evidence that medium-term estimates for the two following years in budget requests are in line with the information presented in the explanatory note. The budget requests were not officially submitted to the local council but the Financial Policy Department and KSUs presented all budget requests to the standing committees of the local council during the budget scrutiny.

Table 14.2. Medium-term expenditure estimates

Classification	Budget year (Y/N)	Two following FYs (Y/N)
Administrative	Yes	Yes
Economic	Yes	Yes
Program/Function	Yes	Yes

Data source: KSUs' budget requests for 2021.

The score for this dimension is D.

Ongoing reforms

None.

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

The budget documents do not provide any explanations of changes to expenditure forecasts between the current year's medium-term estimates and the second year of the last medium-term projections even though differences arise.

The score for this dimension is D.

PI-17 Budget preparation process

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. It contains three dimensions.

Summary of scores

PI-17 (M2)	Indicator/Dimension	Score 2021	Assessment of performance
17	Budget preparation process	C+	
17.1	Budget calendar	B	The annual budget calendar is clear and adhered to. KSUs had four weeks to complete their detailed estimates and all of them completed their budget requests on time.
17.2	Guidance on budget preparation	C	The Financial Policy Department issued budget instructions (circular) with expenditure ceilings for administrative classifications to each KSU for the preparation of FY2021 budget. The ceilings were not approved by the Executive Committee. The budget estimates are however reviewed and approved by the Executive Committee.
17.3	Budget submission to the legislature	C	As shown in Table 17.3 below, the Executive Committee (local cabinet) submitted the budget estimates one month and three weeks before the start of the fiscal year for all three years under review.

Dimension 17.1 Budget calendar

Table 17.1. below outlines the main steps and deadlines for local budget planning and approval; these steps are backed by law (Budget Code of Ukraine Articles 75, 75-1, 76, 77, 78).

Table 17.1: Budget approval steps and deadlines

Within one week 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"> - indicative estimates of intergovernmental transfers; - the methodology used for intergovernmental transfers calculation; - organizational and methodical requirements to budget preparation; - the template of Local Council Resolution on local budget approval.
Within one week after the Draft State Budget Law is approved by the Parliament in the second reading (Lates 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"> - indicators of intergovernmental relations (including transfers); - textual legal provisions of the State Budget Law; - organizational and methodical requirements to budget preparation.
By 25 December	Local Budget adoption by local council

The Executive Committee establishes annual budget calendar which contains all activities needed during the budget preparation process with the relevant responsible authorities and corresponding time. The

annual budget calendar is clear and generally adhered to. Key activities within the budget calendar for FY2021 are presented in the Table 17.2 below.

Table 17.2: Key activities within the budget calendar for FY2021

Activity	Responsible institution	Planned date	Actual date
Approving the instruction on the preparation of budget requests and providing KSUs with it	Finance Department	Until August 1, 2020	August 6, 2020
Receiving the calculations of the inter-budgetary transfers forecast, and methods of their determination from the Ministry of Finance	Finance Department	Until September 1, 2020	August 20, 2020
Providing the KSUs with the expenditures / lending ceilings for the general fund of the budget, indicative forecast indicators and the timing of the budget requests submission	Finance Department	Until September 21, 2020	September 7, 2020
Receiving the budget requests from the KSUs	Key Spending Units	October 5, 2020	October 2-5, 2020
Preparing a draft decision of the city council on the city budget and submitting it to the executive committee	Finance Department	Until December 1, 2020	November 30, 2020
Approving the draft decision on the city budget and submitting it to the city council	Executive committee	Until December 10, 2020	December 8, 2020
Discussing the draft decision on the city budget in the council committees, preparing conclusions and comments	Lviv City Council	December 10-18, 2020	December 10-18, 2020
Finalizing the draft decision on the city budget based on the conclusions and comments	Finance Department	Until December 20, 2020	December 20, 2020
Approving the decision on the city budget	Lviv City Council	Until December 25, 2020	December 29, 2020

Despite the fact that the Financial Policy Department issued instructions on the budget requests preparation eight weeks before budget requests submission, this document has a technical nature and does not provide KSUs with the necessary information for detailed estimates preparation. A budget circular with budget ceilings and instructions on budget estimates calculations was issued one month later. KSUs had four weeks to complete their detailed estimates and all of them completed their budget requests on time.

Table 17.3: Budget calendar and guidance on 2021 budget

Budget calendar exists (Y/N)	Date of budget circular	Deadline for submission of estimates	Coverage	% of ministries complying with deadline	Date Cabinet approved ceilings	Budget estimates are reviewed and approved by Cabinet after completion (if ceilings not issued) (Y/N)
Yes	07/09/2020	05/10/2020	100%	100%	Cabinet does not approve ceilings	Yes

Data source: Financial Policy Department

The score for this dimension is B.

Dimension 17.2 Guidance on budget preparation

For FY2021, the Financial Policy Department issued a clear and comprehensive budget circular to each KSU. The circular provides clear guidance for expenditure calculations prepared by the Financial Policy Department, along with the MoF's guidance, covering social standards, salary growth, etc. The budget circular includes relevant KSU's expenditures ceilings according to administrative and functional category. Based on the budget circular and within those ceilings KSU's prepared budget requests, which contained detailed budget estimates. The budget circular presents and explains the total budget expenditure for the full fiscal year.

The Executive Committee did not approve expenditure ceilings before the budget circular was issued. The Committee reviewed and approved the budget estimates after budget requests had been completed and submitted to the Financial Policy Department by KSUs for consolidation of the city draft budget.

The score for this dimension is C.

Dimension 17.3 Budget submission to the legislature

As shown in Table 17.3 below, the Executive Committee (local cabinet) submitted the budget estimates one month and three weeks before the start of the fiscal year for all three years under review.

Table 17.3 Dates of submission of the budget to the city council

Fiscal year	Date of submission
2018	7 th November 2017 ²²
2019	9 th November 2018 ²³
2020	8 th November 2019 ²⁴

The score for this dimension is C.

Ongoing reforms

From FY2022 budget, Lviv Executive Committee will approve the City Government's budget forecast for the budget year and two following years. The Budget Code of Ukraine requires for this forecast to contain approved expenditure ceilings by administrative classification, other indicators and provisions needed for a draft local budget preparation. This document might replace the current budget circular as well as medium term budget forecast (PI-14.3).

PI-18 Legislative scrutiny of budgets

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the sub-national council scrutinizes, debates, and approves the annual budget, including the extent to which the sub-national council's procedures for scrutiny are well established and adhered

²² <https://city-adm.lviv.ua/news/economy/243627-vykonavchyi-komit-et-zatverdyv-osnovni-pokaznyky-biudzhetu-m-lvova-na-2018-rik>

²³ <https://city-adm.lviv.ua/news/economy/257733-vykonkom-pohodyv-osnovni-pokaznyky-biudzhetu-2019-roku-lviv-odne-z-nebahatokh-mist-ukrainy-de-ie-rist>

²⁴ <https://city-adm.lviv.ua/news/economy/272419-vykonavchyi-komit-et-skhvalyv-osnovni-pokaznyky-zahalnoho-ta-spetsialnoho-fondiv-miskoho-biudzhetu-m-lvova-na-2020-rik>

to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the sub-national council. It contains four dimensions.

Summary of scores

PI-18 (M1)	Indicator/Dimension	Score 2021	Assessment of performance
18	Legislative scrutiny of budgets	C+	
18.1	Scope of budget scrutiny	C	The budget review covers aggregate and detailed revenue forecasts (by types), expenditures by economic and program classifications, as well as the analysis of past trends (performance) of both revenues and expenditures. There are no fiscal policies to be reviewed by City Council.
18.2	Legislative procedures for budget scrutiny	B	The Lviv Council Regulations are approved by Lviv City Council and established as procedures of budget scrutiny. The regulations and procedures are respected. The Secretariat of the Council provides organizational, legal, informational, analytical, logistical and other support for the activities of the standing committees when reviewing the draft budget. The procedures for budget scrutiny do not require public consultations; negotiation procedures are, however, included.
18.3	Timing of budget approval	A	In practice, budget decisions were approved by the Lviv City Council one month before the start of the fiscal year in each of the last three fiscal years (please see Table 18.1 below).
18.4	Rules for budget adjustments by the executive	B	The rules for in-year budget adjustments are clear; however, they allow extensive administrative (Executive Committee) reallocations without limits. The rules are respected in most cases.

Dimension PI-18.1 Scope of budget scrutiny

Table 18.1 below summarises the scope of budget scrutiny. The Standing Committee on Financing and Budget Planning is the main committee responsible for draft budget scrutiny. Each sector committee reviews budget proposals (budget requests) of relevant KSUs, then submits its proposals to the draft budget to the Committee on Financing and Budget Planning. The local council debates draft budget and approves consolidated proposals agreed by the Committee on Financing and Budget Planning.

The City Council reviewed medium-term fiscal forecasts presented at the aggregated level (PI-14.1), even though there are no fiscal policies. The Committee on Financing and Budget Planning reviews aggregate expenditure and revenue as well as revenue estimates by revenue types with historical trends provided by Financial Policy Department along with all detailed expenditures by program and economic classification. The review also covers the revenue and expenditure policies, plus the underlying assumptions presented by Financial Policy Department at the meetings of the Committee on Financing and Budget Planning. The sectoral committees invite KSUs at their meetings regarding draft budget and reviews detailed expenditure by program and economic classifications, as well as their historical trends

and medium-term forecasts presented in the budget requests. The Committee also reviews public service performance and financial costs.

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	N/A	N/A	Yes	Yes	Yes

Data source: Explanatory note to the draft 2021 budget; budget requests for 2021-2023; information received at the meetings with the Financial Policy Department.

The score for this dimension is C.

Dimension PI-18.2 Legislative procedures for budget scrutiny

Table 18.2 below outlines the procedures for legislative budget scrutiny. The Lviv Council Regulations²⁵ are approved by the Lviv City Council and established as procedures of budget scrutiny. The Regulations include separate chapter for the procedure for considering the draft budget. This includes reviewing the draft budget by each sector standing committee and submitting proposals to the Standing Committee on Financing and Budget Planning. The Standing Committee on Financing and Budget Planning takes the final decision in terms of proposals received for consideration by the plenary. Based on these Regulations, the Secretariat of the Council provides organizational, legal, informational, analytical, logistical, and other support for the activities of the standing committees when reviewing the draft budget. The procedures for budget scrutiny do not require public consultations; negotiation procedures are however included.

Table 1.2: Legislative procedures for budget scrutiny

Legislative procedures exist	Approved in advance of budget hearings	Procedures are adhered to	Procedures include organizational arrangements
Yes	Yes	Yes	Yes

Data source: Lviv Council Regulations; minutes of the standing committees' meetings published at the Lviv city website.²⁶

The score for this dimension is B.

Dimension PI-18.3 Timing of budget approval

The legal requirements mandate the local councils to approve annual budgets by the 25th of December before the start of the fiscal year. In practice, budget decisions were approved by the Lviv City Council one month before the start of the fiscal year in each of the last three fiscal years (please, see Table 18.1 below).

Table 18.1. Actual dates of budget approval for the last three completed fiscal years

Fiscal Year	Actual dates of approval
FY2018	16 th November 2017
FY2019	29 th November 2018
FY2020	29 th November 2019

Source: Resolution on the Lviv City Council decision on the budgets 2018-2020

²⁵ <https://city-adm.lviv.ua/lmr/regulations-lmr>

²⁶ <https://www.lvivrada.gov.ua/miska-rada/postivni-komisii>

The score for this dimension is A.

Dimension 18.4 Rules for budget adjustments by the executive

Article 23 of the Budget Code of Ukraine allows the Executive Committee of local governments to reallocate expenditures in some cases during the budget year without amending the City Council decision on the budget. Some of these reallocations should be approved by the Standing Committee on Financing and Budget Planning. It is forbidden to increase wage and decrease other expenditures, and also to increase expenditures for running of local authorities. The rules for in-year adjustments are clear. Accordingly, the approved annual budget may be adjusted as follows:

- increase of incomes of special fund according to the actual sum and expenses of special fund in coordination with the city council, but without changes to the decision on the budget for the corresponding year;
- transfer of authority to make expenditures from one key spending unit to another in accordance with the decision of the city council with the consent of the standing commission on the budget of the city council;
- redistribution of budget expenditures between the budget programs of the key spending unit in the total amount of budget allocations of the budget with the consent of the standing commission on budget of the city council;
- distribution of reserve costs budget fund with the consent of the standing commission on the budget of the city council.

The rules for in-year budget adjustments are clear; however, they allow extensive administrative (Executive Committee) reallocations without limits. The rules are respected in most cases. This phenomenon could affect planned service delivery programmes. Although in practice the City Council approves all changes to the budget, the local executive body does not make any adjustments without legislative participation.

The score for this dimension is B.

Ongoing reforms

None.

2.6 Pillar V: Predictability and control in budget execution

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 Tax administration

This indicator focuses on the administration of the SNG core taxes. This indicator assesses the procedures used to collect and monitor the core taxes of the sub-national government. It contains four dimensions.

Summary of scores

PI-19 M2	Indicator/Dimension	Score 2021	Assessment of performance
Revenue administration		NA	
	19.1 Rights and obligations for tax measures	NA	This dimension is not applicable, because the City Government relies on revenue from non-core taxes.
	19.2 Property tax register and valuation	NA	This dimension is not applicable, because the City Government relies on revenue from non-core taxes.
	19.3 Tax risk management, audit and investigations	NA	This dimension is not applicable, because the City Government relies on revenue from non-core taxes.
	19.4 Tax arrears monitoring	NA	This dimension is not applicable, because the City Government relies on revenue from non-core taxes.

Background

Local tax rates and fees, as well as the determination of a list of tax agents, are set up by local governments in accordance with Article 12.4 of the Tax Code of Ukraine. Table 19.1 below provides a summary of taxes collected in the last three completed fiscal years 2018-2020 by the State tax Service on behalf of the Lviv City Government but with revenue-sharing arrangement. As all collections and tax administration are done by the STS's local office, which is a branch of the national STS, this indicator (PI-19) and all its dimensions are not applicable.

Table 19.1: Summary of total revenues (excluding grants) for 2018 to 2020

Economic heads	Total for 3 years FY2018-FY2020	
	UAH'000	%
Tax revenue		
Taxes on income, profit and capital gains	3,715,187.0	17.5%
Taxes on payroll and workforce	11,808,752.0	55.6%
Taxes on property	1,875,756.8	8.8%
Taxes on goods and services	1,140,289.5	5.4%
Other taxes	982.5	0.0%
Non-tax revenue		
Property income	1,189,701.0	5.6%
Sales of goods and services	631,439.2	3.0%
Fines, penalties and forfeits	53,535.3	0.3%
Other non-tax revenue	828,439.4	3.9%
Total	21,244,082.7	100%

Source: Financial Policy Department, Lviv City Government

Dimension PI-19.1 Rights and obligations for tax measures

This dimension is not applicable, because the City Government relies on revenue from non-core taxes.

The score for this dimension is NA.

Dimension PI-19.2 Property tax register and value assessment

This dimension is not applicable, because the City Government relies on revenue from non-core taxes.

The score for this dimension is NA.

Dimension PI-19.3 Revenue risk management, audit and investigations

This dimension is not applicable because, the City Government relies on revenue from non-core taxes.

The score for this dimension is NA.

Dimension PI-19.4 Tax arrears monitoring

This dimension is not applicable, because the City Government relies on revenue from non-core taxes.

The score for this dimension is NA.

PI-20 Accounting for revenue

This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling revenue accounts. Accurate recording and reporting of tax and nontax revenue collections is important to ensure all revenue is collected in accordance with relevant laws. It contains three dimensions.

Summary of scores

PI-20 M1	Indicator/Dimension	Score 2021	Assessment of performance
Accounting for revenue		A	
20.1	Information on revenue collections	A	Each month, the Finance Office of the City Government receives a revenue report on total tax collections from the local office of the State Tax Service according to tax type. All the other entities collecting non-tax revenue also submit monthly revenue reports to the City Finance Office. The various revenue reports are consolidated into one revenue report broken down into types of tax and non-tax revenue.
20.2	Transfer of revenue collections	A	The City Government of Lviv uses the national Treasury Single Account (TSA) framework. The local office of the State Tax Service (STS) does not maintain a separate transit bank account. Therefore, taxpayers pay their taxes directly into the Treasury account. All revenue collections are deposited directly into the TSA revenue account on a daily basis.
20.3	Tax accounts reconciliation	NA	This dimension is not applicable, as it assesses core tax which is the responsibility of STS.

Dimension PI-20.1 Information on revenue collections

A summary of taxes and non-taxes collected for the three years under assessment is shown in Table 19.1 above. The analysis indicates that 87.2% of all revenue collections are done by the local office of the State

Tax Service with the remaining 12.8%% collected by various entities collecting non-tax revenue. Each month, the Finance Office of the City Government receives a revenue report on total tax collections from the local office of the State Tax Service according to tax type. All the other entities collecting non-tax revenue also submit monthly revenue reports to the City Finance Office. The various revenue reports are consolidated into one revenue report broken down into types of tax and non-tax revenue by the City Finance Office.

The score for this dimension is A.

Dimension PI-20.2 Transfer of revenue collections

The City Government of Lviv also uses the national Treasury Single Account (TSA) framework. The local office of the State Tax Service (STS) does not maintain a separate transit bank account. Therefore, taxpayers pay their taxes directly into the Treasury account. All revenue collections are deposited directly into the TSA revenue account on a daily basis.

The score for this dimension is A.

Dimension PI-20.3 Tax accounts reconciliation

This dimension is not applicable, as it assesses core tax which is the responsibility of the State Tax Service.

The score for this dimension is NA.

PI-21 Predictability of In-year Resource Allocation

This indicator assesses the extent to which the Finance Department is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. It contains four dimensions. Dimension 21.1 assesses the consolidation of cash balances; dimension 21.2 examines cash forecasting and monitoring 21.3 assesses existence of information on commitment ceilings; dimension 21.4 assesses significance of in-year budget adjustments.

Summary of scores

PI-21 M2	Indicator/Dimension	Score 2021	Assessment of performance
	Predictability of in-year resource allocation	B	
	21.1 Consolidation of cash balances	A	The legal framework that regulates cash management is Order 122 of June 26, 2002, issued by the State Treasury Service of Ukraine. The law directs all sub-national governments to use the central government Treasury Single Account (TSA) framework. Therefore, the Lviv City Government Treasury bank accounts are linked to the TSA at the Central Bank of Ukraine. All bank balances are consolidated on a daily basis. There is no petty cash or imprest system.
	21.2 Cash forecasting and monitoring	C	Once the annual budget is approved by the City Council, the City Finance Department prepares a consolidated

PI-21 M2	Indicator/Dimension	Score 2021	Assessment of performance
			cashflow plan with information from all key spending units regarding their annual cash needs. This has been the practice within the assessment period and in FY2020 as well. However, the annual cashflow plan is not updated on the basis of actual cash inflows and outflows.
21.3	Information on commitment ceilings	A	The City Government office issues annual expenditure commitment limits to each key pending units; these limits are reliable.
21.4	Significance of in-year budget adjustments	C	The Lviv City Government budget adjustments within the year are frequent and partially transparent; these adjustments are done in line with documented procedures for budget virements which are known to key spending units. In FY2020, the City Government budget was adjusted many times. The cumulative amendments in percentage terms were 111.5% of the total originally approved expenditure budget.

Dimension PI-21.1 Consolidation of cash balances

The legal framework that regulates cash management is Order 122 of June 26, 2002, issued by the State Treasury Service of Ukraine. The law directs all sub-national governments to use the central government Treasury Single Account (TSA) framework. Therefore, the Lviv City Government Treasury bank accounts are linked to the TSA at the Central Bank of Ukraine. Bank accounts vary from year to year, depending on the number of expenditure codes created and approved in the local budget. All bank accounts are linked to the TSA. All bank balances are consolidated on a daily basis. There is no petty cash or imprest system.

The score for this dimension is A.

Dimension PI-21.2 Cash forecasting and monitoring

Once the annual budget is approved by the City Council, the City Finance Department prepares a consolidated cashflow plan with information from all key spending units regarding their annual cash needs. This has been the practice within the assessment period and in FY2020 as well. The annual cash plan also derives its basis from annual procurement plans. The annual cash flow plan indicates cash requirements per month, broken down in twelve instalments according to monthly cash needs of budgetary units. However, the annual cash flow plan is not updated on the basis of actual cash inflows and outflows.

The score for this dimension is C.

Dimension PI-21.3 Information on commitment ceilings

The City Government office issues annual expenditure commitment limits to each key pending units; these limits are reliable. The ceilings (limits) have monthly allocations. The annual expenditure commitment ceilings allow key spending units to plan and commit for expenditure for the whole year within the approved annual budget allocations.

The score for this dimension is A.

Dimension PI-21.4 Significance of in-year budget adjustments

In-year budget adjustments are regulated by Article 78 of the Budget Code of Ukraine in terms of the rights by local governments to amend local budget in case of over fulfilment (of under fulfilment) of the budget. The Lviv City Government budget adjustments within the year are frequent and partially transparent; these adjustments are done in line with documented procedures for budget virements, which are known to key spending units. In FY2020, the City Government budget was adjusted many times. The cumulative amendments in percentage terms were 111.5% of the total originally approved budget. It is therefore not surprising that PI-2.1 and PI-2.2 scored 'D,' due to significant variances in expenditure composition by economic and functional classifications.

The score for this dimension is C.

PI-22 Expenditure Arrears

This indicator has two dimensions. Dimension 22.1 assesses the level of stock of expenditure arrears; dimension 22.2 examines the framework for monitoring expenditure payments arrears.

Summary of scores

PI-22 M1	Indicator/Dimension	Score 2021	Assessment of performance
Expenditure arrears		A	
	22.1. Stock of expenditure arrears	A	Evidence adduced by the City Government officials in addition to information obtained from Departments of Education, Health, and Infrastructure indicates that in each of the last three completed fiscal years FY2018-FY2020, there was no stock of expenditure arrears for employee remuneration/salary, pension payments, suppliers, contractors (work completed and certified) and loan creditors. That said, arrears on subsidies and grants (overdue payments) accounted for 0.02% of total spending in 2018, 0.1% in 2019, and 0.03% in 2020.
	22.2. Expenditure arrears monitoring	A	The City Treasury, after receipt of monthly statement on outstanding expenditure commitments (Form No.7m), prepares a consolidated quarterly report within two weeks after the end of the quarter. This report is submitted to the Lviv Oblast Treasury. The report is age-profiled with composition of arrears.

Dimension PI-22.1. Stock of expenditure arrears

The Ukraine PFM legislation defines expenditure arrears 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. The legal requirement

does not allow key spending units to owe suppliers of goods and services beyond the stipulated timeframe; this is strictly monitored and enforced by the City Treasury.

Evidence adduced by the City Government officials in addition to information obtained from Departments of Education, Health, and Infrastructure indicates that in each of the last three completed fiscal years FY2018-FY2020, there was no stock of expenditure arrears for employee remuneration/salary, pension payments, suppliers, contractors (work completed and certified) and loan creditors; the annual financial statements in each of the three years under review showed zero balances in each category of the above expenditure categories as of 31st of December of the respective years (2018-2020). That said, arrears on subsidies and grants (overdue payments) accounted for 0.02% of total spending in 2018, 0.1% in 2019, and 0.03% in 2020.

The score for this dimension is A.

Dimension PI-22.2. Expenditure arrears monitoring

The Budget Code of Ukraine directs all key spending units to prepare a monthly statement of outstanding expenditure commitment and submit same to the Treasury in accordance with “Form No.7m of Treasury reports.” This legal requirement is strictly enforced and complied with by all key spending units. The City Treasury, after receipt of monthly statement on outstanding expenditure commitments (Form No.7m), prepares a consolidated quarterly report within two weeks after the end of the quarter by budget programs and by economic classification codes. The report is age-profiled with composition of arrears. This report is submitted to the Lviv Oblast Treasury.

The score for this dimension is A.

PI-23 Payroll Controls

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.

Summary of scores

PI-23 M1	Indicator/Dimension	Score 2021	Assessment of performance
Payroll controls		B+	
	23.1 Integration of payroll and personnel records	B	Presently, there is no direct integration between payroll and personnel records. Personnel records are manually kept, while payroll records are kept electronically. The authorization and verification process are done monthly. All changes are properly supported by approved documentation from the head of each spending unit.
	23.2 Management of payroll changes	A	All changes to personnel and payroll records are processed within 48 hours based on approved official documentation authorised by the head of each

PI-23 M1	Indicator/Dimension	Score 2021	Assessment of performance
			institution. These changes are carried out in the same month prior to processing and payment of staff remuneration. There were no payroll arrears and therefore no retroactive adjustments.
	23.3 Internal control of payroll	B	Each spending unit maintains HR paper records of staff, securely kept in a safe, with access granted to authorised personnel only. The movement of HR files has no audit trail. The payroll system used by each spending unit is computerised, with a payroll management software. The system is passworded and grants access to only authorised staff. There is, however, no evidence to suggest that authorised access to the payroll software used by each of the spending units visited (Departments of Education, Health, Finance, Infrastructure) results in audit trail. All changes to payroll and personnel records are adequately supported by official documentation with full integrity.
	23.4 Payroll audit	B	In June 2021, the State Audit Service (SAS) undertook a comprehensive payroll audit of the Lviv City Government covering the period FY2017-FY2020. The audit included physical verification of staff.

Dimension PI-23.1. Integration of payroll and personnel records

Presently, there is no direct integration between payroll and personnel records. Personnel records are manually kept, while payroll records are kept electronically. Further, the personnel and payroll functions are decentralised; each key spending unit (budgetary and extra-budgetary) is responsible for its payroll and personnel databases. Each year, the City Council (local parliament) approves a staff list which forms the basis of staff recruitment by each budget institution with authorisation of the city mayor. Extra-budgetary units have their own separate manual HR database with a staff list approved by the city mayor. Each spending unit (budgetary and extra-budgetary units) has a payroll management software for processing and payment of salaries/remunerations.

Each spending unit has a manual daily attendance system for staff which informs the calculation of wages and salaries at the end of each month. Prior to processing and payment of monthly payroll, the head of each institution (budgetary and extra-budgetary) checks the current month's payroll (based on HR and Accounts records from HR and Accounts departments respectively) against the previous month's record for any changes. All changes are properly supported by approved documentation from the head of each spending unit.

Verification of payroll with personnel records is performed monthly at the time of making advance and salary calculations. Each employee enters a time sheet twice per month which includes information on his/her position and submits it to an HR unit (a clerk). The HR unit (clerk) checks the time sheet with information from staff records and submits such time sheets to accounting unit (accountant). The

accounting unit checks the time sheet`s information with information in the payroll records while making advance and salary calculations. These payroll calculations are made considering all staff changes.

The score for this dimension is B.

Dimension PI-23.2. Management of payroll changes

The Human Resources management is manual, but the payroll is managed through a software at the level of each spending unit. This means personnel and payroll management is decentralised. All changes to personnel and payroll records are processed within 48 hours based on approved official documentation authorised by the head of each institution. These changes are carried out in the same month prior to processing and payment of staff remuneration. There were no payroll arrears and therefore no retroactive adjustments.

The score for this dimension is A.

Dimension PI-23.3 Internal control of payroll

The Lviv City Government Administration has a decentralised personnel and payroll system. Each spending unit maintains HR paper records of staff, securely kept in a safe, with access granted to authorised personnel only. The movement of HR files has no audit trail. Each spending unit uses a manual daily staff attendance system; this forms the basis for processing and paying staff salaries. On the other hand, the payroll system used by each spending unit is computerised, with a payroll management software. The system is passworded and grants access to only authorised staff. There is, however, no evidence to suggest that authorised access to the payroll software used by each of the spending units visited (Departments of Education, Health, Finance, Infrastructure) results in audit trail. All changes to payroll and personnel records are adequately supported by official documentation with full integrity.

The score for this dimension is B.

Dimension PI-23.4. Payroll audit

In June 2021, the State Audit Service (SAS) undertook a comprehensive payroll audit of the Lviv City Government covering the period FY2017-FY2020. The audit included physical verification of staff. Additionally, the Finance Department of the City Government conducts quarterly payroll audit of key spending units but this is partial as it does not include physical verification of staff; this audit is done as part of the routine financial controls.

The score for this dimension is B.

PI-24 Procurement

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The scope of this indicator covers every procurement of good, services, civil works, and major equipment investments, whether classified as recurrent or capital investment expenditures. It contains four dimensions.

Summary of scores

PI-24 M2	Indicator/Dimension	Score 2021	Assessment of performance
Procurement		B+	
24.1 Procurement monitoring		A	With reference to Table 24.2 below, 64.5% by value of public procurement goes through a competitive method in the national electronic system (prozorro.gov.ua); the data is complete and published in real time indicating the purpose of the contract, the entity or person who won the contract and the value of the contract awarded. There is also complete and accurate information from the local government procurement department on the remaining 35.5% by value of non-competitive procurement. Therefore, all (100%) procurement activities for goods, services and works are monitored; the information is accurate and complete.
24.2 Procurement methods		C	The Procurement Department of the City Government consolidates all procurement data from budgetary and extra-budgetary units. According to the data (verified by the procurement authority), 64.5% by value of all public procurement activities within the City Government go through a competitive method. The remaining 35.5% of procurement activities are non-competitive. Please refer to Table 24.2 below.
24.3 Public access to procurement information		A	Table 24.3 below summarises the PEFA requirements for public access to procurement information. All six PEFA elements have been met.
24.4 Procurement complaints management		B	As shown in Table 24.4 below, the procurement complaints mechanism meets all criteria but those (ii) of the PEFA requirements.

Dimension PI-24.1. Procurement monitoring

The Public Procurement Law mandates all spending units and/or procuring entities to publish all forms and methods of procurement above UAH50,000. Each spending unit within the City Government of Lviv has direct and autonomous access to ProZorro. With reference to Table 24.2 below, 64.5% by value of public procurement goes through a competitive method in the national electronic system (prozorro.gov.ua); the data is complete, accurate and published in real time indicating the purpose of the contract, the entity or person who won the contract and the value of the contract awarded. There is also complete and accurate information from the local government Procurement Department on the remaining 35.5% by value of non-competitive procurement. Therefore, all (100%) procurement activities for goods, services and works are monitored; the information is accurate and complete. This information is independently verified and confirmed by the State Audit Service (SAS).

The score for this dimension is A.

Dimension PI-24.2 Procurement methods

The Ukrainian Public Procurement Law allows these forms (methods) of public procurement to be carried out, namely: (i) open bidding; (ii) competitive dialogue; (iii) procurement under the framework agreement; and (iv) negotiation procurement procedure. The thresholds are as follows (Table 24.1):

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

Procurement method	Threshold			
	Normal activity in the economy		Other areas of economy ²⁷	
	Goods & Services	Works	Goods & Services	Works
Open competition	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
Negotiated procedure	Equal or above UAH200,000	Equal or above UAH1.5million	Equal or above UAH1.0 million	Equal or above UAH5.0 million

Procurement is decentralised with each spending unit responsible for its procurement activities through the national procurement system (Prozorro). The Procurement Department of the City Government consolidates all procurement data from budgetary and extra-budgetary units. According to the data (verified by the procurement authority), 64.5% by value of all public procurement activities within the city government go through a competitive method. The remaining 35.5% of procurement activities are non-competitive. Please refer to Table 24.2 below. This data has been independently verified by SAS.

Table 24.2 Methods of procurement for FY2020

Procurement method	Plan (UAH'000)	Plan (%)	Actual (UAH'000)	Actual (%)
Open bidding	4,448,296.6	66.1	4,003,432.2	64.5
Pre-threshold (simplified) procurement – restricted tender	504,372.4	7.5	432,263.2	7.0
Negotiation procedure – restricted tender	615,554.3	9.2	610,305.4	9.8
Without the use of an electronic system (sole sourcing, procedure for reporting on the concluded agreement (COVID-19))	1,157,729.0	17.2	1,157,411.4	18.7
Total	6,725,952.3	100.0	6,203,412.2	100.0

Source: prozorro.gov.ua and Lviv City Administration Procurement Department

The score for this dimension is C.

²⁷ 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, centralised dispatch (operational-technological) management of the unified energy system of Ukraine; (iv) production, transportation and supply of drinking water, ensuring the functioning of a centralised 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;

Dimension PI-24.3. Public access to procurement information

Articles 9 and 10 of the national public procurement law (also applicable to sub-national governments) list all procurement information which must be published on Prozorro (<https://prozorro.gov.ua>):

- annual procurement plan;
- announcement of the procurement procedure and tender documentation;
- changes to and clarification of the tender documentation (if any);
- announcement of the information about the concluded framework agreement (in the case of procurement under the framework agreement);
- protocol of consideration of the tender offers;
- notice on intention to enter into a procurement contract;
- information on the rejection of the bidder's bid;
- list of bidders whose bids have not been rejected;
- procurement contract;
- report on the results of the procurement procedure;
- notification of changes to the contract;
- contract performance report;
- report on concluded contracts;
- public procurement report;
- complaints to the body of appeal;
- decisions taken by the body;
- findings of the experts involved by the appeal body;
- appeals from individuals and legal entities and clarification of the customer;
- notification of cancellation of bidding or acknowledgment of their failure;
- decision to start procurement monitoring and the conclusion on the results of such monitoring;
- information on conducting competitive dialogue;
- annual procurement report containing an analysis of the functioning of the public procurement system and summarized information on the results of controls in the procurement area.

Table 24.3 below summarises the PEFA requirements for public access to procurement information. All six PEFA elements have been met. The accuracy and completeness of procurement information is verified and confirmed by the State Audit Service (SAS). The procurement information is complete and reliable. All procurement methods go through national Prozorro system.

The assessment team was unsuccessful in arranging a meeting with the association of private businesses.

Table 24.3: Public Access to Procurement Information

Element/ Requirements	Met (Y/N)	Evidence used/ Comments
1. Legal and regulatory framework for procurement	Yes	Procurement law and regulations are on the website (https://prozorro.gov.ua)
2. Government procurement plan	Yes	As required by the procurement law (Article 9), procurement plans are published on the website (https://prozorro.gov.ua)
3. Bidding opportunities	Yes	Published on the website (https://prozorro.gov.ua) as well as the Lviv City official government website

Element/ Requirements	Met (Y/N)	Evidence used/ Comments
4. Contract awards (Purpose, contractor and value)	Yes	Published on the website (https://prozorro.gov.ua)
5. Data on resolution of procurement complaints	Yes	Published on the website (https://prozorro.gov.ua); this aspect is managed by the Anti-Monopoly Committee of Ukraine (AMCU)
6. Annual procurement statistics.	Yes	Published on the website (https://prozorro.gov.ua)

The score for this dimension is A.

Dimension PI-24.4. Procurement complaints management

The functions of the Antimonopoly Committee of Ukraine (AMCU) are prescribed under Article 18 of the Public Procurement Law. Procurement complaints at all levels of government (central and local) are managed by the Antimonopoly Committee of Ukraine (AMCU). The AMCU is very functional and active body for resolving all procurement complaints. As shown in Table 24.4 below, the procurement complaints mechanism meets all criteria but those (ii) of the PEFA requirements.

Table 24.4 Elements of procurement complaints framework

Elements/Requirements	Met (Yes/No)	Evidence used/ Comments
<i>Complaints are reviewed by a body which:</i>		
(i) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions.	Yes	Members of the AMCU Complaint Board do not participate in procurement procedures and in the process of decision-making on determining a tender winner.
(ii) Does not charge fees that prohibit access by concerned parties.	No	In accordance with the Order of Cabinet Ministers Number 292 dated 22nd April 2020, 0.3% of the expected cost of a procured item or a part thereof (lot) if challenged, but not less than UAH 2,000.00 and no more than UAH 85,000.00. <i>(Please note that these fees may be insignificant at the national level but may be significant at local government level and could deter filing of complaints.)</i>
(iii) Follows processes for the submission and resolution of complaints that are clearly defined and publicly available.	Yes	Complaints are filed electronically through the Prozorro electronic procurement system; this is publicly known and available.
(iv) Exercises the authority to suspend the procurement process.	Yes	The electronic procurement system automatically suspends the procurement procedure until the determination of the appeal.
(v) Issues decisions within the timeframe specified in the rules/regulations.	Yes	The deadline for considering a complaint does not exceed 15 business days by law.
(vi) Issues decisions that are binding on every party (without) precluding subsequent access to an external higher authority.	Yes	The AMCU Complaint Board decisions are binding but could be challenged in the law court.

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

PI-25 Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The indicator assesses segregation of duties, the effectiveness of expenditure commitment controls, and compliance with payment rules and procedures. The assessment of this indicator covers the local government, including budget units and extra-budgetary units.

Summary of scores

PI-25 M2	Indicator/Dimension	Score 2021	Assessment of performance
	Internal controls on non-salary expenditure	B+	
	25.1 Segregation of duties	A	The procedures for the segregation of duties are clear and appropriate, as they prescribe who is responsible for generating an expenditure, who authorises such expenditure, and who approves and pays expenditures. The rules/procedures also prescribe that officers recording financial transactions should not approve such transactions. The Accounting Manual also prescribes clear rules/procedures for segregation of duties including expenditure commitment, authorisation, payment, and recording.
	25.2 Effectiveness of expenditure commitment controls	C	For spending units (budgetary and extra-budgetary units), the financial management system does not limit expenditure commitments to cash (please refer to Table 25.1 below). Expenditures of spending units are made exclusively in accordance with the limits within the approved estimate/budget according to the expenditure classification.
	25.3 Compliance with payment rules and procedures	A	The legislation ensures a high degree of compliance with payment rules and procedures. All expenditure commitments initiated by each spending units (budgetary and extra-budgetary units) go through prescribed financial management procedures. There are no exceptions for simplified payment procedures. As of the time of this assessment, financial violations were only 1.2% of total budgetary and extra-budgetary funds audited by the Financial Control Department.

Dimension PI-25.1. Segregation of duties

Sub-national governments in Ukraine have autonomy in guiding the process of expenditure control and other internal rules and procedures. Based on Article 9 of the Law of Ukraine “On Accounting and Financial Reporting,” source documents are the basis for accounting for business transactions and, in addition to the responsible persons (the head and the chief accountant), they must be signed by the

person involved in the business transaction. The city of Lviv as other SNGs is guided by national legislation in establishing the segregation of duties in the course of the endorsement and approval of expenditure. The procedure for the endorsement and the sign-off of documents is specified in the document management schedule of each spending unit. Thus, the persons who sign a contract are not the same as those recording it in the system and the person authorizing the payment (the head) is not the one making the payment (accountant).

Also, the staff preparing procurement tenders is not the same as those evaluating bids. The city of Lviv has established a Tender Committee.²⁸ Members of this Committee are: the Executive Secretary, the Head of the Department of Legal Work, the Head of the Organizational Department, the Head of the Accounting Department, and the representatives of the Department of Organizational Work and of the Department of Legal Expertise on Economic and Infrastructural Issues of the Department of Legal Work. The terms of reference for the Tender Committee provide a clear segregation of duties.

The duties related to asset management are defined in internal documents of the institutions: provision of structural units, job descriptions, and orders on the commissioning of a fixed asset specifying, among others, who is the accountable person in charge. The reconciliation is carried out in accordance with the requirements of the Article 10(1) of the Law of Ukraine No. 996 of July 16, 1999, "On Accounting and Financial Reporting in Ukraine."²⁹ Based on the Law, enterprises must take inventory of assets and liabilities in order to ensure the integrity of the accounting and financial reporting data. The availability, condition, and value of assets and liabilities are checked and evidenced with documents during such inspections.

The accounting and reporting units of the Financial Policy Department and the Financial Control Department of the Lviv City Council conduct audits of financial and economic activity of spending units, as well as of the State Audit Service, and of the Accounting Chamber of Ukraine for what concerns transfers from the national government.

Thus, the main incompatible responsibilities are segregated for (a) authorization; (b) recording; (c) custody of assets; and (d) reconciliation or audit. Table 25.1 outlines the segregation of duties. 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. Furthermore, the signing authority does not record the transactions; there are separate officers responsible for recording procurement and financial transactions. 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 authorisation and recording, including authorisation 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.

²⁸ [https://www8.city-adm.lviv.ua/Pool/Info/doc/mr_1.NSF/\(SearchForWeb\)/BA472F38C5ED2596C22580C3004F6460?OpenDocument](https://www8.city-adm.lviv.ua/Pool/Info/doc/mr_1.NSF/(SearchForWeb)/BA472F38C5ED2596C22580C3004F6460?OpenDocument)

²⁹ <https://zakon.rada.gov.ua/laws/show/996-14#Text>

Table 25.1: Segregation of duties and commitment controls

Segregation of duties		Commitment controls		
Prescribed throughout the process (Y/N)	Responsibilities C= Clearly laid down M= Clearly laid down for most key steps N= More precise definition needed	In place (Y/N)	Limited to cash availability A= All expenditure M= Most expenditure P= Partial coverage	Limited to approved budget allocations A= All expenditure M= Most expenditure P= Partial coverage
	Yes		C	Yes

Data source: document management schedules of Financial Policy Department and Humanitarian Policy Department; Lviv City Council Decision on Tender Committee of Executive Committee dated February 10, 2017 No 83; the Law of Ukraine dated July 16, 1999 No. 996 "On Accounting and Financial Reporting in Ukraine";

The score for this dimension is A.

Dimension PI-25.2 Effectiveness of expenditure commitment controls

The Treasury provides an ex-ante control within the registration of budget commitments of spending units and budget fund recipients. This control is conducted based on the Procedure for the Registration of and Accounting for Budget Commitments of Spending Units and Budget Fund Recipients at Bodies of the State Treasury Service approved by MoF's Order dated March 2, 2012 No. 309. The control ensures that the total commitments amount is within the monthly allocation and partially within the availability of cash. Each spending unit makes payments within monthly allocations approved by the MoF and within "open allocations" which they receive on a monthly basis. The Treasury prepares proposals on such "open allocations" and the MoF approves them. Those "open allocations" include: (1) fully approved monthly allocations for "protected expenditures", such as salary, utilities etc. (defined by Article 55 of BCU), which are above 50% of total city budget expenditures; (2) the part of other approved monthly allocations taking into account available resources in the appropriate month. For all spending units (budgetary and extra-budgetary units), the financial management system does not limit expenditure commitments to cash (please refer to Table 25.1 above).

The score for this dimension is C.

Dimension PI-25.3. Compliance with payment rules and procedures

The legislation ensures a high degree of compliance with payment rules and procedures. All expenditure commitments initiated by each spending units (budgetary and extra-budgetary units) go through prescribed financial management procedures. There are no exceptions for simplified payment procedures. As of the time of this assessment, financial violations were only 1.2% of total budgetary and extra-budgetary funds audited by the Financial Control Department.

The score for this dimension is A.

Ongoing reforms

None.

PI-26 Internal audit

International good practice in public financial management looks at the operation of internal audit as a service to management, with the function to identify ways of correcting and improving systems, so as to improve the efficiency, economy, and effectiveness of the delivery of public services. This indicator assesses the standards and procedures applied in internal audit and contains four dimensions dealing with the coverage of internal audit, the nature of audits and standards applied, implementation of internal audit plans and the response to internal audit reports.

The assessment of this indicator covers the local government budget institutions and extra-budgetary units.

Summary of scores

PI-26 M1	Indicator/Dimension	Score 2021	Assessment of performance
Internal audit		D+	
26.1	Coverage of internal audit	D	The internal audit unit is not independent. The internal audit unit is constrained by the limited number of staff, currently at 10 out of 17 staff positions, to effectively carry out its mandate. Available evidence indicates that only 33.5% of City Government expenditures (for both budgetary and extra-budgetary) were covered by the internal audit unit.
26.2	Nature of audits and standards applied	C	Internal audits cover the financial aspects as well as the effective use of budget funds and the compliance with rules of internal control, in particular whether the audited entity complies with the rules prescribed by the Budget Code, Public Procurement Law, other legislation and internal documents.
26.3	Implementation of internal audits and reporting	A	The Financial Control Department (internal audit unit) prepares annual audit programs. As shown in Table 26.2 below, all planned and requested audits are completed and reports are submitted to audited entities.
26.4	Response to internal audits	A	There is a high level of responses to internal audits. In FY2020 funds were reimbursed and responses to audit recommendations were provided at the 95% of issued recommendations as of September 2021.

Background

Cabinet of Ministers of Ukraine Resolution No. 1001 dated September 28, 2011, as amended by Decree 1062 dated December 12, 2018, forms the legal basis for the establishment and functioning of the internal audit unit/department across public institutions including local governments. Article 26 of the Budget Code of Ukraine also mandates each key spending unit to establish an internal audit unit.

Internal Audit Standards, approved by MoF's order No 1247, dated October 4, 2011, (Chapter 3) set out

the independence of the internal audit unit/department. Organisational independence requires the internal audit unit to report directly to the head of the budgetary/extra-budgetary institution. In terms of functions, the independence of the internal audit unit is assured by ensuring that internal audit activities are carried out in accordance with the annual audit implementation plan, without interference from the audited institution; in other words, the internal auditor must have the free hand to carry out his/her work.

Dimension PI-26.1. Coverage of internal audit

The Financial Control Department of the Lviv City Government is responsible for conducting the internal audit across all spending units. The internal audit unit is constrained by the limited number of staff, currently at 10 out of 17 staff positions, to effectively carry out its mandate. Available evidence indicates that only 33.5% of City Government expenditures (for both budgetary and extra-budgetary) were covered by the internal audit unit. The internal audit unit is not responsible for the audit of revenues since all collections are done by the State Tax Service.

The score for this dimension is D.

Dimension PI-26.2 Nature of audits and standards applied

The Financial Control Department (internal audit unit) uses national standards for internal audit which are based on international standards. All internal audit guidelines used by the Department are based on international internal audit standards. Internal audits cover the financial aspects as well as the effective use of budget funds and the compliance with rules of internal control, in particular, whether the audited entity complies with the rules prescribed by the Budget Code, Public Procurement Law, other legislation and internal documents.

The score for this dimension is C.

Dimension PI-26.3. Implementation of internal audit and reporting

The Financial Control Department (internal audit unit) prepares annual audit programs based on some risk assessment. There is, however, no documented risk profile or register within the local government structure. In addition to the annual audit plans, the Department also conducts internal audit assignments upon request from the city mayor as well as the City Council. As shown in Table 26.2 below, all planned and requested audits are completed and reports are submitted to audited entities.

Table 26.2: Percentage of completion of internal audits, FY2020

Department	Number of planned audits	Number of completed audits	Percentage (=B/A*100%)
Financial Control Department	20	20	100%
Total	20	20	100%

Data source: Financial Control Department

The score for this dimension is A.

Dimension PI-26.4. Response to internal audits.

Based on information received from the Financial Control Department, there is a high level of responses to internal audits. In FY2020, funds were reimbursed and responses to audit recommendations were provided at the 95% of issued recommendations as of September 2021.

The score for this dimension is A.

Ongoing reforms

None.

2.7 Pillar VI. Accounting and reporting

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

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 four dimensions. Dimension 27.1 assesses the extent and frequency of bank reconciliations for the local government accounts; dimension 27.2 assesses the reconciliation of suspense accounts, dimension 27.3 measures the frequency of reconciling advance accounts; dimension 27.4 measures the financial data integrity processes.

Summary of scores

PI-27 M2	Indicator/Dimension	Score 2021	Assessment of performance
Financial data integrity		A	
PI-27.1	Bank account reconciliations	A	Extra-budgetary units (healthcare institutions) have their own separate bank accounts; these are fully reconciled within a week after the end of the previous week. There is reconciliation of all transactions between the cashbook and the bank statement every week, both in detail and at aggregate level for all budgetary units; this is done within two days after the end of the previous week.
PI-27.2	Suspense accounts	NA	Not applicable. There are no suspense accounts.
PI-27.3	Advance accounts	A	There were no outstanding balances on staff advances for salaries and official travel as of the time of the fieldwork (October 2021). All advances are reconciled and cleared timely.
PI-27.4	Financial data integrity process	B	The financial management software has password features and restricts access to unauthorised personnel. It also generates an audit trail. There is no separate and/or special unit or body responsible for checking the integrity of financial data.

Dimension PI-27.1 Bank account reconciliations

All bank accounts of the City Government of Lviv are part of the central government Treasury Single Account system (TSA). Financial Policy Department has access to all its treasury bank accounts held at the Central Bank of Ukraine. Therefore, the Financial Policy Department is able to view and print bank statements of all its bank accounts for daily reconciliation at the aggregate level. There is also a detailed reconciliation of all transactions between the cashbook and the bank statement every week of all budgetary units; this is done within two days after the end of the previous week. Extra-budgetary units (healthcare institutions) have their own separate bank accounts; these are fully reconciled within a week after the end of the previous week.

The score for this dimension is A.

Dimension PI-27.2 Suspense accounts

There are no suspense accounts.

The score for this dimension is NA.

Dimension PI-27.3 Advance accounts

There were no outstanding balances on staff advances for salaries and official travel as of the time of the fieldwork (October 2021). With reference to contractors, the standard practice is that 30% of contract cost is paid to the contractor(s) once the contract is signed. Contractors close the advance account opened in the Treasury within 90 days by providing a certificate of completion. For contracts signed and executed within the same financial year, there are no outstanding balances; the accounts are fully reconciled. For infrastructure contracts (which are usually medium to long term), all advance reconciliation takes place monthly within a month after the end of the previous month. With regards to contracts which are performed for more than one month, the reconciliation is carried out by the Finance Policy Department on a monthly basis within four weeks, by summarizing all data on advances.

The score for this dimension is A.

Dimension PI-27.4 Financial data integrity process

The level of access to the financial management software depends on the level of authority; some employees have access only for viewing, some have access for data entry, and others (the heads of the budgetary institutions) have full access. Changes to financial data are duly authorized by the head of the department and/or the budgetary institution. The financial management software has password features and restricts access to unauthorised personnel. It generates an audit trail. There is no separate and/or special unit or body responsible for checking the integrity of financial data.

The score for this dimension is B.

Ongoing reforms:

None.

PI-28 In-year budget reports

This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with the budget coverage and classification to allow for monitoring of budget performance and, if necessary, timely use of corrective measures. It contains three dimensions. Dimension 28.1 assesses the coverage and compatibility of reports; dimension 28.2 assesses the timing of in-year budget reports; dimension 28.3 assesses the accuracy of in-year budget reports.

Summary of scores

PI-28 M1	Indicator/Dimension	Score 2021	Assessment of performance
In-year budget reports		D+	
	PI-28.1 Coverage and compatibility of reports	D	The in-year budget execution reports have no administrative classifications. That said, they show detailed revenue classification by code as well as expenditure category (recurrent and capital) according to program, functional, and economic classifications. The reports classification does not allow for a direct comparison to the original budget.
	PI-28.2 Timing of in –year budget reports	A	As shown in Table 28.2 below, in-year budget execution reports are prepared and issued within two weeks after the end of the previous month.
	PI-28.3 Accuracy of in-year budget reports	C	In-year budget execution reports prepared and submitted during the year include planned and actual expenditures at the payment stage, but not at the commitment stage. The reports are useful as they provide information for management. However, the reports do not highlight concerns with regards to data accuracy.

Dimension PI-28.1 Coverage and compatibility of reports

The laws that regulate the preparation of in-year budget execution reports are: (i) Cabinet of Ministers of Ukraine (CMU) Decree No.419 dated 28 February 2000 and, (ii) Ministry of Finance (MoF) Order No.44 dated 24 January 2012. These laws are complied with as each budgetary unit prepares and submits monthly in-year budget execution reports to the City Treasury. The City Treasury then consolidates these budgetary units' in-year reports into a consolidated monthly report. The in-year budget execution reports have no administrative classifications. That said, they show detailed revenue classification by code as well as expenditure category (recurrent and capital) according to program, functional and economic classifications. The reports classification does not allow for a direct comparison to the original budget (please refer to Table 28.1 below).

Table 28.1: Coverage of in-year budget reports

Coverage and classification			Timeliness		Accuracy		
Allows direct comparis	Level of detail	Includes transfers to de-	Frequenc y W/M/Q	Within: 2/4/8 weeks	Material concerns (Y/N)	N/Y Analysis prepared	Payment informatio n

on to original budget (Y/N)	A=All budget items P= Partial aggregation M= Main administrative headings E=Main economic headings	concentrated units (Y/N)	N=>Quarterly	N=>8weeks		(Y/N)	E=Exp C=Commit
N	E	Y	M/Q	2	N	Y	E

The score for this dimension is D.

Dimension PI-28.2 Timing of in-year budget reports

As shown in Table 28.2 below, in-year budget execution reports are prepared and issued within two weeks after the end of the previous month. This is in accordance with Order No. 44 of the Ministry of Finance dated January 24, 2012. The introduction of the E-Reporting system in September 2018 by the National Treasury has significantly improved the timeliness of submission of in-year budget execution reports.

Table 28.2: Timing of in-year budget reports for the last completed fiscal year 2020

The period covered by the report	Date of submission
January 2020	10 th February 2020
February 2020	10 th March 2020
March 2020	10 th April 2020
April 2020	12 th May 2020
May 2020	10 th June 2020
June 2020	10 th July 2020
July 2020	10 th August 2020
August 2020	10 th September 2020
September 2020	12 th October 2020
October 2020	10 th November 2020
November 2020	10 th December 2020
December 2020	11 th January 2021

The score for this dimension is A.

Dimension PI-28.3 Accuracy of in-year budget reports

In-year budget execution reports prepared and submitted during the year include planned and actual expenditures at the payment stage, but not at the commitment stage. The reports are useful as they provide information for management. However, the reports do not highlight concerns with regards to data accuracy.

The score for this dimension is C.

PI-29 Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is critical for accountability and transparency in the PFM system. It contains three dimensions. Dimension 29.1 assesses the completeness of annual financial reports; dimension 29.2 assesses the submissions of reports for external audit; dimension 29.3 assess the accounting standards used to prepare financial statements.

Summary of scores

PI-29 M1	Indicator/Dimension	Score 2021	Assessment of performance
Annual financial reports		D+	
PI-29.1	Completeness of annual financial reports	D	As shown in Table 29.1 below, the annual financial statements are complete as they present information on revenues and expenditures according to programme, functional and economic classifications, cash balances and receivables, tangible assets, payables and long-term liabilities, guarantees, plus a reconciled cash flow statement. Nevertheless, the annual financial statements (AFS) are not comparable with the approved budget.
PI-29.2	Submissions of reports for external audit	D	The Lviv City Government has not submitted the FY2020 annual financial statement to the Accounting Chamber of Ukraine (ACU) for external audit. Annual financial statements of previous years (2018 and 2019) have also not been submitted to ACU.
PI-29.3	Accounting standards	B	In each of the last three completed fiscal years under review (FY2018-FY2020), the City Government's annual financial statements were prepared in accordance with the National Public Sector Accounting Regulations. The annual financial statements have been consistent over time. The accounting standards and policies adopted are disclosed in the notes to the financial statements.

Dimension PI-29.1 Completeness of annual financial reports

As shown in Table 29.1 below, the annual financial statements are complete as they present information on revenues and expenditures according to programme, functional and economic classifications, cash balances and receivables, tangible assets, payables and long-term liabilities, guarantees, plus a reconciled cash flow statement. Nevertheless, the annual financial statements (AFS) are not comparable with the approved budget. Reports on expenditure execution do not contain administrative classification, information on consumption and development expenditures, salary, etc. and are separated for general and special budget funds.

Table 29.1: Information contained in annual financial statement FY2020

Completeness					Date of submission for external audit	
Prepared annually (Y/N)	Comparable with approved budget (Y/N)	Information F=Full P=Partial B=Basic	Cash flow statement (Y/N)	Balance Sheet C=Cash only FO=Financials only F=Full	Date of submission	Within: (3/6/9 months)
Y	N	F	Y	F	N	NA

The score for this dimension is D.

Dimension PI-29.2 Submissions of reports for external audit

The Lviv City Government has not submitted the FY2020 annual financial statement to the Accounting Chamber of Ukraine (ACU) for external audit. Annual financial statements of previous years (2018 and 2019) have also not been submitted to ACU. The legislation does not provide for submission of annual reports to ACU. The mandate of the ACU is only limited to state transfers (subventions) to the City Government, which represent less than 50% of the total City Government budget. The City Government is, however, audited at least once every three years by the State Audit Service (which is part of MoF), but not in line with INTOSAI standards since SAS is not the Supreme Audit Institution.

The score for this dimension is D.

Dimension PI-29.3 Accounting standards

In each of the last three completed fiscal years under review (FY2018-FY2020), the City Government's annual financial statements were prepared in accordance with the National Public Sector Accounting Regulations issued by MoF and mostly compliant 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. Differences between the National Public Sector Accounting Standards and those of IPSAS are not disclosed.

The score for this dimension is B.

2.8 Pillar VII. External scrutiny and audit

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

PI-30 External audit

This indicator assesses the quality of the external audit in terms of the scope and coverage of the audit, adherence to appropriate audit standards (including the independence of the external audit institutions). The timeliness of submission of audit reports to the legislature is also important in ensuring timely accountability of the executive to the legislature and the public, much as it is for a timely follow up of the

external audit recommendations. The assessment covers the local government institutions including all agencies and extra-budgetary funds (where they exist) and focuses on the last three financial years.

Summary of scores

PI-30 M1	Indicator/Dimension	Score 2021	Assessment of performance
External audit		D	
30.1	Audit coverage and standards	D	Currently and within the last three completed fiscal years 2018-2020, the Accounting Chamber of Ukraine (ACU) did not audit the financial records of the City Government of Lviv. That said, ACU has been auditing the state (central government) subventions to the City Government, which are less than 50% of the total revenue and expenditure of the City Government. Based on evidence form central government audit reports, the ACU audits largely comply with INTOSAI standards.
30.2	Submission of audit reports to the legislature	D	Within the assessment period FY2018-FY2020, the Accounting Chamber of Ukraine (which is the Supreme Audit Institution in Ukraine) did not conduct any external audit of the financial statements of the Lviv City Government (both budgetary and extra budgetary units); therefore, it also did not submit audit reports to the Lviv City Council (legislature) for scrutiny.
30.3	External audit follow-up	NA	This dimension is not applicable, as there are no external audit reports for follow-ups of audit recommendations.
30.4	Supreme Audit Institution (SAI) Independence	D	ACU's staff are subjected to the same public/civil service rules and controls, except for the Chairperson and his/her deputies and board members – this undermines ACU's independence. Again, it has no full mandate to audit all public funds including local governments' own resources. Furthermore, its annual budget proposals are reviewed and approved by the Ministry of Finance.

Dimension PI-30.1. Audit coverage and standards

The Parliament (at the central government level) in 2019 passed a revised audit law (which was drafted in November 2018) to, among others, expand the responsibilities of the Accounting Chamber of Ukraine to audit all central government subventions as well as delegated central government power with financial implications. Currently and within the last three completed fiscal years 2018-2020, the Accounting Chamber of Ukraine (ACU) did not audit the financial records of the City Government of Lviv. That said, ACU has been auditing the state (central government) subventions to the City Government, which are less than 50% of the total revenue and expenditure of the City Government. Actual audit coverages for FY2018-FY2020 were 2%, 0.1% and 0.2% respectively. Based on evidence form central government audit reports, the ACU audits largely comply with INTOSAI standards.

The score for this dimension is D.

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

Within the assessment period FY2018-FY2020, the Accounting Chamber of Ukraine (which is the Supreme Audit Institution in Ukraine) did not conduct any external audit of the financial statements of the Lviv City Government (both budgetary and extra budgetary units); therefore, it also did not submit audit reports to the Lviv City Council (legislature) for scrutiny.

The score for this dimension is D.

Dimension PI-30.3. External audit follow-up

This dimension is not applicable, as there are no external audit reports for follow-ups of audit recommendations.

The score for this dimension is NA.

Dimension PI-30.4. Supreme Audit Institution independence

Table 30.1 summarises the independence of the Accounting Chamber of Ukraine. Good practice suggests that the Supreme Audit Institution should be fully independent to carry out its legal mandate. In Ukraine, the independence of the Accounting Chamber of Ukraine - ACU (which is the Supreme Audit Institution) is undermined by the fact that the institution's staff are public servants and are subject to the same central government public/civil service laws and procedures in terms of appointment and remuneration. That notwithstanding, the Chairperson of ACU and his/her deputies plus board members are appointed by the Parliament.

While ACU has full authority and autonomy to develop its annual audit work plan without executive (central government) interference, its audit mandate is limited by the fact that it has no legal locus to audit all revenues and expenditures of sub-national government budget. The Chamber has legal authority to audit only state subventions to local governments, which are less than 50% of the total local government operations. Central government, in addition to ACU's audit responsibilities, has established the State Audit Service (SAS) – which is under the Ministry of Finance – to audit all revenues and expenditures of central and local government institutions. The current audit arrangement appears to empower SAS even more than ACU. That said, SAS is also handicapped by inadequate staff to carry out annual audits across all central and local government institutions each year; audits are therefore based on selection. SAS's audits are not aligned to the annual budget cycle, and they are also more directed towards performance and effectiveness audits as opposed to financial audits.

Presently, the annual budget of the Supreme Audit Institutions is submitted directly to the MoF instead of the legislature for review and approval – this also undermines ACU's independence.³⁰ Nevertheless, ACU has not suffered from arbitrary budget cuts from MoF nor delays in the release of approved annual allocations.

³⁰ Cf INTOSAI ISSAI 1, Section 7, Point 2, Financial independence of Supreme Audit Institutions.

Table 30.1: SAI Independence Requirements

Independence criteria	Extent to which criteria met and materiality (where relevant)
Appointment and removal of the head of SAI	The Chairperson and his/her deputies plus board members of ACU are appointed by the Parliament; therefore, they are independent.
Planning audit engagements	While the ACU has full authority and autonomy to develop its annual audit work plan without executive (central government) interference, its audit mandate is limited by the fact that the institution (ACU) has no legal locus to audit all revenues and expenditures of local government budget. The Chamber has legal authority to audit only state subventions which are less than 50% of the total local government operations.
Arrangements for publicizing reports	Based on the Law "On the Accounting Chamber" ³¹ the ACU regularly publishes information about its activities in the media, including reports on the measures of the state external financial control (audit) and annual reports. ACU also publishes such information on its official website (in the form of open data in according to the Law of Ukraine "On Access to Public Information") along with its work plans and decisions.
Approval of budget	ACU submits its annual budget proposals to the Ministry of Finance and defends same just like any other budget institution.
Execution of budget	ACU executes its annual budget like other budget institutions. Based on the MoF's order "On approval of the Procedure for treasury services of the state budget for expenditures", ACU makes payments within monthly allocations approved by the MoF and within "open allocations" which it receives on a monthly basis. The Treasury prepares proposals on such "open allocations" and the MoF approves them. Those "open allocations" include: (1) fully approved monthly allocations for "protected expenditures", such as salary, utilities etc. (defined by Article 55 of BCU); (2) the part of other approved monthly allocations taking into account available resources in the appropriate month.
Legal basis for independence	Law "On the Accounting Chamber".
Unrestricted/timely access to records	According to article 32 of the Law "On the Accounting Chamber", ACU's auditors have access to all necessary information required for conducting audits. However, the access to databases and information produced by financial management information systems is only limited to Board members of the ACU (Paragraph 1 of the Part 1 of the Article 8). There is also limitation to full access of sub-national government financial records.

The score for this dimension is D.

PI-31 Legislative scrutiny of audit reports

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.

³¹ The Law dated July 2, 2015 No 576; <https://zakon.rada.gov.ua/laws/show/576-19#Text>

Summary of scores

PI-31 M2	Indicator/Dimension	Score 2021	Assessment of performance
Legislative scrutiny of audit reports		D	
31.1	Timing of audit report scrutiny	D	The City Council (local parliament) did not receive any external audit reports of the Lviv City Government for scrutiny within the last three completed fiscal years 2018-2020.
31.2	Hearings on audit findings	NA	The City Council (local parliament) did not hold any hearings on the conclusions/findings of the external audits within the last three completed fiscal years 2018-2020. Therefore, this dimension is not applicable.
31.3	Recommendations on audit by the sub-national council	NA	The City Council (local parliament) did not provide any recommendations on external audit reports of the city government. Therefore, this dimension is not applicable.
31.4	Transparency of legislative scrutiny of audit reports	NA	The City Council (local parliament) did not conduct any public scrutiny of external audit reports for FY2020. Therefore, this dimension is not applicable.

Dimension 31.1. Timing of audit report scrutiny

The City Council (local parliament) did not receive any external audit reports of the Lviv City Government for scrutiny within the last three completed fiscal years 2018-2020.

The score for this dimension is D.

Dimension 31.2 Hearings on audit findings

The City Council (local parliament) did not hold any hearings on the conclusions/findings of the external audits within the last three completed fiscal years 2018-2020. Therefore, this dimension is not applicable.

The score for this dimension is NA.

Dimension 31.3. Recommendations on audit by the sub-national council

The City Council (local parliament) did not provide any recommendations on external audit reports of the city government. Therefore, this dimension is not applicable.

The score for this dimension is NA.

Dimension 31.4. Transparency of legislative scrutiny of audit reports

The City Council (local parliament) did not conduct any public scrutiny of external audit reports for FY2020. Therefore, this dimension is not applicable.

The score for this dimension is NA.

3 CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS

3.1 Integrated assessment across performance indicators (PIs)

3.1.1. *Intergovernmental fiscal relations*

The overall performance of intergovernmental fiscal relations shows varied results. The assessment concludes that the timeliness of transfers from higher-levels of government is good (HLG-1.3 rated 'A'), the effect of which is the availability of resources in a timely manner for service delivery. That said, outturns of transfers from higher levels of government, transfers composition outturns, as well as predictability of transfers, showed poor results (HLG-1.1, HLG-1.2, and HLG-1.4 all rated 'Ds'). The unpredictable nature of higher-level government subventions affects the credibility of the expenditure budget, especially economic and functional classifications, as it constantly requires reallocation of expenditure items within the year. It is therefore not surprising that expenditure composition outturns for both functional and economic classifications performed poorly (PI-2.1 and PI-2.2 rated 'Ds'). Fiscal rules and monitoring of fiscal positions show good performance. The laws and regulations for debt and fiscal positions enacted by the central government are strictly enforced with no exceptions (HLG-2 and all its dimensions rated 'As').

3.1.2. *Budget reliability*

According to the assessment, budget reliability shows diverse results. While aggregate expenditure budget performed satisfactorily (PI-A rated 'B'), the same cannot be said for expenditure composition outturns for both economic and functional categories (PI-2.1 and PI-2.2 all rated 'Ds'). This poor performance stems from the negative effect of higher-levels of government transfers (HLG-1 rated 'D+'), which are unpredictable since they are not originally budgeted for, the effect of which could be misallocation of resources. The good news, however, is that activities to be funded have already been pre-determined by the state government and cannot be altered. Expenditures from contingency votes are below 1% which is in line with good international practice. The revenue budget shows average performance at the aggregate level (PI-3 rated 'C+'); the revenue composition outturn is more reliable than the aggregates. Service delivery is not affected because there is sufficient resource allocation from the state government, though unpredictable, to fund service delivery programs.

3.1.3. *Transparency of public finances*

This pillar is weakened by the poor performance of budget classification (PI-4 rated 'D') and budget documentation (PI-5 rated 'D'). The classification of the budget does meet good international standards in line with GFS 2001; at the same time, the budget execution reporting is classified by economic and functional categories but without an administrative classification. The information contained in the budget documentation submitted to the legislature is not comprehensive; for instance, the budget document has no aggregate data on both revenue and expenditure according to the main heads of the classifications, including data for the current and previous year. That said, the City Government has considerable overview and control over extra-budgetary activities outside its budget, thereby posing less threat to its finances. Currently, operations outside the sub-national government budget are less than 1% for expenditures and below 5% for revenues (PI-6 rated 'A'). Reporting requirements for these operations

are strictly enforced. As there is no first-tier government below the City Government, PI-7 is not applicable.

There is good information available to the public in terms of service delivery programs planned and achieved (PI-8.1 and PI-8.2 all rated 'Bs'). There is complete information on all resources received in-cash and in-kind; this provides reasonable assurance that budget allocations are achieving planned results (PI-8.3 rated 'A'). This is good for transparency and accountability. Evaluation of service delivery programs is good (PI-8.4 rated 'B') but would benefit from undertaking independent evaluations in order to provide certainty of results achieved. All fiscal information such as annual budgets, in-year budget execution reports, annual financial statements and a citizens' budget are available to the public in a timely manner (PI-9 rated 'A') – meaning the City Government is keen on transparency and accountability. That said, public consultation for both service delivery and public investment programs is weak; there is less public consultation according to this assessment (PI-9bis rated 'D+').

3.1.4. Management of assets and liabilities

The indicators under this pillar show a satisfactory performance. The analysis shows that the City Government has reasonable control over its assets and liabilities as 78.5% by value of municipal enterprises publish their audited financial statements on their respective websites within 6 months after the end of the previous year (PI-10.1 rated 'B'); this is good as it improves service delivery. There are no PPP arrangements at this stage. Economic analysis, selection, costing and evaluation of investment projects show an average performance (PI-11 and all its dimensions rated 'Cs'), but this would benefit from the existence of standard guidelines for public investment projects. The absence of this guideline does affect criteria for the selection of investment projects, which at this stage is politically motivated and relies less on critical economic analysis.

At this stage, the monitoring of assets and liabilities is limited to cash/bank balances. The number of shares and the corresponding value of shares of municipal enterprises are unknown. Fixed assets are monitored but comprehensive information on land and subsoil assets is not available (PI-12.1 and PI-12.2 all rated 'Cs'). The framework for transfer and disposal of assets is strong and transparent with proper accountability measures (PI-12.3 rated 'A'). The legal and regulatory framework for contracting of debt is strong, with proper and complete records (PI-13.1 and PI-13.2 all rated 'As'), but the City Government does not prepare a medium-term debt management strategy (PI-13.3 rated 'D'). The absence of a debt management strategy limits government's ability to have a longer horizon for debt management.

3.1.5. Policy-based fiscal strategy and budgeting

The analysis shows that the local government's medium-term budget strategy is weak. The budget proposals have limited linkages on macroeconomic projections and underlying assumptions (PI-14.1 rated 'C'); this affects budget reliability. There is no fiscal strategy that would form the basis for estimating fiscal impact of policy proposals (PI-14.2 rated 'D'). The consistency of the budget is also questionable (PI-14.4 rated 'D').

The budget preparation process shows an average performance (PI-17 rated 'C+'). Key spending units have at least four weeks to meaningfully prepare their budget estimates (PI-17.1 rated 'B'), but the ceilings for the estimates are currently not approved by the Executive Committee of the City Government (PI-17.2 rated 'C'), lending itself to arbitrary alterations/changes of budget estimates prior to approval.

The budget estimates are submitted to the City Council at least one month before the start of the new fiscal year (PI-17.3 rated 'C'). The legislative review procedures are well established but do not allow for public consultation which weakens transparency (PI-18.2 rated 'B'). The City Council's review of the budget is only limited to current year's estimates and does not cover fiscal policies since they are non-existent (PI-18.1 rated 'C'). The legislative approval process of the budget is swift, done before the start of the new fiscal year (PI-18.3 rated 'A'); this is good practice which then allows key spending units sufficient time to spend their approved budget allocations. In-year budget amendment procedures exist, but they allow extensive administrative reallocations without limit (PI-18.4 'B'); frequent and significant budget virements have the potential to disrupt planned government policies and programmes.

3.1.6. Predictability and control in budget execution

The assessment concludes that this pillar is the strongest with an overall performance above average, except for internal audit. As the State Tax Service (STS) is responsible for the administration of taxes on behalf on the Lviv City Government, PI-19 and all its dimensions are not applicable. Nevertheless, 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 coupled with a good taxpayer client service as well as a taxpayer complaint mechanism. There is proper accountability for all taxes collected, with a timely transfer and reporting framework (PI-20 rated 'A') – this is good for resource mobilization for effective and efficient service delivery.

Actual cash for service delivery is available (PI-21.1 rated 'A') but a sound mechanism for cashflow forecasting and update is missing (PI-21.2 rated 'C'). There is reliable information on key spending units for commitment of expenditure over a longer horizon (PI-21.3 rated 'A'), which is good for effective planning of procurement activities for improved service delivery. That said, the frequency and significance of in-year budget adjustments are of concern, even though with an average score (PI-21.4 rated 'C'). These frequent in-year budget virements negatively affects planned service delivery programs and overall government policies. Due to the availability of cash for payment of expenditure, there are no arrears or unpaid bills. The City Government effectively monitors the expenditure arrears position of all key spending units (PI-22 rated 'A').

The payroll and personnel management practices are sound (PI-23 rated 'B+'). A sound payroll management system contributes to budget reliability due to the fact that payroll is one of the largest expenditure items on government's budget. Furthermore, the procurement management framework is satisfactory (PI-24 rated 'B+'); it has a positive impact on service delivery. The strong central government laws on internal controls have had a positive impact on the City Government's financial management system. The financial management laws, regulations and procedures prescribe appropriate measures for the segregation of duties (PI-25.1 rated 'A'). While compliance level regarding financial management laws and regulations is high (PI-25.3 rated 'A'), the financial management system/software is unable to limit expenditure to available cash (PI-25.2 rated 'C'). This could result in accumulation of expenditure arrears, but this is not the case currently mainly due to staff discipline as well as sanctions for non-compliance. Internal audit coverage is poor, currently below 50% by value of all City Government operations (PI-26.1 rated 'D'). That said, there is good system for ensuring that audit recommendations are followed through and implemented due to the periodic issuance of internal audit reports in accordance with planned audit activities (PI-26.2 rated 'C', PI-26.3 and PI-26.4 all rated 'As').

3.1.7. Accounting and reporting

The assessment concludes that the overall performance of this pillar is weak, especially in the area of in-year and annual financial reporting. The system for bank and advance reconciliations is sound (PI-27.1 and PI-27.3 all rated 'As'). There are no suspense accounts at this stage. This provides reasonable assurance that financial information is fairly reliable. The indicator that assesses the performance of in-year budget reports (PI-28) is weakened by the fact that in-year reports are not consistent with budget classification as assessed under PI-4, even though information contained in the reports provide useful financial information for management; therefore, PI-28.1 is rated 'D'. Nevertheless, there is timely reporting of budget execution (PI-28.2 rated 'A'), which is good for transparency and accountability.

The annual financial statements are comprehensive as they present information on revenues and expenditures according to economic classification, cash balances and receivables, tangible assets, payables, long-term liabilities and guarantees, plus a reconciled cash flow statement; the challenge however is that the statements are not comparable with approved budgets (PI-29.1 rated 'D'). Presently, the City Government does not submit annual financial statements to the Accounting Chamber of Ukraine (PI-29.2 rated 'D').

3.1.8. External scrutiny and audit

External scrutiny and audit functions are weak, according to this assessment. This has the potential of negatively affecting the accountability, effectiveness and efficiency of service delivery. External audit coverage is low at the local government level since the Accounting Chamber of Ukraine's legal mandate does not cover all local government's revenues and expenditures, except for state subventions to the local government. In the last three years under review, the City Government had not been audited by the Accounting Chamber of Ukraine (ACU). ACU's independence is affected 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 Governing Board of ACU are, however, appointed by the national legislature. Presently, ACU submits its annual budget to the Ministry of Finance which is not in line with international good practice (PI-30 rate 'D'). The City Council (local parliament) does not receive and scrutinise external audit reports since ACU does not audit the City Government operations (PI-31 rated 'D'). The State Audit Service conducts financial and sometimes performance audits once every three years; this may be ineffective.

3.2 Strengths and weaknesses of the PFM systems

3.2.1. Fiscal discipline

Fiscal discipline is strengthened by the availability of strong PFM laws coupled with strict compliance enforcement measures. The financial management laws and regulations enacted by the state for all levels of government are strong enough to reinforce fiscal discipline. There is a high degree of compliance with regards to payment rules – this strengthens fiscal discipline. Aggregate expenditures are reliable but the high deviations of both economic and functional expenditure categories as a result of unpredictable and unbudgeted higher-level government transfers weakens fiscal discipline and do not support efficiency in the use of resources for service delivery. In spite of this, there is a mechanism that guards against misallocation of unbudgeted funds; currently, the state and the local government agree on services to be funded prior to actual transfers.

The revenue budget is less reliable but not to the extent of weakening fiscal discipline. There are operations outside the City Government budget; these are less than 3% by value of City Government operations and currently do not pose a significant threat to fiscal discipline due to strong reporting requirements. The financial management laws permit extra-budgetary units to use own resources to improve service delivery, but with strict reporting requirement with which it is complied. The City Government strictly monitors the fiscal risk position of municipal enterprises, which would otherwise have resulted in weaknesses in fiscal discipline, with most being audited timely and with their audit reports published. Public investment management practices are fairly good but would benefit from the existence of standard guidelines for investment management. The absence of standard public investment management guidelines has the potential to weaken fiscal discipline, due to the fact that City Government officials may undertake investment projects with no economic benefit to the public.

Payroll management and controls are good with very little or no negative impact on fiscal discipline. Weaknesses in the oversight responsibilities of the Accounting Chamber of Ukraine and the Lviv City Council, largely due to restrictive state PFM laws, could weaken the internal control framework thereby affecting fiscal discipline.

3.2.2. Strategic allocation of resources

Strategic resource allocation has been strengthened by the strong revenue collection and accounting framework as well as the efficient cash management system, together ensuring the availability of resources in a timely manner for improved service delivery. On the other hand, strategic resource allocation has been weakened by the poor performance of budget classification; the budget execution reports are classified according to economic and functional categories but with no administrative classification. Furthermore, budget documentation lacks comprehensiveness in line with good international standards. The budget is not supported by strong macroeconomic and underlying assumptions. Besides, the estimation of the fiscal impact of changes to policy proposals is absent. There is, however, sufficient time allocation for the budget formulation and preparation process – this strengthens strategic resource allocation since it allows more time for KSUs to better estimate. Another strength is the fact that the annual budget is approved on time to allow budget institutions to fully use their allocated resources in improving service delivery.

The frequent and significant budget reallocations according to economic and functional categories are not good signs for strengthening resource allocation in a strategic way. There is, however, a safeguard to reduce the impact of frequent in-year virements; the state and city governments do agree on predetermined service delivery programs prior to funding.

3.2.3. Efficient use of resources for service delivery

Public procurement systems are sound to support efficient use of resources for service delivery. 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 are delivered due to cost reduction.

One issue that affects the efficient use of resources for service delivery is the frequency and significance of budget adjustments; currently, this is a major concern. Budget reallocations across expenditures by economic and functional classifications are high. There are also concerns regarding use of the budget classification; presently, there is no administrative classification in the budget execution reports. On the positive side, there are sufficient resources available for the provision of public services; these emanate from yearly inflows from higher levels of government and own city's resources.

Public access to fiscal information, together with performance information for service delivery, provides the necessary accountability framework aimed at strengthening the efficient use of resources for service delivery. There is also a good framework for recording, accounting and reporting on all resources (both in-cash and in-kind) received by frontline service delivery units. This mechanism ensures that resources are used efficiently. The framework for public consultation exists for the design of service delivery programs but could be further strengthened if the same approach exists for public investment projects.

There are proper safeguards and accountability for public fixed assets, a sign of efficient use of resources for service delivery. The internal audit is functional but with less coverage to critically assess the efficiency and effectiveness of service delivery. The external audit is almost non-existent, which negatively impacts on the efficient use of resources for service delivery.

3.3 Performance changes since a previous assessment

This is the first assessment (baseline study).

3.4 Conclusions on service delivery

3.4.1. Intergovernmental fiscal relations

The poor performance of HLG-1 (rated 'D+' above), which assesses transfers from higher levels of government, did not have a negative impact on primary service delivery, because actual releases of funds from the state and oblast governments (HLG1.3 rated 'A') were in time to pay for expenses related to service delivery.

3.4.2. Budget reliability

The aggregate expenditure budget was reliable, meaning budget allocations for SDUs programs were sufficiently funded. The concern, however, is the unreliability of the expenditure budget according to functional and economic classifications (PI-2.1 and PI-2.2 all rated 'D'), which was caused by the poor performance of transfers from higher levels of government. There are, however, safeguards to minimise the negative impact of expenditure composition outturns according to economic and functional categories; activities to be funded by state and oblast subventions have already been predetermined and cannot be altered within the budget year. Revenue deviations did not negatively affect service delivery, even though they were between 10% and 15%; actual inflows were sufficient and timely, which had a positive impact on primary service delivery.

3.4.3. Transparency of public finances

The availability of fiscal information from the City Government and SDUs in the public domain, coupled with the practice to consult the public in the design of service delivery, signals the desire to ensure the delivery of quality public services. The consultation of the public, however, does not extend to public investment projects – which are key elements of an efficient service delivery. The online feedback mechanism provides an opportunity to measure client satisfaction of the services rendered. SDUs budget classification is in line with the City Government’s classification, which allows easy traceability and accountability of resource allocation for planned service delivery programs. Healthcare facilities, in particular, report on revenues and expenditures from their own resources – this helps the transparency and accountability framework. Educational institutions revenues and expenditures are all part of the main budget of the City Education Department. The formula for resource allocation to SDUs is clear and known to all parties prior to actual funds transfers. In line with the City Government’s practices and procedures, all resources received in-cash and in-kind are properly recorded and accounted for; the information is publicly available. These measures reinforce transparency for improved service delivery.

3.4.4. Management of assets and liabilities

SDUs are responsible for managing their assets and liabilities. Generally, SDUs have no borrowing powers, but there is a special arrangement that allows healthcare institutions to arrange for a short-term overdraft facility, approved by the City Government, for purposes of running the medical facilities in the event of shortfalls in revenue/cash. The City Government monitors all overdraft arrangements. SDUs submit annual financial statements to their supervisory departments. Educational institutions do not have this privilege since their operations are directly within the budget execution framework of the Department of Education. Each SDU maintains a record of its fixed assets; this is updated annually. There is a mechanism that ensures that SDUs take part in the decision-making process when it comes to the procurement and/or investment of capital projects with direct impact on the provision of their services; this is a good arrangement as it ensures that technical brains contribute to the provision of primary public service.

3.4.5. Policy-based fiscal strategy and budgeting

The absence of a medium-term planning could potentially affect service delivery programs; a medium-term budgeting framework encourages resource planning and expenditure allocation in advance. At this stage, the City Government has no fiscal strategy and also does not estimate the impact of changes to fiscal policy proposals. Changes in fiscal policies have repercussions on revenue streams and the failure to estimate those changes in order to ascertain service delivery programs that could be affected raises concerns as to the sustainability of quality service delivery. The timely budget formulation, preparation, and approval processes have had a positive impact on service delivery as they allow SDUs to plan better. SDUs receive information on their proposals within one month from the budget approval – this does not affect service delivery programs/activities.

3.4.6. Predictability and control in budget execution

The Budget Code of Ukraine allow SDUs to open and operate their own bank accounts with the approval of the respective level of government, in this case the City Government of Lviv. Available data indicates that SDUs own revenue as a percentage of their total revenue is less than 7%. This revenue is budgeted and properly accounted for. Own revenues collected are deposited into SDU bank accounts. Even though

not significant, the use of SDUs own revenues contributes to improvements in service delivery. The main sources of funding for healthcare SDUs are the State National Health Service of Ukraine (NHSU) and the Lviv City Government. According to interviewed SDUs officials, there are no cash shortages. Both the City Government and the NSHU release cash on time for service delivery. Available data as of the time of this assessment indicates that there were no expenditure arrears, which implies that the funds allocated are used for the intended purposes. Payroll controls are fairly good at SDUs; changes to personnel and payroll records are properly authorized and approved. The state e-Procurement system – Prozzoro is also used by SDUs. The majority of SDU procurement is carried out through competitive means. Restricted tender and sole-sourcing procurement methods are used for specialized procurement in the healthcare sector. Internal controls are strong and reliable. The internal audit coverage is, however, limited; the visited SDUs have never been audited in the last three completed fiscal years. Therefore, the efficiency and effectiveness of service delivery cannot be independently ascertained due to absence of performance audit reports.

3.4.7. Accounting and reporting

SDUs adopt financial reporting templates of the City Government; financial management laws enacted by the state and the city also apply to SDUs. Accounting and reporting requirements are strictly enforced by the City Government department responsible for monitoring SDUs. SDUs prepare monthly and annual financial reports and submit them to their supervisory budgetary unit; the reports contain information on all revenues, expenditures, assets and liabilities. The reports are submitted within one month from the previous month. Healthcare facilities publish activity/program reports on their respective websites. Schools, on the other hand, are part of the education department and therefore their reports are consolidated into the department's reports. Deadlines for the reporting of SDUs operations are strictly enforced by the City Government. The enforcement provides a conducive atmosphere for SDUs to be more efficient in their service delivery programs.

3.4.8. External scrutiny and audit

The Lviv City Council evaluates the performance of SDUs service delivery programs, but the effectiveness of this evaluation may not be assured since the evaluation reports are not independent. External audit coverage is low due to the fact that KSUs and SDUs are neither audited financially nor evaluated by the Accounting Chamber of Ukraine.

4 GOVERNMENT PFM REFORMS

4.1 National approach to PFM reforms

The core strategic document of the Government designed for presenting comprehensive information on PFM reform planning and implementation is the PFM Reform Strategy and its action plan.

The PFM Reform Strategy for 2017-2020 was approved by the Cabinet Resolution dated 08/02/2017 No.142-r.³² Measures and tasks for a local budget reform were included in the Strategy under Chapter II and they provided for these reform targets:

- clear delineation of powers between the central government and local self-governments;
- increase of own financial resources of local self-government authorities
- improvement of financial support to expenditures delegated by the central government to the local self-government;
- improvement of the medium-term budget planning and the program-based budgeting (PBB) at the local level;
- strengthening of the capacity of local self-government authorities in debt management
- improvement of the financial transparency and accountability of the local self-government.

A revised PFM Reform Strategy for the period 2021-2025 has been developed by the Ministry of Finance in collaboration with other central government institutions and international technical assistance projects. The draft PFM Reform Strategy for 2021-2025 was published on the Ministry of Finance official website on the 5th of July, 2021.³³ The draft PFM reform strategy, according to officials, is expected to be approved soon.

4.2 Recent and ongoing PFM reform actions impacting sub-national governments

One of the most important and comprehensive reforms that have been implemented in recent years in Ukraine is the decentralisation reform. This reform can be considered and analysed in two ways, which are closely linked however different in nature: (i) **decentralisation of public administration** and the (ii) **fiscal decentralisation**.

Both of them are aimed at building an effective local government, providing comfortable living conditions for citizens and accessibility of high-quality service delivery. These goals cannot be achieved without ensuring the proper economic development of territorial communities and providing them with sufficient financial resources.

The process of decentralisation of the public administration was launched when the Government adopted the Concept for Reformation of Local Self-Governance and Administrative-Territorial Structure in Ukraine (Cabinet Resolution dated 01/04/2014 No. 333-r). Based on the Concept, the process of amalgamation of territorial communities was held planned and adopted between 2015-2020.

³² <https://zakon.rada.gov.ua/laws/show/142-2017-%D1%80#Text>.

³³ https://mof.gov.ua/uk/legal_acts_drafts_2021-485.

There have been changes to the fiscal decentralisation and budget system. The main change in the budget system structure delivered under the decentralisation reform was a replacement of the three-tier budget system with the two-tier one. The three-tier budget system was represented by:

the 1st tier – central government budget;

the 2nd tier – oblast and rayon budgets, budgets of cities of oblast significance;

the 3rd tier – budgets of cities of rayon significance and villages (which received transfers from rayon budget).

The new valid two-tier budget system is more simplified as follows:

the 1st tier – central government budget;

the 2nd tier – oblast budgets and budgets of territorial communities (that is budgets of all cities and villages) – all these budgets receive transfers directly from the state budget.

Thus, the rayon level was eliminated, leading to: (i) the introduction of direct budget relations between the central government and all local governments, and (ii) the reduction of the dependence of municipalities from the intermediate tier of rayon administrations.

Although these novelties did not bring any changes to capital cities and cities of oblast significance (to which Lviv belongs), they provide an important background for the further development of other municipalities (small cities and villages) and the strengthening of their financial capacity.

Thus, the fiscal decentralisation 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 resources allocated to local governments give them more opportunities for territorial development, investments in modern infrastructure and improvement of service delivery programs.

The most recent changes are that since 2020, the central government does not transfer subventions to local budgets for the provision of benefits and housing subsidies to the population (UAH 291.3 million in 2019) and for the payment of benefits to low-income people (UAH 800.6 million in 2019). These expenditures are currently carried out by the Ministry of Social Policy.

Also, in 2020 the medical subvention decreased by 73% (UAH 402.1 million) since the Medical Guarantees Program was launched at the level of secondary (specialized) medical care on April 1, 2020. Healthcare institutions providing secondary (specialized) medical care have begun to work under contracts with the National Health Service of Ukraine (NHSU). In 2021, no medical subvention to local budgets is transferred. Now hospitals receive budgetary funds from both state and local budgets.

At the same time, fiscal policy at the local level has still been unpredictable in the medium term. The lack of an integrated strategic planning system prevents adequate budget planning and results in a huge variance in both revenue and expenditure outturns.

The introduction of **medium-term budget planning** in the budget process, including at the local level, has still remained one of the priorities of the Government and the Ministry of Finance and is included in the draft PFM Strategy for 2021-2025.

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 the legal requirements for local governments to develop local budget forecasts starting from 2020. However, due to the need of providing MTBF training to local governments to ensure their capacity building in the budget forecast preparation,

the Ministry of Finance initiated respective changes to the Budget Code and Article 75¹ (“Local Budget Forecast Preparation and Approval”), which was suspended until January 1, 2021.

Therefore, the FY 2021 became the first year for local governments to prepare and approve 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 that the Ministry of Finance provided local governments with the medium-term forecast of budget transfers that are prescribed annually in the State Budget Law.

In line with Article 75¹ of the Budget Code, local budget forecast should include 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 of KSUs (separately for general and special funds);
- local budget revenues disaggregated by types (separately for general and special funds);
- 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.

Under the annual budget process, the Government has developed and submitted to the Parliament the 2022 Draft Budget Law and drafted a law on amendments to the Budget Code, which constitutes the legal basis for novelties in the budget process to be implemented in the next budget periods (in case of their adoption by the Parliament).

The novelties say that additional budget revenues (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 2022 draft Budget Law defines new transfers from the state budget to local budgets which are designated to cover expenditures on the purchase of equipment for canteens and on ensuring fire safety in educational institutions.

4.3 Institutional consideration

Government Leadership and Ownership

According to the Ministry of Finance, the draft PFM Reform Strategy for 2021-2025 is in line with the EU Association Agreement as well as the IMF Extended Fund Facility Program.

Although the PFM reform is owned and led by the central government, the Lviv City Government also plays 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.

Donor coordination

Donor coordination is crucial as it eliminates the duplication of efforts; it also ensures a unified voice to approaching the Government’s reform plan. There is coordination among key development partners (Swiss SECO, EU, WB, and IMF). The implementation of the ELocFin project by SECO will further strengthen donor coordination as it will provide an additional opportunity for development partners to

deliberate on matters arising from the ELocFin project as well as other relevant issues that affect PFM. As this PEFA assessment includes two important aspects of PFM (gender-responsive PFM and service delivery), it will create an opportunity for other development partners who otherwise were silent to be more proactive and engaging.

Coordination across Government

The development of the 2017-2020 PFM Reform Strategy resulted in the establishment of an implementation coordination working group by the Ministry of Finance (Order dated 22/12/2018 No.1124) which consists of representatives of the Cabinet, the Presidential Administration, sectoral committees of the Parliament, other line ministries, the Treasury, SFS, the All-Ukrainian association of local self-governance, international financial organizations (IMF, World Bank), and the EU Delegation to Ukraine. The same approach was adopted during the design of the 2021-2025 PFM Reform Strategy. Development partners such as Swiss SECO, WB, EU and IMF contributed to the draft PFM strategy. At the same time, there is no evidence to show the direct involvement of the Lviv City Government in the development process of PFM Reform Strategy.

A Sustainable Reform Process

While it is acknowledged that there is no standalone PFM Reform Strategy for the Lviv 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 reform activities. Additionally, the City Government is enjoying the support of some development partners, specifically Swiss SECO, for the improvement of local PFM systems.

Transparency of the PFM Programme

The revised draft 2021-2025 PFM reform strategy has been published on the MoF's website; the Ministry of Finance has indicated its readiness to publish the final version on its website once approved by the Cabinet. Other transparency arrangements comprise the monitoring and evaluation mechanism, which includes a quarterly reporting of each reform component by all implementing agencies to the Ministry of Finance. The MoF will then consolidate all inputs from implementing agencies and submit them to the Cabinet for review and approval. Once approved, the consolidated report is published on the ministry's official website.³⁴

4.4 Key aspects of the SNG specific PFM reforms

The Lviv City Government has 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 the 2021-2025 PFM Reform Strategy. Once approved by the Cabinet, it will form the basis for local government reform programs.

³⁴ <https://mof.gov.ua/uk/zvit>

ANNEXES

Annex 1: Performance Indicator summary

No.	Indicator	2021 Score	Description of requirement met
HLG-1	Transfer from higher levels of government	D+	
1.1	Outturn of transfers from higher levels of government	D	The analysis shows that aggregate outturn of transfers from central and oblast governments to the City Government were below 15% in one out of the three years under review. Actual transfer deviations were 148.1% in FY2018, 14.9% in FY2019 and 27.1% in FY2020.
1.2	Transfers composition outturn	D	In all three years under assessment, transfer composition variance exceeded 15%. As shown in Table HLG.2 below (with detailed calculation in Annex 4), actual composition variances were 116%, 28.3% and 24.8% in FY2018, FY2019, and FY2020 respectively.
1.3	Timeliness of transfers from higher levels of government	A	At the beginning of each fiscal year, the higher-level governments agree on a disbursement schedule with the City Government. In all three years (FY2018-FY2020) under assessment, there were no delays in the transfer of actual disbursements from central and oblast governments to city governments. All (100%) planned disbursements were transferred within the month of disbursement requests.
1.4	Predictability of transfers	D	There were no medium-term subvention projections within the assessment period FY2018-FY2020; therefore, there was no information on transfers for the following fiscal year. The only information on transfers made available to local governments is that of the budget year.
HLG-2	Fiscal rules and monitoring of fiscal position	A	
2.1	Fiscal rules for sub-national governments	A	Articles 72 and 74 of the Budget Code of Ukraine set out the fiscal rules for local governments. The law sets a 10% limit for debt servicing for all deficit financing. In case of non-compliance, the rules prescribe a 5-year ban for local governments, in addition to legal prosecution for their officials. The law prohibits budget deficits for all local governments except in the case of the capital budget part of the total budget. These rules are strictly enforced by the Ministry of Finance. Available evidence adduced by MoF Local Budget Department indicates that all sub-national governments complied with fiscal rules.
2.2	Debt rules for sub-national governments	A	The debt rules of sub-national governments, including oblasts (regions), oblast cities, and rayons, are outlined under Articles 18 and 74 of the Budget Code of Ukraine. The debt rules set borrowing limits (200% of the average annual estimated development budget revenues for the next two budget periods defined in the local budget forecast) for sub-national government borrowing. Sanctions for non-compliance to debt rules are also prescribed in the law. The Ministry of Finance monitors the debt position of all local governments. Evidence obtained from MoF Local Budget Department indicates that all sub-national governments complied with debt

No.	Indicator	2021 Score	Description of requirement met
			rules for FY2020. Legislation also provides clear time-limited exemptions for specific circumstances.
2.3	Monitoring of sub-national governments	A	The law provides for the submission of annual financial statements up to three months after the end of the previous financial year. Available evidence from the National Treasury indicates that all sub-national governments submit their annual financial statements on or before the 31 st day of March following the previous financial year. Each year, the National Treasury also prepares a consolidated report of all local government financial statements.
PI-1	Aggregate expenditure outturn	B	As shown in Table 1.1 above (with detailed calculations in Annex 4), aggregate expenditure outturn was between 90% and 110% of the approved original budget in two out of the three fiscal years assessed. Actual outturns were 149.4%, 107.7% and 100.7% in FY2018, FY2019, and FY2020 respectively.
PI-2	Expenditure composition outturn	D+	
2.1	Expenditure composition by function	D	Expenditure composition outturns by functional classification exceeded 15% in two out of the three years under review but were below 10% in one out of the three years. As shown in Table 2.1 below (and Annex 4 for detailed calculations), actual composition variances by function were 42.7% in FY2018. In FY2019 and FY2020, variances by functional classification were 18.6% and 9.9% respectively.
2.2	Expenditure composition by economic type	D	The analysis shows that expenditure composition outturn by economic classification exceeded 15% in all three years under review. As shown in Table 2.2 below (and in Annex 4 for details), actual variances were 69.3% in FY2018, 20.4% in FY2019 and 37.5% in FY2020.
2.3	Expenditure from contingency	A	As shown in Table 2.1 above (and Annex 4 for detailed calculation), expenditures charged to contingency budget averaged 0.5%. Actual usage of contingency budget was 0.1% in FY2018, 0.3% in FY2019, and 1% in FY2020.
PI-3	Revenue outturn	C+	
3.1	Aggregate revenue outturn	C	As shown in Table 3.1 below (with details in Annex 4), revenue outturns were between 97% and 106% in one out of the three years under review and between 92% and 116% in two out of the three years. Actual deviations were 13.9% in FY2018, 13.8% in FY2019 and 1.3% in FY2020.
3.2	Revenue composition variance	B	As depicted in Table 3.2 below (with detailed calculations in Annex 4), revenue composition outturns were less than 10% in two out of the three years under review. The analysis indicates that actual composition variances were 7.6% in FY2018, 12.1% in FY2019 and 7.1% in FY2020.
PI-4	Budget classification	D	The budget classification is close to the standards of the IMF Government Finance Statistics. The budget formulation is based on administrative, economic and functional classifications, and budget execution reports are based on functional and economic classification but not on administrative classification.

No.	Indicator	2021 Score	Description of requirement met
PI-5	Budget documentation	D	As shown in Table 5.1 above, the Lviv City Government meets two (2) out of four (4) basic elements and two (2) out of eight (8) additional elements.
PI-6	Central government operations outside the budget	A	
6.1	Expenditure outside financial reports	A	As shown in Table 6.1 below, the ratio of extra-budgetary expenditure of healthcare institutions to total City Government expenditures was 0.84% in FY2020. These expenditures are not included in the budget and financial reports of the City Government.
6.2	Revenue outside financial reports	B	As indicated in Table 6.1 below, the total extra-budgetary revenues outside the City Government budget and financial reports represent 1.7% of total City Government revenue for FY2020.
6.3	Financial reports of extra-budgetary units	A	Based on evidence adduced by the Department of Health of the City Government, the deadline for preparation and submission of annual financial reports (which is two months after the end of the previous financial year) is complied with as shown in Table 6.2 above. The annual financial statements contain full information on revenues, expenditures (from own resources plus subventions), financial and tangible assets, liabilities, and reconciled cash flow.
PI-7	Transfers to sub-national government	NA	
7.1	System for allocating transfers	NA	This dimension is not applicable, as there is no first-tier lower-level government.
7.2	Timeliness of information on transfers	NA	This dimension is not applicable, as there is no first-tier lower-level government.
PI-8	Performance information for service delivery	B+	
PI-8.1	Performance plans for service delivery	B	Order No.836 dated 26 th August 2014 of the Ministry of Finance directs key spending units of local governments to prepare and publish annual action plans with key performance indicators (KPIs) on outputs and outcomes to be achieved for the following fiscal year. In practice, outputs to be produced plus KPIs but excluding outcomes are published as evidenced by the availability of performance plans for service delivery on the Lviv City Government website (https://city-adm.lviv.ua) as well as respective websites of key spending units.
PI-8.2	Performance achieved for service delivery	B	Presently, the City Administration and its KSUs (budgetary and extra-budgetary units) prepare and publish outputs of performance achieved for service delivery as shown in Table 8.1 above; there are no outcomes achieved.
PI-8.3	Resources received by service delivery units	A	Available evidence suggests that each spending unit (budgetary and extra-budgetary) prepares monthly reports on all the resources received disaggregated by source of funds. Reports of resources received in-kind are however prepared quarterly using the Treasury Form 4.2 and submitted to the Supervisory Department for consolidation. The consolidated report is submitted to

No.	Indicator	2021 Score	Description of requirement met
			the oblast and then to the central government for a unified report on all resources received in-kind.
PI-8.4	Performance evaluation of service delivery	B	There is no independent evaluation of service delivery programs. That said, each key spending unit evaluates the effectiveness and efficiency of its service delivery performance. The reports are published on the city government website (https://city-adm.lviv.ua).
PI-9	Public access to fiscal information	A	As indicated in Table 9.1 below, the sub-national government makes available to the public four basic elements within the specified PEFA timeframe. These four basic elements are (i) annual executive budget proposal, (ii) enacted budget, (iii) in-year budget execution reports, and (iv) annual budget execution reports. Furthermore, one (1) additional element (the citizen's budget) is made available to the public within the stipulated time. Elements 5 and 7 are not applicable.
PI-9bis	Public consultation	D+	
9bis.1	Public consultation in budget preparation	C	The Lviv City Government consults its citizens during the budget preparation process in the part of the development budget which is 34% of total budget expenditure for FY2020. There is, however, no evidence to suggest that reader-friendly and understandable information is made available to the public.
9bis.2	Public consultation in the design of service delivery programs	C	During 2018-2020, the Lviv City Government considered petitions in the design of service delivery programs which covered 34.4% of the total expenditure of the general fund budget for FY2020. Thereafter, positive decisions are published with the relevant explanation of how citizens' inputs have been considered. Nonetheless, summaries of the inputs received are not published.
9bis.3	Public consultation in investment planning	D	Public consultations are not conducted during the investment projects preparation process based on the key results of the economic analysis.
PI-10	Fiscal risk reporting	B	
10.1	Monitoring of public corporations	B	The analysis of the data (based on the 10 largest by value of public corporations) indicates that 94.5% by value of public enterprises publish their audited financial statements on their respective websites within 6 months after the end of the previous year (please refer to Table 10.1 below).
10.2	Monitoring of sub-national governments	NA	This dimension is not applicable, as there is no first-tier lower-level government.
10.3	Contingent liabilities and other fiscal risks	NA	This dimension is not applicable. There are neither PPP arrangements nor contingent liabilities.
PI-11	Public investment management	C	
11.1	Economic analysis of investment proposals	C	The Lviv City Government has no public investment management guidelines. That said, each key spending unit prepares a project appraisal document (which includes an economic analysis) for any capital investment project intended to be financed. The appraisal documents are then submitted to the City Government Economic Department for thorough review and analysis

No.	Indicator	2021 Score	Description of requirement met
			to ensure that the proposed project is in line with overall city strategic plan. Neither the individual project appraisal documents nor the result of the economic analysis are published.
11.2	Investment project selection	C	The selection of investment projects is not based on any established public investment management guidelines or standard criteria. The Economic Department of the City Government is responsible for prioritizing and recommending to the City Executive Committee project proposals received from key spending units. At this stage, the selection of projects by the City Economic Department is based on proposals received from key spending units with proper justification.
11.3	Investment project costing	C	Costing of investment projects is done only on the basis of total capital cost together with a three-year spending projection (i.e., capital cost for the budget year plus the following two years). There is no recurrent cost projection associated to the investment project.
11.4	Investment project monitoring	C	Presently, investment project monitoring is not based on any standard criteria. That said, each implementing key spending unit is responsible for monitoring and evaluating its investment project(s). Technical experts together with monitoring and evaluation officials of the key spending unit undertake physical inspections as well as analysis of the financial progress of investment projects. This is done quarterly, and a report is generated.
PI-12	Public asset management	B	
12.1	Financial asset monitoring	C	Available evidence obtained from the consolidated annual financial statements of the city government indicates that bank balances as of 31st December 2020 stood at UAH387.4 million. Nevertheless, the city government does not maintain records and movement of other financial assets in terms of number and value of shares in public enterprises (67 in number)
12.2	Non-financial asset monitoring	C	Evidence obtained from sampled budgetary units (Departments of Education, Health, Finance, Infrastructure) indicates that each budgetary unit maintains a comprehensive list of all fixed assets (buildings, vehicles, furniture & fittings, computers, office equipment, etc.) with information on the date of purchase (age), original cost, status of asset (usage), custodian and location. At present, there is complete data on land and sub-soil assets.
12.3	Transparency of asset disposal	A	The legal and regulatory framework for asset (financial and non-financial) disposal and transfer in Ukraine is well-established. The law on "Privatisation of State and Municipal Properties" Number 2269-VIII dated 18 January 2018 (applicable at all levels of government) guides all asset disposal and/or transfer. The legal provisions directs that all asset disposal and/or transfer must be done in accordance with the principle of transparency; one of the provisions entails a public auction after the approval of the authorised official

No.	Indicator	2021 Score	Description of requirement met
			and/or entity. The laws also require the approval of the local government council (parliament) prior to asset disposal and/or transfer. All proceeds realised in FY2020 from asset disposal were directly paid into the Treasury account.
PI-13	Debt management	B	
13.1	Recording and reporting of debts and guarantees	A	The Financial Policy Department of the City Government of Lviv maintains complete and accurate information on all its borrowings (domestic and foreign debts) as well as guarantees issued to municipal enterprises. The records are reconciled with creditors and updated each month based on information received from these creditors. Guarantees issued to municipal enterprises are also updated monthly based on monthly financial information received from these municipal enterprises. The Treasury prepares comprehensive quarterly reports covering debt service within expenditures execution report, stock – within the report on the state of local debt, and operations – within reports on financing and on issued local guarantees. The Treasury submits those reports to the Financial Policy Department.
13.2	Approval of debts and guarantees	A	The Budget Code of Ukraine (Article 74) grants authorization for local governments to borrow, issue new debt, and issue loan guarantees on behalf of the oblast and city public enterprises. Thus, the Financial Policy Department of the Lviv City Government is the single responsible debt management entity. The local government has documented procedures that guide the City Government borrowing and issuance of guarantees. The laws and procedures require the approval of Lviv City Council (local parliament) as well as the MoF.
13.3	Debt management strategy	D	The Lviv City Government does not prepare a medium-term debt management strategy. The legislation does not mandate the preparation of such strategy.
PI-14	Medium-term budget strategy	D	
14.1	Underlying forecasts for medium-term budget	C	For FY2021, estimates of revenue and expenditure for the budget year and the two following fiscal years were presented at the aggregated level only and were based on historical information on transfers, revenue, and expenditure assignments as well as on key demographic indicators and medium-term macroeconomic indicators. The annual budget documentation submitted to the City Council (local parliament) contains medium-term estimates, but the underlying assumptions are not provided.
14.2	Fiscal impact of policy proposals	D	The Financial Policy Department does not prepare estimates of the fiscal impact of proposed changes in revenue and expenditure policy.
14.3	Medium-term expenditure and revenue estimates	D	While the annual budget for FY2021 covers expenditure estimates by administrative, economic, and programme (as well as functional) classifications for the budget year and the following two years (please refer to Table 14.1 below), there are no revenue estimates by type.

No.	Indicator	2021 Score	Description of requirement met
14.4	Consistency of budget with previous year's estimates	D	The budget documents do not provide any explanations of changes to expenditure forecasts between the current year's medium-term estimates and the second year of the last medium-term projections, even though differences arise.
PI-17	Budget preparation process	C+	
17.1	Budget calendar	B	The annual budget calendar is clear and generally adhered to. KSUs had four weeks to complete their detailed estimates and all of them completed their budget requests on time.
17.2	Guidance on budget preparation	C	The Financial Policy Department issued budget instructions (circular) with expenditure ceilings for administrative classifications to each KSU for the preparation of FY2021 budget. The ceilings were not approved by the Executive Committee. The budget estimates are however reviewed and approved the Executive Committee.
17.3	Budget submission to the legislature	C	As shown in Table 17.3 above, the Executive Committee (local cabinet) submitted the budget estimates one month and three weeks before the start of the fiscal year for all three years under review.
PI-18	Legislative scrutiny of budgets	C+	
18.1	Scope of budget scrutiny	C	The budget review covers aggregate and detailed revenue forecasts (by types), expenditures by economic and program classifications, as well as the analysis of past trends (performance) of both revenues and expenditures. There are no fiscal policies to be reviewed by the City Council.
18.2	Legislature procedures budget scrutiny	B	The Lviv Council Regulations are approved by Lviv City Council and established as procedures to review draft budget in advance of budget scrutiny. The regulations and procedures are respected. The Secretariat of the Council provides organizational, legal, informational, analytical, logistical, and other support for the activities of the standing committees when reviewing the draft budget. The procedures for budget scrutiny do not require public consultations; negotiation procedures are however included.
18.3	Timing of budget approval	A	In practice, budget decisions were approved by the Lviv City Council one month before the start of the fiscal year in each of the last three fiscal years (please see Table 18.1 above).
18.4	Rules for budget adjustment by the executive	B	The rules for in-year budget adjustments are clear; however, they allow extensive administrative (Executive Committee) reallocations without limits.
PI-19	Tax administration	NA	
19.1	Rights and obligation for tax measures	NA	This dimension is not applicable, because the City Government relies on revenue from non-core taxes.
19.2	Property tax register and valuation	NA	This dimension is not applicable, because the City Government relies on revenue from non-core taxes.

No.	Indicator	2021 Score	Description of requirement met
19.3	Tax risk management, audit and investigation	NA	This dimension is not applicable, because the City Government relies on revenue from non-core taxes.
19.4	Tax arrears monitoring	NA	This dimension is not applicable, because the City Government relies on revenue from non-core taxes.
PI-20	Accounting for revenues	A	
20.1	Information on revenue collections	A	Each month, the Finance Office of the City Government receives a revenue report on total tax collections from the local office of the State Tax Service according to tax type. All the other entities collecting non-tax revenue also submit monthly revenue reports to the City Finance Office. The various revenue reports are consolidated into one revenue report broken down into types of tax and non-tax revenue.
20.2	Transfer of revenue collections	A	The City Government of Lviv uses the national Treasury Single Account (TSA) framework. The local office of the State Tax Service (STS) does not maintain a separate transit bank account. Therefore, taxpayers pay their taxes directly into the Treasury account. All revenue collections are deposited directly into the TSA revenue account on a daily basis.
20.3	Tax account reconciliation	NA	This dimension is not applicable, as it assesses core tax which is the responsibility of STS.
PI-21	Predictability of in-year resource allocation	B	
21.1	Consolidation of cash balances	A	The legal framework that regulates cash management is Order 122 of June 26, 2002, issued by the State Treasury Service of Ukraine. The law directs all sub-national governments to use the central government Treasury Single Account (TSA) framework. Therefore, the Lviv City Government Treasury bank accounts are linked to the TSA at the Central Bank of Ukraine. All bank balances are consolidated on a daily basis. There is no petty cash or imprest system.
21.2	Cash forecasting and monitoring	C	Once the annual budget is approved by the City Council, the City Finance Department prepares a consolidated cashflow plan with information from all key spending units regarding their annual cash needs. This has been the practice within the assessment period and in FY2020 as well. However, the annual cashflow plan is not updated on the basis of actual cash inflows and outflows.
21.3	Information on commitment ceilings	A	The City Government office issues annual expenditure commitment limits to each key pending units; these limits are reliable.
21.4	Significance of in-year budget adjustments	C	The Lviv City Government budget adjustments within the year are frequent and partially transparent; these adjustments are done in line with documented procedures for budget virements, which are known to key spending units. In FY2020, the City Government budget was adjusted many times. The cumulative amendments in percentage terms were 111.5% of the total originally approved expenditure budget.
PI-22	Expenditure arrears	A	

No.	Indicator	2021 Score	Description of requirement met
22.1	Stock of expenditure arrears	A	Evidence adduced by the City Government officials in addition to information obtained from Departments of Health, and Infrastructure indicates that in each of the last three completed fiscal years FY2018-FY2020, there was no stock of expenditure arrears for employee remuneration/salary, pension payments, suppliers, contractors (work completed and certified) and loan creditors. That said, arrears on subsidies and grants (overdue payments) accounted for 0.02% of total spending in 2018, 0.1% in 2019, and 0.03% in 2020.
22.2	Expenditure arrears monitoring	A	The City Treasury, after receipt of monthly statement on outstanding expenditure commitments (Form No.7m), prepares a consolidated quarterly report within two weeks after the end of the quarter. This report is submitted to the Lviv Oblast Treasury. The report is age-profiled with the composition of arrears.
PI-23	Payroll controls	B+	
23.1	Integration of payroll and personnel records	B	Presently, there is no direct integration between payroll and personnel records. Personnel records are manually kept, while payroll records are kept electronically. Further, the personnel and payroll functions are decentralised; each key spending unit (budgetary and extra-budgetary) is responsible for its payroll and personnel databases. Each year, the City Council (local parliament) approves a staff list which forms the basis of staff recruitment by each budget institution with authorisation of the city mayor. All changes are properly supported by approved documentation from the head of each key spending unit.
23.2	Management of payroll changes	A	All changes to personnel and payroll records are processed within 48 hours based on approved official documentation authorised by the head of each institution. These changes are carried out in the same month prior to processing and payment of staff remuneration. There were no payroll arrears and therefore no retroactive adjustments.
23.3	Internal controls of payroll	B	Each key spending unit maintains HR paper records of staff, securely kept in a safe, with access granted to authorised personnel only. The movement of HR files has no audit trail. The payroll system used by each key spending unit is computerised, with a payroll management software. The system is passworded and grants access to only authorised staff. There is, however, no evidence to suggest that authorised access to the payroll software used by each of the spending units visited (Departments of Education, Health, Finance, Infrastructure) results in audit trail. All changes to payroll and personnel records are adequately supported by official documentation with full integrity.
23.4	Payroll audits	B	In June 2021, the State Audit Service (SAS) undertook a comprehensive payroll audit of the Lviv City Government covering the period FY2017-FY2020. The audit included physical verification of staff.
PI-24	Procurement	B+	

No.	Indicator	2021 Score	Description of requirement met
24.1	Procurement monitoring	A	With reference to Table 24.2 below, 64.5% by value of public procurement goes through a competitive method in the national electronic system (prozorro.gov.ua); the data is complete and published in real time indicating the purpose of the contract, the entity or person who won the contract, and the value of the contract awarded. There is also complete and accurate information from the local government Procurement Department on the remaining 35.5% by value of non-competitive procurement. Therefore, all (100%) procurement activities for goods, services and works are monitored; the information is accurate and complete.
24.2	Procurement methods	C	The Procurement Department of the City Government consolidates all procurement data from budgetary and extra-budgetary units. According to the data (verified by the procurement authority), 64.5% by value of all public procurement activities within the City Government go through a competitive method. The remaining 35.5% of procurement activities are non-competitive. Please refer to Table 24.2 below.
24.3	Public access to procurement information	A	Table 24.3 below summarises the PEFA requirements for public access to procurement information. All six PEFA elements have been met.
24.4	Procurement complaints management	B	As shown in Table 24.4 below, the procurement complaints mechanism meets all criteria but those (ii) of the PEFA requirements.
PI-25	Internal controls on non-salary expenditure	B+	
25.1	Segregation of duties	A	The procedures for the segregation of duties are clear and appropriate, as they prescribe who is responsible for generating an expenditure, who authorises such expenditure, and who approves and pays expenditures. The rules/procedures also prescribe that officers' recording financial transactions should not approve such transactions.
25.2	Effectiveness of expenditure commitment controls	C	For all key spending units (budgetary and extra-budgetary units), the financial management system does not limit expenditure commitments to cash (please refer to Table 25.1 below). Expenditures of key spending units are made exclusively in accordance with the limits within the approved estimate/budget according to the expenditure classification.
25.3	Compliance with payment controls	A	The legislation ensures a high degree of compliance with payment rules and procedures. All expenditure commitments initiated by each key spending units (budgetary and extra-budgetary units) go through prescribed financial management procedures. There are no exceptions for simplified payment procedures. As of the time of this assessment, financial violations were only 1.2% of total budgetary and extra-budgetary funds audited by the Financial Control Department.
PI-26	Internal audit	D+	

No.	Indicator	2021 Score	Description of requirement met
26.1	Coverage of the internal audit	D	The internal audit unit is not independent. The internal audit unit is constrained by the limited number of staff, currently at 10 out of 17 staff positions, to effectively carry out its mandate. Available evidence indicates that only 33.5% of City Government expenditures (for both budgetary and extra-budgetary) were covered by the internal audit unit.
26.2	Nature of audits and standards applied	C	Internal audits cover the financial aspects, as well as the effective use of budget funds and the compliance with rules of internal control particularly whether the audited entity complies with the rules prescribed by the Budget Code, Public Procurement Law, other legislation and internal documents.
26.3	Implementation of internal audits and reporting	A	The Financial Control Department (internal audit unit) prepares annual audit programs. As shown in Table 26.2 below, all planned and requested audits are completed and reports are submitted to audited entities.
26.4	Response to internal audits	A	There is a high level of responses to internal audits. In FY2020, funds were reimbursed and responses to audit recommendations were provided at the 95% of issued recommendations as of September 2021.
PI-27	Financial data integrity	A	
27.1	Bank account reconciliation	A	Extra-budgetary units (healthcare institutions) have their own separate bank accounts; these are fully reconciled within a week after the end of the previous week. There is reconciliation of all transactions between the cashbook and the bank statement every week, both in detail and at aggregate level for all budgetary units; this is done within two days after the end of the previous week.
27.2	Suspense accounts	NA	Not applicable. There are no suspense accounts.
27.3	Advance accounts	A	There were no outstanding balances on staff advances for salaries and official travel as of the time of the fieldwork (October 2021). All advances are reconciled and cleared timely.
27.4	Financial data integrity process	B	The financial management software has password features and restricts access to unauthorised personnel. It also generates an audit trail. There is no separate and/or special unit or body responsible for checking the integrity of financial data.
PI-28	In-year budget reports	D+	
28.1	Coverage and comparability of reports	D	The in-year budget execution reports have no administrative classifications. That said, they show detailed revenue classification by code as well as expenditure category (recurrent and capital) according to program, functional, and economic classifications. The reports classification does not allow for a direct comparison to the original budget.
28.2	Timing of in-year reports	A	As shown in Table 28.2 below, in-year budget execution reports are prepared and issued within two weeks after the end of the previous month.
28.3	Accuracy of in-year budget reports	C	In-year budget execution reports prepared and submitted during the year include planned and actual expenditures at the payment stage, but not at the

No.	Indicator	2021 Score	Description of requirement met
			commitment stage. The reports are useful as they provide information for management. However, the reports do not highlight concerns with regards to data accuracy.
PI-29	Annual financial reports	D+	
29.1	Completeness of annual financial reports	D	As shown in Table 29.1 below, the annual financial statements are complete as they present information on revenues and expenditures according to programme, functional, and economic classifications, cash balances and receivables, tangible assets, payables and long-term liabilities, guarantees, plus a reconciled cash flow statement. Nevertheless, the annual financial statements (AFS) are not comparable with the approved budget.
29.2	Submission of reports for external audit	D	The Lviv City Government has not submitted the FY2020 annual financial statement to the Accounting Chamber of Ukraine (ACU) for external audit. Annual financial statements of previous years (2018 and 2019) have also not been submitted to ACU.
29.3	Accounting standards	B	In each of the last three completed fiscal years under review (FY2018-FY2020), the City Government's annual financial statements were prepared in accordance with the National Public Sector Accounting Regulations. The annual financial statements have been consistent over time. The accounting standards and policies adopted are disclosed in the notes to the financial statements.
PI-30	External audit	D	
30.1	Audit coverage and standards	D	Currently and within the last three completed fiscal years 2018-2020, the Accounting Chamber of Ukraine (ACU) did not audit the financial records of the City Government of Lviv. That said, ACU has been auditing the state (central government) subventions to the City Government, which are less than 50% of the total revenue and expenditure of the City Government. Based on evidence from central government audit reports, the ACU audits largely comply with INTOSAI standards.
30.2	Submission of audit reports to the legislature	D	Within the assessment period FY2018-FY2020, the Accounting Chamber of Ukraine (which is the Supreme Audit Institution in Ukraine) did not conduct any external audit of the financial statements of the Lviv City Government (both budgetary and extra budgetary units); therefore, it also did not submit audit reports to the Lviv City Council (legislature) for scrutiny.
30.3	Extent of follow up	NA	This dimension is not applicable, as there are no external audit reports for follow-ups of audit recommendations.
30.4	Supreme Audit Institution independence	D	ACU's staff are subjected to the same public/civil service rules and controls, except for the Chairperson and his/her deputies and board members – this undermines ACU's independence. Again, it has no full mandate to audit all public funds including local governments' own resources. Furthermore, its annual budget proposals are reviewed and approved by the Ministry of Finance.
PI-31	Legislative scrutiny of audit reports	D	

No.	Indicator	2021 Score	Description of requirement met
31.1	Timing of audit scrutiny	D	The City Council (local parliament) did not receive any external audit reports of the Lviv City Government for scrutiny within the last three completed fiscal years 2018-2020.
31.2	Hearing on audit findings	NA	The City Council (local parliament) did not hold any hearings on the conclusions/findings of the external audits within the last three completed fiscal years 2018-2020. Therefore, this dimension is not applicable.
31.3	Recommendations on audit by the sub-national council	NA	The City Council (local parliament) did not provide any recommendations on external audit reports of the city government. Therefore, this dimension is not applicable.
31.4	Transparency of the legislative scrutiny of audit reports	NA	The City Council (local parliament) did not conduct any public scrutiny of external audit reports for FY2020. Therefore, this dimension is not applicable.

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control environment	
<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 organisation</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 behaviour, authority of the bodies and officials of the local self-government (Article 8).</p> <p>By its Order No. 158 of 5 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.</p> <p>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. There is a centralised department within the City Government of Lviv responsible for internal audit.</p> <p>Pursuant to Article 142 of the Labour Code (No. 322 of 10.12.1971), the work arrangements at enterprises, institutions, and organizations are determined by the internal rules of conduct approved on the basis of standard rules. The form and explanations regarding the formulation of the rules of internal conduct are provided in the Compilation of the unified forms of organizational and administrative documents approved by the Regulatory and Methodological Commission of the State Archive Service of Ukraine, Minutes No. 7 of November 22, 2015.</p> <p>Lviv City Council approved the Code of Ethics³⁵ by its decision dated September 20, 2019 No 879. All employees of the executive bodies of the Lviv City Council, its institutions, organizations, and communal enterprises are required to comply with the standards and norms of the Code. The Code requires personal and professional integrity and ethical values of management and staff, personal responsibility for the quality process and the result of the work.</p>
<p>1.2 Commitment to competence</p>	<p>According to Order No. 336 of the Ministry of Social Policy dated 29th December 2004, the section of the job description "Qualification Requirements" contains provisions concerning education, educational-qualification levels and experience that are sufficient for a complete and high-quality performance of the posted jobs. 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 the current legislation, and</p>

³⁵ [https://www8.city-adm.lviv.ua/Pool/Info/doclmr_1.NSF/\(SearchForWeb\)/23DB12A31947EF14C225847B00400689?OpenDocument](https://www8.city-adm.lviv.ua/Pool/Info/doclmr_1.NSF/(SearchForWeb)/23DB12A31947EF14C225847B00400689?OpenDocument)

Internal control components and elements	Summary of observations
	<p>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 the Local Self-Government (Order of the National Civil Service Agency No. 158 dated 5 August 2016), local self-government officials should constantly improve their abilities, knowledge, and skills in accordance with the functions and tasks of their positions, improve their professional and cultural level, and improve organization of professional activity.</p> <p>The Code of Ethics established that employees have the right to improve their professional competence, improve their professional knowledge, skills and abilities in the form of participation in thematic trainings, seminars, forums, etc. The HR Department of the Lviv City Council provides for the development of personnel, promotes their adaptation and career growth through seminars, advanced trainings, and retraining of personnel.</p> <p>In order to increase the efficiency of local self-government officials, their certification is conducted once every 4 years, during which work results and business and professional qualities are evaluated. The Standard Regulation for certification of local government officials was approved by CMU Resolution No. 1440 of 26th October 2001. Between the appraisals, the annual performance of local government officials in their tasks and responsibilities is assessed annually.</p> <p>In accordance with the Resolution of the Cabinet of Ministers No. 59 of 26th January 2011, a chief accountant must submit proposals to the manager for organizing the training of employees of the accounting service, including the accounting staff of budgetary institutions, which are subordinated to the budgetary institution, in order to improve their professional and qualification level.</p> <p>Depending on the industry (profession), employees undergo a periodic attestation, which is preceded by the completion of advanced training. For example, the Order of the Ministry of Finance No. 1537 of 1 December 2011 approved the procedure of the evaluation of 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 a regular attestation at least once every five years (Article 50).</p>
1.3 The "tone at the top" (i.e., management's philosophy and operating style)	<p>According to the law, all managers must:</p> <ul style="list-style-type: none"> - in terms of risk acceptance and monitoring: analyse the state of implementation of plans, the organization of works, the executive skills of employees, the satisfaction of customer requirements and the technological, market, financial achievements or missteps (Order of the Ministry of Social Policy of 29 December 2004 No. 336); - 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 July 1999 "On Accounting and Financial Reporting in Ukraine");

Internal control components and elements	Summary of observations
	<p>- in terms of the management's attitude to:</p> <ul style="list-style-type: none"> • information processing: have knowledge of law, economics, administration, finance, personnel management; analyse and summarize information (Order of the Ministry of Social Policy of 29 December 2004 No. 336); • 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"); • 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 the 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 December 2004 No. 336); • monitoring, auditing and evaluation: to analyse the state of implementation of plans, organization of works, executive skills of employees, satisfaction of customer requirements and technological, market, financial achievements or failures (Order of the Ministry of Social Policy of 29 December 2004 No. 336). <p>The basic provisions concerning the attitude of the management to the personnel are regulated by the rules of internal labour conduct.</p> <p>The current legislation does not allow for the optimization and improvement of 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 (as described in Paragraph 1.4 of this Annex).</p>
1.4 Organisational structure	<p>According to Article 26 of the Law of Ukraine "On Local Self-Government in Ukraine," the exclusive competence of 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. Each department of the Lviv City Council has specific objectives for the activities of the institutions.</p> <p>The legislation provides for the organizational structure of institutions to contain the key units required for internal control.</p> <p>CMU Resolution No. 59 of 26 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>

Internal control components and elements	Summary of observations
	<p>Pursuant to Article 18 of the Law of Ukraine No. 889 of 10 December 2015 "On Civil Service," the Human Resources 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 Resources 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 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 centralised accounting service of the Department of Education, Youth, Sports, Culture covers the financial activity of educational institutions). HR recruitment and accounting responsibilities may be shared with other employees.</p> <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 operations.</p> <p>According to Clause 7 of the Order of the Ministry of Justice No. 1000/5 of 18 June 2015, the organization of office management in institutions is entrusted to 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, the archive is an independent structural unit or part of the record keeping service of the institution. In numerically significant 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 audit³⁶ as well as the procedure for the formation of internal audit units³⁷ are defined by the CMU. As noted above, internal audit units have not been established across KSUs in Lviv City (no responsible persons directly subordinate to the head are assigned), except for the centralised department.</p>

³⁶ CMU Resolution No. 1062 of 12.12.2018.

³⁷ CMU Resolution No. 1001 of 28.09.2011.

Internal control components and elements	Summary of observations
1.5. Human Resources policies and practices	<p>The standard regulation on the Human Resources service of a state body approved by the Order of the National Agency of Ukraine for Civil Service No. 47 of 3 March 2016 includes, in particular, selecting personnel, forecasting staff development, encouraging employees to build work careers, and enhancing their professional competence. As mentioned in Paragraph 1.4 of this Annex, in small institutions, individual units or designated personnel responsible for HR may be absent. At the same time, the HR Department of the Lviv City Council provides for the selection of personnel in the executive bodies of the City Council, communal enterprises, institutions and organizations; for the formation and implementation of the personnel strategy of the city council and its executive bodies, both in general and in the relevant areas, it develops mechanisms for its implementation.</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, a personnel reserve is created for occupying positions and promotions, which is approved by the city mayor and the 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 October 2001 approved the standard procedure for the formation of a personnel reserve in local self-government bodies.</p> <p>The HR Department of the Lviv 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>
2. Risk assessment	
2.1 Risk identification 2.2 Risk assessment (significance and likelihood) 2.3 Risk evaluation 2.4 Risk appetite assessment	<p>Strategic plans that contain clear and consistent goals of the institution's activities are not being formulated. Passports of budget programs contain the goals of public policy, which are pursued by the implementation of a specific budget program and its performance indicators. No comprehensive approach to managing risks in achieving budget program goals and indicators has been implemented. Internal control provisions that should have contained a section on risk management are not approved.</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 the efficiency of budgetary programs, which includes measures to monitor, analyse, and control the targeted and effective use of budgetary funds.</p> <p>Several parameters are connected with each other based on the degree of risk determination including:</p> <p>PI-11.1 Economic analysis of investment proposals is rated ‘C’ – The Lviv City Government has no public investment management guidelines. Neither the individual project appraisal documents nor the result of the economic analysis is published.</p> <p>PI-14.2 Fiscal impact of policy proposals is rated ‘D’ – The City Government does not prepare estimates of the fiscal impact of proposed changes in revenue and expenditure policy.</p>

Internal control components and elements	Summary of observations
	<p>PI-19.3 Tax risk management, audit and investigation is rated 'NA' – This dimension is not applicable, because it is the responsibility of the State Tax Service.</p> <p>PI-21.2 Cash flow forecasting and monitoring is rated 'C'- The City Finance Department prepares a consolidated cashflow plan with information from all key spending units regarding their annual cash needs. However, the annual cashflow plan is not updated based on actual inflows/outflows.</p>
2.5 Responses to risk (transfer, tolerance, treatment or termination)	Risk response is performed by employees within the job descriptions, functions, and tasks of the units in which they work.
3. Control activities	
3.1 Authorization and approval procedure	<p>The chief accountant develops, and the manager of the institution approves, the regulation on accounting policy. This happens in accordance with 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 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 January 2015; methodical recommendations on the accounting policy of the enterprise, approved by the order of the Ministry of Finance of Ukraine dated 27 June 2013. No. 635.</p> <p>According to the Order of the Ministry of Finance No. 88 of 24 May 1995 "On Approval of the Regulations on the Documentary Support of Accounting Records", the manager of the institution should establish a workflow schedule, which should ensure the optimal number of units and executors through which each primary document passes, determine the minimum term of its stay in a unit, improve accounting work, strengthen 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 by all contractors, indicating their relationship and work timing.</p> <p>The procedure for the endorsement and sign-off of documents specified in the document management schedule of each spending unit.</p> <p>PI-27.4 Financial data integrity process is rated 'B' - Currently, there is no separate and/or special unit or body responsible for checking the integrity of financial data. The financial management software is passworded and restricts access to unauthorised personnel; it generates an audit trail.</p> <p>PI-25.2 Effectiveness of expenditure commitment controls is rated 'C' – The Treasury control over the expenditure commitments ensures that the total commitments amount is within the monthly allocation and within monthly "open allocations," which are partially identified taking into account available resources in a month.</p>

Internal control components and elements	Summary of observations
	<p>PI-23.1 Integration of the payroll and personal records is rated 'B' – There is no direct integration between payroll and personnel records. Payroll controls are however satisfactory to ensure data integrity.</p> <p>PI-23.2 Management of payroll changes in the payroll sector is rated 'A' – Changes to personnel and payroll records are made in time, within 48 hours, in the same month prior to processing and payment of staff remuneration. There were no retroactive adjustments.</p> <p>PI-23.3 Internal control of payroll is rated 'B' - Each key spending unit maintains HR paper records of staff, securely kept in a safe, with access granted to authorised personnel only. The payroll system used by each key spending unit is computerised, with a payroll management software. The system is passworded and grants access to only authorised staff. All changes to payroll and personnel records are adequately supported by official documentation with full integrity. However, changes do not result in audit trail.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p>According to the Resolution of the Cabinet of Ministers No. 59 of 26 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 a segregation of responsibilities when signing management documents. According to this Order, an 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, the financial unit or chief accountant, and the head of legal service (lawyer).</p> <p>The full segregation of responsibilities for the 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. Officials sign documents within the limits of their authority as defined in the institution's regulations (charters), structural unit regulations, job descriptions, and executive documents on segregation of responsibilities between heads and deputy heads.</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 September 2014 approved the regulation for inventory of assets and liabilities. The Order, in particular, specifies that for purposes of inventory, 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,</p>

Internal control components and elements	Summary of observations
	<p>centralised 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 financially responsible persons are not included in the Inventory Commission to check the assets held in their custody.</p> <p>PI-25.1 Segregation of duties is rated 'A'- Appropriate segregation of duties is prescribed in laws, regulations and expenditure management process.</p>
3.3 Controls over access to resources and records	<p>PI-25.3 Compliance with payment rules and procedures is rated 'A' – The legislation ensures a high degree of compliance with payment rules and procedures. There are no exceptions for simplified payment procedures. Financial violations were only 1.2% of total budgetary and extra-budgetary funds audited by the Financial Control Department.</p> <p>PI-27.4 Financial data integrity process is rated 'B' - The financial management software has password features and restricts access to unauthorised personnel. It also generates an audit trail. There is no separate and/or special unit or body responsible for checking the integrity of financial data.</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 an 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 September 2014. It specifies, in particular, that 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 by a partial inventory in the case of leases, changes of materially liable persons, etc.</p> <p>PI-28.3 Accuracy of in-year budget reports is rated 'C' – In-year budget execution reports include planned and actual expenditures at the payment stage, but not at the commitment stage. Reports do not highlight concerns with regards to data accuracy.</p>
3.5 Reconciliations	<p>PI-27.1 Bank account reconciliation is rated 'A' – Bank reconciliation is done weekly within a week after the previous week. City Government bank accounts are part of the TSA.</p> <p>PI-27.2 Reconciliation of suspense accounts is not applicable (NA). There are no suspense accounts.</p> <p>PI-27.3 Reconciliation of advance accounts is rated 'A' – Advance accounts for contractors are reconciled timely; there are no advances for staff.</p>
3.6 Reviews of operating performance	<p>PI-19.3 Tax risk management, audit and investigation is rated 'NA' – This dimension is not applicable because it is the responsibility of the State Tax Service.</p>

Internal control components and elements	Summary of observations
3.7 Reviews of operations, processes and activities	PI-24.1 Procurement monitoring is rated 'A' – There is complete procurement statistics for both competitive (64.5%) and non-competitive (35.5%); data on procurement is accurate as it is audited by the State Audit Service.
3.8 Supervision (assigning, reviewing and approving, guidance and training)	Supervision policies are approved.
4. Information and communication	<p>The law mandates all budgetary units to prepare monthly budget reports and submit them to the local Treasury office. The Treasury then issues city budget reports, which show revenues by detailed codes of revenue classification and expenditure (recurrent and capital) by budget programs, detailed functional and economic classifications, but not administrative classification (PI-28.1 rated 'D'). 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, plus a reconciled cash flow statement, but they are not comparable with the approved budget (PI-29.1 rated 'D').</p> <p>There is good public access to fiscal information (PI-9 rated 'A'). Public consultations are not conducted during the investment projects preparation process based on the key results of the economic analysis. (PI-9bis rated 'D'). There is good public access to all procurement information – bids, contract awards, complaints resolved, procurement plans, and procurement statistics (PI-24.3 rated 'A'). The public also has access to planned and actual service delivery performance as well as information on resources received in-cash and in-kind (PI-8 rated 'B+'). Taxpayer information in terms of rights and obligations is publicly available.</p>
5. Monitoring	
5.1 Ongoing monitoring	<p>Key aspects of ongoing monitoring include:</p> <p>PI-8.3 Resources received by service units is rated 'A' - 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>PI-10.1 Monitoring of public (city) corporations is rated "B" – Most of the city enterprises are audited annually; the audit reports are published on their respective websites.</p> <p>PI-10.2 Monitoring of sub-national governments is not applicable - There is no first-tier lower-level government.</p> <p>PI-10.3 Contingent liabilities and other fiscal risks is not applicable – There are no PPPs and contingent liabilities.</p> <p>PI-12.1 Financial assets monitoring is rated 'C' - The Government maintains records of some financial assets (cash and receivables) but not of other financial assets in terms of number and value of shares held in public corporations.</p> <p>PI-12.2 Non-financial assets monitoring is rated 'C' – Management of fixed assets is decentralised. The fixed assets register contains information on buildings,</p>

Internal control components and elements	Summary of observations
	<p>vehicles, fixtures and fittings, indicating their cost, age and usage. Information on land and subsoil assets is not captured.</p> <p>PI-19.4 Tax arrears monitoring is rated 'NA' - This dimension is not applicable.</p> <p>PI-22.2 Monitoring of expenditure arrears is rated 'A' - The City Treasury, after the receipt of monthly statement on outstanding expenditure commitments, prepares a consolidated quarterly report within two weeks after the end of the quarter. This report is submitted to the Oblast Treasury.</p> <p>PI-24.1 Procurement monitoring is rated 'A' - There is complete procurement statistics for both competitive (64.5%) and non-competitive (35.5%); data on procurement is accurate.</p> <p>PI-26.4 Response to internal audits is rated 'A' – Despite the fact that the internal audit unit is not independent, management responses to internal audit recommendations are at 95% of issued recommendations.</p>
5.2 Evaluations	<p>PI-8.4 Evaluation of service delivery efficiency is rated 'B' - Performance evaluation is carried out internally; no external (independent) evaluation of service delivery performance.</p>
5.3 Management responses	<p>PI-26.4 Response to internal audits is rated 'A' – Despite the fact that the internal audit unit is not independent, management responses to internal audit recommendations are at 95% of issued recommendations.</p> <p>PI-30.1 External audit follow-up is rated 'D' – No external audit, in accordance with INTOSAI standards, is carried out.</p>

Annex 3A: Sources of Information per indicator/dimension

Indicator	Dimension	Data used
SNG Pillar: Intergovernmental fiscal relations		
HLG-1. Transfers from a higher-level government	HLG-1.1 Outturn of transfer from higher-level government	Treasury reports FY2018-2020 Decisions on the Lviv city budget FY2018-2020 City Government budget execution reports FY2018-2020
	HLG-1.2 Transfer composition outturn	Treasury reports FY2018-2020 Decisions on the Lviv city budget FY2018-2020 City Government budget execution reports FY2018-2020
	HLG-1.3 Timeliness of transfer from higher-level government	Annual budget and monthly allocation plan FY2020 Lviv City Government daily transfers cash flows FY2020 Decree of Cabinet dated December 24, 2019 No. 1101 Decree of Cabinet dated December 15, 2010 No. 1132
	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.
HLG-2 Fiscal rules and monitoring of fiscal position	HLG-2.1 Fiscal rules for sub-national governments	Budget Code of Ukraine
	HLG-2.2 Debt rules for sub-national governments	Budget Code of Ukraine
	HLG2.3 Monitoring of sub-national governments	Treasury reports FY2020
I. The budget Reliability		
1. Aggregate Expenditure Outturn	1.1 Aggregate Expenditure Outturn	Treasury reports FY2018-2020 Decisions on the Lviv city budget FY2018-2020 City Government budget execution reports FY2018-2020)
2. Expenditure Composition Outturn	2.1 Expenditure Composition Outturn by Function	Treasury reports FY2018-2020 Decisions on the Lviv city budget FY2018-2020 City Government budget execution reports FY2018-2020

Indicator	Dimension	Data used
SNG Pillar: Intergovernmental fiscal relations		
	2.2 Expenditure Composition Outturn by Economic Type	Treasury reports FY2018-2020 Decisions on the Lviv city budget FY2018-2020 Approved monthly allocations by economic classification (Rozpys) FY2018-2020
	2.3 Expenditure from Contingency Reserves	Treasury reports FY2018-2020 Decisions on the Lviv city budget FY2018-2020
3. Revenue Outturn	3.1 Aggregate Revenue Outturn	Treasury reports FY2018-2020 Decisions on the Lviv city budget FY2018-2020
	3.2 Revenue Composition Outturn	Treasury reports FY2018-2020 Decisions on the Lviv city budget FY2018-2020
II. Transparency of Public Finances		
4. The budget Classification	4.1 Budget Classification	MoF Order as of 14 January 2011 No. 11 "On Budget Classification" The GFS Classification In-year and annual budget execution reports FY 2020
5. The budget Documentation	5.1 Budget Documentation	FY2020 and FY2021 budget documentation Decisions on the Lviv city budget FY2020 and FY2021
6. Central Government Operations Outside Financial Reports	6.1 Expenditure Outside Financial Reports	Data on extra-budgetary expenditure outside the City Government budget/financial reports FY2020
	6.2 Revenue Outside Financial Reports	Data on extra-budgetary revenue outside the City Government budget/financial reports FY2020
	6.3 Financial Reports of Extra Budgetary Units	Dates of submission of financial reports of extra-budgetary units
7. Transfers To Sub-national Governments	7.1 System for Allocating Transfers	N/A
	7.2 Timeliness of Information on Transfers	N/A
	8.1 Performance Plans for Service Delivery	Budget Code of Ukraine

Indicator	Dimension	Data used
SNG Pillar: Intergovernmental fiscal relations		
8. Performance Information for Service Delivery		MoF Order as of 26 August 2014 No. 836 "Some Issues on PBB for local budgets planning and execution" Local budget program passports (FY2020): (https://city-adm.lviv.ua) Performance plans for Education and Health Departments FY2020
	8.2 Performance Achieved for Service Delivery	Summary results of the analysis and evaluation of the effectiveness of budget programs (FY2020): (https://city-adm.lviv.ua)
	8.3 Resources Received by Service Delivery Units	MoF Order as of 23 August 2012 No. 938 "On approval of the Procedure for Treasury servicing of local budgets" Report on receipts and use of funds received as sources of the own revenues of local budget institutions (template No. 4.2-m) (FY2020)
	8.4 Performance Evaluation of Service Delivery	Budget Code of Ukraine MoF Order as of 17 May 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): (https://city-adm.lviv.ua)
9. Public Access to Fiscal Information	9.1 Public Access to Fiscal Information	City Government fiscal data on its website (https://city-adm.lviv.ua)
9bis Public consultation	9bis.1 Public consultation in budget preparation	Website https://city-adm.lviv.ua/public-consultation
	9bis.2 Public consultation in the design of service delivery	Websites https://petition.e-dem.ua/lviv ; https://city-adm.lviv.ua/public-consultation
	9bis.3 Public consultation in investment planning	Website https://city-adm.lviv.ua/public-consultation
III. Management of Assets And Liabilities		
10. Fiscal Risk Reporting	10.1 Monitoring of Public Corporations	Financial reports of municipal enterprises (2020)
	10.2 Monitoring of Sub-national Governments	N/A
	10.3 Contingent Liabilities and Other Fiscal Risks	N/A

Indicator	Dimension	Data used
SNG Pillar: Intergovernmental fiscal relations		
11. Public Investment Management	11.1 Economic Analysis of Investment Proposals	List of major capital investment projects FY2020; Meeting results with the Department of Economic Development, Healthcare Department
	11.2 Investment Project Selection	
	11.3 Investment Project Costing	
	11.4 Investment Project Monitoring	
12. Public Asset Management	12.1 Financial Asset Monitoring	Order No. 351 "On Approval of the Procedure for Monitoring the Effectiveness of Asset Management" Treasury report FY2020 (Balance Sheet)
	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 January 2018 Law "On Local Self-Governance in Ukraine" No. 280/97-BP as of 21 May 1997 By-laws: (i) No. 386 "On approval of the procedure for the sale of objects of large privatization of state property", (ii) No. 387 "Approval of the Procedure for Submitting Proposals for the Inclusion of Objects of State-owned Property to the List of Objects to be Privatized", (iii) No. 432 "On approval of the procedure for conducting electronic auctions for the sale of small-scale privatization objects and the definition of additional terms of sale", (iv) No. 433 "On approval of the Procedure for selection of operators of electronic platforms for the organization of electronic auctions for the sale of small privatization objects, authorization of electronic platforms and the definition of the administrator of the electronic trading system", (v) No. 389 "On Approval of the Procedure for the Transfer (Return) of Functions for the Management of the Property of State-Owned Enterprises, the Management of Shareholding (Share) in connection with the adoption of the decision on privatization or the termination of the privatization of the privatization object"

Indicator	Dimension	Data used
SNG Pillar: Intergovernmental fiscal relations		
13. Debt Management	13.1 Recording and Reporting of Debt and Guarantees	Debt records for FY2020; interview with city government officials
	13.2 Approval of Debt and Guarantees	Budget Code of Ukraine CMU Decree dated February 16, 2011, No. 110 CMU Decree dated May 14, 2012, No. 541 CMU Decree dated August 1, 2012, No. 815 Annual Local Debt Management Program approved by Financial Policy Department and relevant annual report
	13.3 Debt Management Strategy	Interview with officials of the City Finance Department; no debt management strategy
IV. Policy-Based Fiscal Strategy and Budgeting		
14. Medium-term budget strategy	14.1 Underlying forecasts for medium-term budget	Lviv socio-economic and cultural development program FY2020-2022 Annual key demographic indicators Budget documentation FY2021
	14.2 Fiscal impact of policy proposals	Budget documentation FY2021
	14.3 Medium-term expenditure estimates	Budget documentation FY2021
	14.4 Consistency of Budgets with Previous Year's Estimates	Budget documentation FY2021
17. The budget Preparation Process	17.1 Budget Calendar	FY2021 budget calendar
	17.2 Guidance on Budget Preparation	Budget circular FY2021 issued to key spending units; interview with officials of key spending units
	17.3 Budget Submission to the Legislature	Dates of submission of annual budget proposals to City Council FY2018-2020
18. Legislative Scrutiny Of Budgets	18.1 Scope of Budget Scrutiny	Interview with city council officials Budget documentation FY2021 Budget requests for FY2021 budget
	18.2 Legislative Procedures for Budget Scrutiny	The Lviv City Council Regulations

Indicator	Dimension	Data used
SNG Pillar: Intergovernmental fiscal relations		
	18.3 Timing of Budget Approval	Dates of budget approval FY2018-2020
	18.4 Rules for Budget Adjustment by the Executive	Budget Code (Article 23)
V. Predictability and Control in Budget Execution		
19. Tax Administration	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
20. Accounting for Revenue	20.1 Information on Revenue Collections	Data on revenues for 2018-2020, provided by the Financial Department
	20.2 Transfer of Revenue Collections	Treasury bank accounts; interview with government officials
	20.3 Revenue Accounts Reconciliation	The reconciliation report as of the time of this assessment (October 2021), provided by State Tax Service; also, reconciliation report from the City Financial Department
21. Predictability of In-Year Resource Allocation	21.1 Consolidation of Cash Balances	Daily summary cash/bank balances – balance on December 31, 2021
	21.2 Cash Forecasting and Monitoring	Annual cash flow plan FY2020
	21.3 Information on Commitment Ceilings	MoF Order No. 57 dated January 28, 2002 “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 City Financial Department
22. Expenditure Arrears	22.1 Stock of Expenditure Arrears	Treasury’s reports on expenditures arrears FY2018-2020
	22.2 Expenditure Arrears Monitoring	Monthly report on expenditure arrears; interview with sampled key spending units (education, health, infrastructure)

Indicator	Dimension	Data used
SNG Pillar: Intergovernmental fiscal relations		
23. Payroll Controls	23.1 Integration of Payroll and Personnel Records	Interview with HR and payroll staff of sampled key spending units (education, health, infrastructure); personnel and payroll records FY2020
	23.2 Management of Payroll Changes	Interview with HR and payroll staff of sampled key spending units (education, health, infrastructure); personnel and payroll records FY2020
	23.3 Internal Control of Payroll	Interview with HR and payroll staff of sampled key spending units (education, health, infrastructure); personnel and payroll records FY2020; payroll software
	23.4 Payroll Audit	Payroll audit FY2020 covering the last three years FY2017-2020
24. Procurement Management	24.1 Procurement Monitoring	Public Procurement Law No. 922 dated December 25, 2015 (Article 2) Procurement data of Lviv City Government for 2020 (verified by the procurement authority) Electronic system https://prozorro.gov.ua Website https://bi.prozorro.org
	24.2 Procurement Methods	Public Procurement Law No. 922 dated December 25, 2015 (Article 2) Procurement data of Lviv City Government for 2020 (verified by the procurement authority); consolidated data on methods of procurement FY2020 Electronic system https://prozorro.gov.ua Website https://bi.prozorro.org
	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 https://prozorro.gov.ua Website https://bi.prozorro.org
	24.4 Procurement Complaints Management	Public Procurement Law No. 922 dated December 25, 2015 (Article 18) Procurement complaints framework (Anti-Monopoly Commission of Ukraine)
25. Internal Controls on Non salary Expenditure	25.1 Segregation of Duties	Law of Ukraine dated July 16, 1999, No. 996 Lviv City Council decision on Tender Committee of Executive Committee dated February 10, 2017, No. 83 Interview with city government officials

Indicator	Dimension	Data used
SNG Pillar: Intergovernmental fiscal relations		
	25.2 Effectiveness of Expenditure Commitment Controls	MoF's Order dated March 2, 2012, No. 309 Budget Code of Ukraine (Article 55)
	25.3 Compliance with Payment Controls	Interview with key spending units; data from internal audit unit
26. Internal Audit	26.1 Coverage of Internal Audit	Regulation on the Financial Control Department Interview with government officials; data from internal audit unit
	26.2 Nature of Audits and Standards Applied	Internal Audit Standards, approved by MoF order No. 1247 dated October 4, 2011
	26.3 Implementation of Internal Audits and Reporting	Interview with officials of internal audit unit; data on implementation of internal audits
	26.4 Response to Internal Audits	Interview with officials of internal audit unit; data on implementation of internal audits
VI. Accounting and reporting		
27. Financial Data Integrity	27.1 Bank Account Reconciliation	Treasury's Order No. 122 of June 26, 2002 "On the approval of the Regulation on the Single Treasury Account" CMU's Resolution 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" 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 Sampled data on bank reconciliation on selected bank accounts of the City Government
	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"

Indicator	Dimension	Data used
SNG Pillar: Intergovernmental fiscal relations		
		Treasury's Order No. 1 dated May 17, 2000 "Chart of accounts for the implementation of state and local budgets"
	27.3 Advance Accounts	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's Order No. 1280 dated October 12, 2011 Information received at the meetings held with the Financial Department and the Treasury
28. In-Year Budget Reports	28.1 Coverage and Comparability of Reports	CMU's Resolution No. 419 dated February 28, 2000, "On approval of the Financial Reporting Procedure" Treasury's Order No. 34 dated February 6, 2018, "Guidelines for filling out forms of financial statements by bodies of the State Treasury Service of Ukraine" City Government of Lviv annual financial report FY2020
	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 City Finance Department; triangulation with internal audit unit
29. Annual Financial Reports	29.1 Completeness of Annual Financial Reports	Annual financial statements FY2020 Approved city budget FY2020
	29.2 Submission of Reports for External Audit	Interview with the City Finance Department (annual financial reports are not submitted to external auditor)
	29.3 Accounting Standards	Budget Code (Articles 43, 80) MoF Order No. 12 dated January 17, 2018 "On the organization of work on the preparation by the State Treasury Service of Ukraine of budget reporting on the implementation of local budgets" Treasury's Order No. 36 Dated February 6, 2018 "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"

Indicator	Dimension	Data used
SNG Pillar: Intergovernmental fiscal relations		
VII. External Scrutiny and Audit		
30. External Audit	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" Budget Code of Ukraine MoF's order dated December 24, 2012 "On approval of the Procedure for treasury services of the state budget for expenditures"
31. Legislative Scrutiny of Audit Reports	31.1 Timing of Audit Report Scrutiny	Law of Ukraine dated May 21, 1997, No 280/97-VR "About local self-government in Ukraine"
	31.2 Hearings on Audit Findings	Interview with city council officials
	31.3 Recommendations on Audit by the Legislature	
	31.4 Transparency of Legislative Scrutiny of Audit Reports	

Annex 3B: List of Stakeholders Interviewed

No.	Name	Organization	Position	Telephone	Email
Lviv City Council					
1.	Chad Roksoliana	Financial Policy Department	Deputy Head of Finance Department - Head of the Budget Division	0677217637	rchad@ukr.net
2.	Starychenko Natalia	Financial Policy Department	Deputy Director of the Department - Head of the Department of Local and Attracted Finances Management	0677272072	star_natali@ukr.net
3.	Kryvenko Halyna	Financial Policy Department	Chief Economist of the Budget Division, Finance Department	0952229967	UF-galina@ukr.net
4.	Chornopysky Roman	Financial Policy Department	Head of Revenue Department	0636171059	romko2008@ukr.net
5.	Saliy Natalia	Financial Policy Department	Leading Specialist	0676820214	saliy.nataliia@citylviv.com.ua
6.	Vorobets Iryna	Financial Policy Department	Head of Accounting and Reporting Division of the Finance Department	0674559222	irech@ukr.net
7.	Griner Svitlana	Financial Policy Department	Head of the Division of Financing of Local Authorities and Administration of the Finance Department	0953078930	Griner.Svitlana@lvivcity.gov.ua
8.	Kateryna Senkiv	Department of Economic Development	Head of the Monitoring Sector, Analysis and Planning Department	0988067944	Kateryna.senkiv@gmail.com
9.	Taras Fryz	Department of Economic Development	Head of Analysis and Planning Department	0982696890	fryz@i.ua
10.	Dzuce Natalia	Department of Humanitarian Policy	Chief Specialist of the Department of Education	254-60-50	Dzhus.Nataliia@lvivcity.gov.ua
11.	Mytnyk Oksana	Department of Humanitarian Policy	Chief Accountant of the Department of Education	0975826680	oksana.mytnyk66@gmail.com
12.	Toporovych Yuri	Department of Humanitarian Policy	Economist of the Department of Education	0677304713	toporovych.yura@ukr.net
13.	Duda Ulyana	Department of Economic Development	Head of the Tender Policy Sector	0633959850	tender-dep@ukr.net
14.	Leshchuk Mykola	Land Resources Administration	Acting head of the Land Management Division	0976114804	m_leshchuk@ukr.net
15.	Kovalyshyn Oleh	Land Resources Administration	Deputy Head of Department - Head of Land Market Division	0980360552	kovoleg1979@ukr.net
16.	Voitiush Vitaly	Land Resources Administration	Head of Information and Analytical Division	0676702280	vitalio@ukr.net
17.	Barabash Roman	Department of Housing and Infrastructure	Head of the Division of Analysis of Financial and Economic Activities of Communal Enterprises	0974786448	Barabash.Roman@lvivcity.gov.ua
18.	Kremin Maksym	Department of Housing and Infrastructure	Head of the Division of Economics, Planning, Pricing and Housing Policy	0633211275	Kremin.Maksym@lvivcity.gov.ua
19.	Hashchuk Nadiia	Department of Housing and Infrastructure	Chief Specialist of the Division of Analysis of Financial and Economic	0979768614	Hashchuk.Nadiia@lvivcity.gov.ua

No.	Name	Organization	Position	Telephone	Email
Lviv City Council					
			Activities of Communal Enterprises		
20.	Ugrin Maria	Department of Humanitarian Policy	Chief Specialist of the Planning and Finance Division of the Department of Health	0971138105	ugrinmaria@ukr.net
21.	Pelikan Iryna	Financial Control Department	Acting Head of the Department	0673749043	irynapelikan@gmail.com
22.	Liteplo Nataliia	Financial Control Department	Head of the Internal Financial Control Division	0964258770	liteplonat@gmail.com
23.	Hirniak-Hryhorieva Iryna	Financial Control Department	Head of the Division of the estimate documentation verification	0969577470	iryntagirniak@gmail.com
Main Directorate of the State Treasury in Lviv Oblast					
24.	Faryna Nazar	Main Directorate of the State Treasury in Lviv Oblast	Head of Consolidated Reporting Department	0675273273	farynanv@gmail.com
Main Directorate of State Tax service in Lviv Oblast					
25.	Maliach Ihor	Head Division of State Tax service in Lviv Oblast		0676792559	
26.	Paprotska Maryana	Head Division of State Tax service in Lviv Oblast		0972617712	
27.	Zozulia Serhiy	Head Division of State Tax service in Lviv Oblast		0964574004	
Service Delivery					
28.	Makutsky Roman	Communal Non-profit Enterprise "8 Lviv City Clinical Hospital"	Chief Accountant	0504302192	8mkl@ukr.net
29.	Vovk Svitlana	Communal Non-profit Enterprise "8 Lviv City Clinical Hospital"	Deputy of Chief accountant	0678629219	8mkl@ukr.net

Annex 4: Data used for scoring PI-1, 2 & 3 (2016 methodology) & HLG-1 (new SNG guidance Oct 2020)

Data source: Finance Department of Lviv City

Table 1.1 – HLG-1.1 and 1.2 calculations

Table 1 - Fiscal years for assessment

Year 1 =	2018
Year 2 =	2019
Year 3 =	2020

thousand UAH

Table 2

Data for year =		2018				
Transfer types	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Education subventions	775,782.00	783,674.30	1,924,644.0	-1,140,969.7	1,140,969.7	59.3%
Medical subventions	636,474.00	688,340.60	1,579,033.6	-890,693.0	890,693.0	56.4%
Socioeconomic development subvention	-	18,665.00	0.0	18,665.0	18,665.0	-
Utilities (electricity, gas, water, fuel, etc.) subvention	-	1,191,863.30	0.0	1,191,863.3	1,191,863.3	-
Family care subventions	-	745,744.50	0.0	745,744.5	745,744.5	-
Housing subventions	-	38,429.50	0.0	38,429.5	38,429.5	-
Road maintenance subvention	-	21,627.00	0.0	21,627.0	21,627.0	-
Other subventions	-	15,333.40	0.0	15,333.4	15,333.4	-
Total transfers	1,412,256.00	3,503,677.60	3,503,677.6	0.0	4,063,325.4	
Overall variance						248.1%
Composition variance						116.0%

Table 3

Data for year =		2019				
Transfer types	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Education subventions	943,538.96	995,814.10	802,730.8	193,083.3	193,083.3	24.1%
Medical subventions	551,074.50	576,638.30	468,835.4	107,802.9	107,802.9	23.0%
Socioeconomic development subvention	-	11,878.10	0.0	11,878.1	11,878.1	
Utilities (electricity, gas, water, fuel, etc.) subvention	799,847.80	291,296.20	680,483.3	-389,187.1	389,187.1	57.2%
Family care subventions	946,608.70	804,027.70	805,342.4	-1,314.7	1,314.7	0.2%
Housing subventions	-	37,414.80	0.0	37,414.8	37,414.8	-
Road maintenance subventions	-	11,612.00	0.0	11,612.0	11,612.0	-
Other subventions	-	28,710.70	0.0	28,710.7	28,710.7	-
Total transfers	3,241,069.96	2,757,391.90	2,757,391.9	0.0	781,003.6	
Overall variance						85.1%
Composition variance						28.3%

Table 4

Data for year = 2020						
Transfer types	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Education subvention	1,032,719.60	1,147,699.20	1,312,574.7	-164,875.5	164,875.5	12.6%
Medical subvention	153,420.50	173,218.90	194,995.7	-21,776.8	21,776.8	11.2%
Socioeconomic development subvention	-	3,000.00	0.0	3,000.0	3,000.0	-
Housing subventions	-	24,761.60	0.0	24,761.6	24,761.6	-
Road maintenance subventions	-	38,226.30	0.0	38,226.3	38,226.3	-
Election subvention	-	28,518.40	0.0	28,518.4	28,518.4	-
COVID subventions	-	43,360.70	0.0	43,360.7	43,360.7	-
Other subventions	-	48,785.30	0.0	48,785.3	48,785.3	-
Total transfers	<u>1,186,140.10</u>	<u>1,507,570.40</u>	1,507,570.4	0.0	373,304.6	
Overall variance						127.1%
Composition variance						24.8%

Table 5 - Results Matrix

Year	Total transfer deviation	Composition variance
2018	248.1%	116.0%
2019	85.1%	28.3%
2020	127.1%	24.8%

Table 2.1 - Analysis for PI-1 and PI-2.1 composition variance: Fiscal Year 2018

Table 1 - Fiscal years for assessment

Year 1 =	2018
Year 2 =	2019
Year 3 =	2020

thousand UAH

Table 2

Data for year =		2018				
Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public services	489,161.3	399,154.8	732,320.9	-333,166.1	333,166.1	45.5%
Economic affairs	1,264,974.2	2,156,217.5	1,893,786.4	262,431.1	262,431.1	13.9%
Healthcare	942,582.1	1,045,244.9	1,411,134.8	-365,890.0	365,890.0	25.9%
Cultural and physical development	189,601.8	220,877.8	283,851.9	-62,974.1	62,974.1	22.2%
Education	2,323,628.9	2,571,850.7	3,478,692.9	-906,842.3	906,842.3	26.1%
Social protection and social security	317,253.8	2,310,099.0	474,959.0	1,835,140.0	1,835,140.0	386.4%
Intergovernmental transfers	818,952.0	735,219.2	1,226,048.9	-490,829.7	490,829.7	40.0%
(= sum of rest)	416,295.0	685,364.2	623,233.1	62,131.0	62,131.0	10.0%
Allocated expenditure	6,762,449.1	10,124,028.0	10,124,028.0	0.0	4,319,404.2	
Interests	5,229.4	39,301.3				
Contingency	40,000.0	8,632.5				
Total expenditure	6,807,678.5	10,171,961.8				
Aggregate outturn (PI-1)						149.4%
Composition (PI-2) variance						42.7%
Contingency share of budget						0.1%

Table 2.2 - Analysis for PI-1 and PI-2.1 composition variance: Fiscal Year 2019

Table 3

Data for year =		2019				
Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public services	601,877.4	565,275.2	650,183.9	-84,908.7	84,908.7	13.1%
Economic affairs	1,688,724.0	2,235,479.0	1,824,260.5	411,218.6	411,218.6	22.5%
Healthcare	851,495.1	974,842.9	919,835.8	55,007.1	55,007.1	6.0%
Cultural and physical development	229,625.3	275,485.7	248,055.0	27,430.7	27,430.7	11.1%
Education	2,812,763.1	3,087,191.0	3,038,514.5	48,676.4	48,676.4	1.6%
Social protection and social security	2,250,073.7	1,643,943.6	2,430,663.9	-786,720.3	786,720.3	32.4%
Intergovernmental transfers	798,120.0	759,196.7	862,176.9	-102,980.2	102,980.2	11.9%
(= sum of rest)	478,589.3	949,277.1	517,000.7	432,276.4	432,276.4	83.6%
Allocated expenditure	9,711,267.9	10,490,691.2	10,490,691.2	0.0	1,949,218.3	
Interests	79,990.0	78,515.2				
Contingency	50,000.0	27,868.5				
Total expenditure	9,841,257.9	10,597,074.9				
Aggregate outturn (PI-1)						107.7%
Composition (PI-2) variance						18.6%
Contingency share of budget						0.3%

Table 2.3 - Analysis for PI-1 and PI-2.1 composition variance: Fiscal Year 2020

Table 4

Data for year =		2020				
Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
General public services	768,685.2	675,763.9	775,317.5	-99,553.6	99,553.6	12.8%
Economic affairs	2,516,116.2	2,844,664.1	2,537,825.6	306,838.5	306,838.5	12.1%
Healthcare	369,575.4	474,318.6	372,764.2	101,554.4	101,554.4	27.2%
Cultural and physical development	300,504.5	280,730.5	303,097.3	-22,366.8	22,366.8	7.4%
Education	3,308,733.9	3,148,425.9	3,337,282.2	-188,856.2	188,856.2	5.7%
Social protection and social security	597,830.6	601,851.9	602,988.8	-1,136.9	1,136.9	0.2%
Intergovernmental transfers	641,824.7	711,396.1	647,362.5	64,033.6	64,033.6	9.9%
(= sum of rest)	971,061.5	818,927.1	979,440.0	-160,512.9	160,512.9	16.4%
Allocated expenditure	9,474,332.0	9,556,078.0	9,556,078.0	0.0	944,853.0	
Interests	192,088.0	150,523.0				
Contingency	70,000.0	94,412.2				
Total expenditure	9,736,420.0	9,801,013.3				
Aggregate outturn (PI-1)						100.7%
Composition (PI-2) variance						9.9%
Contingency share of budget						1.0%

Table 2.4 – matrix

	for PI-1.1	for PI-2.1	for PI-2.3
Year	Total exp. outturn	Composition variance	Contingency share
2018	149.4%	42.7%	0.5%
2019	107.7%	18.6%	
2020	100.7%	9.9%	

Table 3.1 - Analysis for PI-2: Fiscal Year 2018

Table 1 - Fiscal years for assessment

Year 1 =	2018
Year 2 =	2019
Year 3 =	2020

thousand UAH

Table 2

	Data for year =		2018				
Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent	
Compensation of employees	2,233,644.6	2,341,766.9	3,337,488.4	-995,721.5	995,721.5	29.8%	
Use of goods and services	793,650.5	1,567,821.0	1,185,864.3	381,956.7	381,956.7	32.2%	
Capital expenditures	832,324.9	715,521.4	1,243,651.1	-528,129.7	528,129.7	42.5%	
Interest	5,229.4	39,301.3	7,813.7	31,487.6	31,487.6	403.0%	
Subsidies	639,000.0	2,496,011.0	954,787.0	1,541,224.0	1,541,224.0	161.4%	
Grants	636,982.1	776,959.8	951,772.0	-174,812.2	174,812.2	18.4%	
Social benefits	438,891.7	2,227,571.5	655,787.4	1,571,784.1	1,571,784.1	239.7%	
Other expenses	1,227,955.3	7,008.9	1,834,797.9	-1,827,789.0	1,827,789.0	99.6%	
Total expenditure	6,807,678.5	10,171,961.8	10,171,961.8	0.0	7,052,904.8		
Composition variance						69.3%	

Table 3.2: Analysis for PI-2 Fiscal Year 2019

Table 3

Data for year = 2019						
Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Compensation of employees	2,749,976.7	2,804,726.6	2,961,177.2	-156,450.6	156,450.6	5.3%
Use of goods and services	1,243,497.6	1,331,313.8	1,338,999.3	-7,685.5	7,685.5	0.6%
Capital expenditures	849,875.9	973,239.1	915,147.1	58,092.0	58,092.0	6.3%
Interest	79,990.0	78,515.2	86,133.3	-7,618.1	7,618.1	8.8%
Subsidies	2,037,173.9	3,214,496.7	2,193,630.6	1,020,866.1	1,020,866.1	46.5%
Grants	798,543.8	803,905.1	859,872.6	-55,967.5	55,967.5	6.5%
Social benefits	2,005,046.6	1,380,732.1	2,159,035.9	-778,303.8	778,303.8	36.0%
Other expenses	77,153.5	10,146.4	83,078.9	-72,932.5	72,932.5	87.8%
Total expenditure	<u>9,841,257.9</u>	<u>10,597,074.9</u>	10,597,074.9	0.0	2,157,916.2	
Composition variance						20.4%

Table 3.3: Analysis for PI-2 Fiscal Year 2020

Table 4

Data for year = 2020						
Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Compensation of employees	3,288,259.6	3,310,464.4	3,310,074.5	389.9	389.9	0.0%
Use of goods and services	1,625,558.9	1,154,069.9	1,636,343.1	-482,273.2	482,273.2	29.5%
Capital expenditures	1,957,166.8	750,969.3	1,970,151.0	-1,219,181.8	1,219,181.8	61.9%
Interest	192,088.0	150,523.0	193,362.3	-42,839.3	42,839.3	22.2%
Subsidies	1,640,091.8	3,377,777.5	1,650,972.4	1,726,805.0	1,726,805.0	104.6%
Grants	642,203.6	738,934.4	646,464.1	92,470.3	92,470.3	14.3%
Social benefits	293,543.7	312,837.9	295,491.2	17,346.8	17,346.8	5.9%
Other expenses	97,507.6	5,436.9	98,154.5	-92,717.6	92,717.6	94.5%
Total expenditure	9,736,420.0	9,801,013.3	9,801,013.3	0.0	3,674,023.9	
Composition variance						37.5%

Table 3.4 – Result Matrix

Year	Composition variance
2018	69.3%
2019	20.4%
2020	37.5%

Table 4.1: Analysis of revenue outturn - PI-3: Fiscal Year 2018

Table 1 - Fiscal years for assessment

Year 1 =	2018
Year 2 =	2019
Year 3 =	2020

thousand
UAH

Table 2

Data for year = 2018						
Revenue types	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
Taxes on income, profit and capital gains	850,000.0	1,022,620.6	968,473.6	54,147.0	54,147.0	5.6%
Taxes on payroll and workforce	3,065,000.0	3,355,523.8	3,492,202.0	-136,678.2	136,678.2	3.9%
Taxes on property	544,000.0	584,528.6	619,823.1	-35,294.5	35,294.5	0.1
Taxes on goods and services	391,000.0	386,344.0	445,497.9	-59,153.9	59,153.9	13.3%
Other taxes	3,200.0	198.5	3,646.0	-3,447.5	3,447.5	94.6%
Grants						
Grants from other government units	0.0	0.0	0.0	0.0	0.0	-
Other revenue						
Property income	153,153.0	292,107.0	174,499.6	117,607.4	117,607.4	67.4%
Sales of goods and services	213,982.5	252,162.2	243,807.5	8,354.7	8,354.7	3.4%
Fines, penalties and forfeits	3,537.0	11,140.5	4,030.0	7,110.5	7,110.5	176.4%
Sum of rest	181,700.0	254,380.1	207,025.5	47,354.6	47,354.6	22.9%
Total revenue	5,405,572.5	6,159,005.3	6,159,005.3	0.0	469,148.3	
Overall variance						113.9%
Composition variance						7.6%

Table 4.2: Analysis of revenue outturn - PI-3 Fiscal Year 2019

Table 3

Data for year = 2019						
Revenue types	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
Taxes on income, profit and capital gains	1,087,000.0	1,287,390.7	1,236,547.6	50,843.1	50,843.1	4.1%
Taxes on payroll and workforce	3,805,000.0	4,091,979.0	4,328,485.2	-236,506.2	236,506.2	5.5%
Taxes on property	648,000.0	637,787.0	737,150.7	-99,363.7	99,363.7	0.1
Taxes on goods and services	406,000.0	383,999.1	461,856.8	-77,857.7	77,857.7	16.9%
Other taxes	0.0	214.4	0.0	214.4	214.4	-
Grants						
Grants from other government units	0.0	0.0	0.0	0.0	0.0	-
Other revenue						
Property income	247,200.0	536,562.9	281,209.3	255,353.6	255,353.6	90.8%
Sales of goods and services	230,887.9	222,683.8	262,653.1	-39,969.3	39,969.3	15.2%
Fines, penalties and forfeits	10,000.0	24,858.6	11,375.8	13,482.8	13,482.8	118.5%
Sum of rest	178,400.0	336,746.9	202,944.0	133,802.9	133,802.9	65.9%
Total revenue	6,612,487.9	7,522,222.4	7,522,222.4	0.0	907,393.7	
Overall variance						113.8%
Composition variance						12.1%

Table 4.3: Analysis of revenue outturn - PI-3 Fiscal Year 2020

Table 4

Data for year = 2020						
Revenue types	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
Taxes on income, profit and capital gains	1,403,400.0	1,405,175.7	1,384,882.4	20,293.3	20,293.3	1.5%
Taxes on payroll and workforce	4,627,300.0	4,361,249.2	4,566,243.6	-204,994.4	204,994.4	4.5%
Taxes on property	673,400.0	653,441.2	664,514.6	-11,073.4	11,073.4	0.0
Taxes on goods and services	246,100.0	369,946.4	242,852.8	127,093.6	127,093.6	52.3%
Other taxes	0.0	569.6	0.0	569.6	569.6	-
Grants						
Grants from other government units			0.0	0.0	0.0	-
Other revenue						
Property income	274,300.0	361,031.1	270,680.7	90,350.4	90,350.4	33.4%
Sales of goods and services	204,261.9	156,593.2	201,566.7	-44,973.5	44,973.5	22.3%
Fines, penalties and forfeits	24,700.0	17,536.2	24,374.1	-6,837.9	6,837.9	28.1%
Sum of rest	210,518.0	237,312.4	207,740.3	29,572.1	29,572.1	14.2%
Total revenue	7,663,979.9	7,562,855.0	7,562,855.0	0.0	535,758.3	
Overall variance						98.7%
Composition variance						7.1%

Table 5 - Results Matrix

year	total revenue deviation	composition variance
2018	113.9%	7.6%
2019	113.8%	12.1%
2020	98.7%	7.1%

Annex 5: Gender-responsive PFM Assessment



PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA)

GENDER-RESPONSIVE PFM ASSESSMENT

ASSESSMENT OF LVIV 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

Annex 5.1 Introduction

Purpose

The purpose of the gender-responsive PFM assessment is to gather information on the budgeting and reporting systems of the City Government of Lviv 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 the first gender-responsive PFM assessment at the sub-national government level. This assessment not only provides a basis for aligning the Swiss SECO ELocFin project design with a gender-responsive PFM mindset, but it also offers additional insights, which may be used by SECO and other development partners to get 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 also 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 was also gathered where necessary.

The Ministries of Finance, Education and Health are the lead central government agencies promoting gender-responsive budgeting with support from Swiss SECO, UN Women, European Union, and the World Bank. At this stage, very limited effort is exerted by the Lviv City Government in terms of promoting gender-responsive PFM.

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. In spite of this, the sub-national government of Lviv City is yet to include these procedures and processes into the entire budget cycle. The table below (Table A-5.1) provides a list of legislative instruments and policies adopted by the central government, applicable at the sub-national levels but yet to be actualised. At the city government level, it appears there is less political will as well as inadequate technical capacity for gender-responsive budgeting and reporting.

Table A-5.1: Legal and policy framework for gender equality

Legal and regulatory framework for promotion of gender equality
<ul style="list-style-type: none">• Constitution of Ukraine• Law of Ukraine on Ensuring Equal Rights and Opportunities of Women and Men• Law of Ukraine on the Fundamentals of Prevention and Prevention of Discrimination in Ukraine• Law of Ukraine on the Prevention and Remediation of Home Violence• Law of Ukraine on the Prevention of Human Trafficking• 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

- The Eighth Periodic Report of Ukraine Implementation of the Convention on the Elimination of All Forms of Discrimination Against Women
- 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)
- 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
- 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
- MoF instruction letter on preparation of budget requests for 2022-2024, No. 04110-08-2/23829 of July 29, 2021
- 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
- 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"
- 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"
- MoF instruction letter on preparation of budget requests for 2020-2022, No. 04110-09-10/222087 of September 3, 2019
- 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 https://www.mof.gov.ua/uk/decrees_2020-412)

Policies and plans for the implementation of gender equality programmes

- 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
- National Action Plan to implement UN SC Resolution No.1325 "Women, Peace and Security" until 2020, adopted by the Cabinet of Ministries of Ukraine on February 24, 2016, No. 113, revised on September 5, 2018, No. 637-p)
- 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

Annex 5.2 Overview of assessment findings

Chart 1 below provides a graphical representation of the gender-responsive PFM performance. The summary of the narrative performance is provided in Annex 5.3.

The overall performance of the Gender-responsive Public Finance Management is poor. The Lviv City Government has not yet introduced any gender-responsive PFM policy framework into the budget formulation, execution and reporting mechanism.

The City Government does not analyse proposed changes in expenditure and revenue policies with information on gender impacts (GRPFM-1 rated 'D'); this is also in line with PI-14.2 in the main PEFA report which assesses the fiscal impact of policy proposals, rated 'D'. In the main PEFA report, public investment management performed averagely with an overall score of 'C'. Nevertheless, there is no gender-responsive analysis to underscore its impact on public investment proposals nor economic analysis of those investment proposals (GRPFM-2 rated 'D').

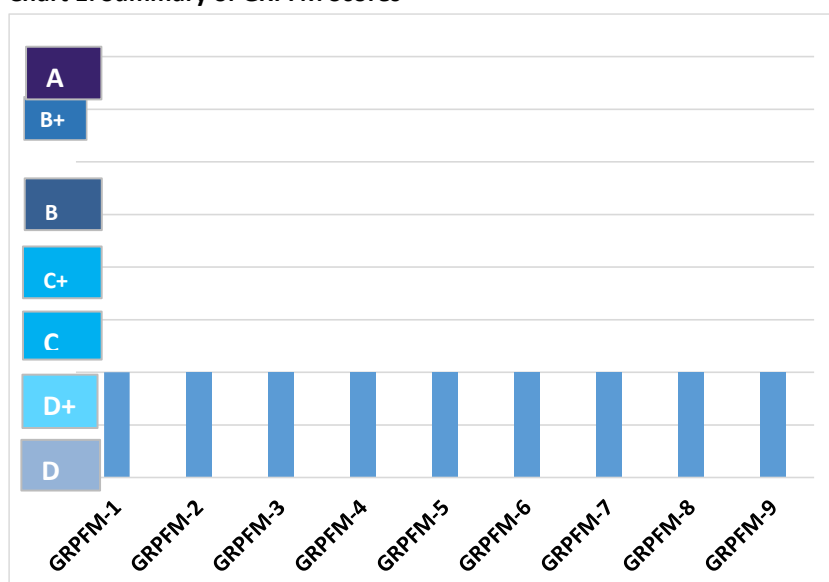
The budget circular issued to key spending units does not provide any information on gender related issues (GRPFM-3 rated 'D'). This performance does not correspond with PI-17 which was rated 'C+' in the main PEFA report. It appears that the directive from the state government regarding the inclusion of gender issues in the budget process is yet to take root across local governments. While public access to fiscal information shows good performance in the main PEFA report (PI-9 rated 'A'), budget proposal documentation submitted to the City Council does not contain policy priorities that promote gender equality (GRPFM-4 rated 'D'). There is no doubt that information on gender equality would have been published if it were available, since the City Government is keen at ensuring transparency and public accountability. There is also no sex-disaggregated performance information on service delivery (GRPFM-5 rated 'D') even though performance information on service delivery is available and published (PI-8 in the main PEFA report rated 'B+').

The absence of gender-responsive budget proposal documentation implied that tracking of expenditure for gender equality is non-existent (GRPFM-6 rated 'D'). This compared with PI-4 in the main report, which was rated 'D'. The absence of expenditure tracking for gender equality also led to non-reporting based on gender (GRPFM-7 rated 'D'). In the main PEFA report, PI-28 and PI-29 were all rated 'D+'; however, public access to fiscal information (PI-9) was rated 'A'. While PI-8.4 in the main report performed well with a score of 'B', it did not reflect in the performance of GRPFM-8 which was rated 'D'; the evaluations do not assess the gender-responsiveness of service delivery.

At this stage, there is no gender-responsive budgeting; therefore, the scrutiny of the budget by the City Council is limited to the information received and contained in the budget proposals (GRPFM-9 rated 'D'), compared with PI-18 in the main report rated 'C+'.

Going forward, the Lviv City Government plans to push gender-responsive PFM agenda by soliciting support from the state government and development partners to train city government officials on gender-responsive PFM. There is however no methodological guideline on GRPFM with specific timelines to accomplish this task.

Chart 1: Summary of GRPFM Scores



Annex 5.3 Detailed assessment of gender-responsive budgeting

There are nine PEFA gender-responsive PFM indicators in the Supplementary Framework for Assessing Gender-responsive Public Financial Management. These nine indicators were designed to assess the processes and systems across government's budget cycle for the promotion and empowerment of women's rights. Table A-5.2 below summarises the performance of GRPFM at the city government level, with a more detailed analysis and explanations of scores in the following sections.

Table A-5.2: GRPFM Scores 2021

Gender-responsive Public Financial Management (GRPFM) Indicators		Scoring Method	Dimension Score		Overall Score
			i	ii	
GRPFM-1	Gender Impact Analysis of Budget Policy Proposals	M1	D	D	D
GRPFM-2	Gender-responsive Public Investment Management		D		D
GRPFM-3	Gender-responsive Budget Circular		D		D
GRPFM-4	Gender-responsive Budget Proposal Documentation		D		D
GRPFM-5	Sex-Disaggregated Performance Information for Service Delivery	M2	D	D	D
GRPFM-6	Tracking Budget Expenditure for Gender Equality		D		D
GRPFM-7	Gender-responsive Reporting		D		D
GRPFM-8	Evaluation of Gender Impacts of Service Delivery		D		D
GRPFM-9	Legislative Scrutiny of Gender Impacts of the Budget	M2	D	NA	D

GRPFM-1: Gender Impact Analysis of Budget Policy Proposals

Summary of scores

GRPFM-1 (M1)	Indicator/Dimension	Score 2021	Justification for 2021 score
	Gender Impact Analysis of Budget Policy Proposals	D	
	1.1 Gender impact analysis of expenditure policy proposals	D	The Lviv City Government does not analyse proposed changes to expenditure policies with gender impact.
	1.2 Gender impact analysis of revenue policy proposals	D	The Lviv City Government does not analyse proposed changes of revenue policies with gender impact.

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-15 Fiscal strategy

PI-15.1 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 Lviv City Government does not analyse proposed changes in expenditure policies with gender impact. Gender-responsive PFM, 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

The Lviv City Government does not analyse proposed changes of revenue policies with gender impact. Changes to revenue policy proposals affect budget implementation, with consequences on gender (male and female) and the vulnerable in society. For instance, if a local government's population has less females than males but changes to revenue policies are likely to negatively affect the revenue generation stream of the female population, then the government ought to critically analyse the effect of these changes and how they would impact budget implementation.

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
Gender-responsive Public Investment Management		D	
2.1 Gender-responsive public investment management		D	The Lviv City Government does not analyse the impact of major public investment projects on gender as part of the economic analysis 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 an 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

The Lviv City Government does not analyse the impact of major public investment projects on gender as part of the economic analyses of investment proposals. Good practice suggests that public investment management analysis should consider gender implications of capital investment projects.

A gender-responsive public investment management would bring to the fore the need, for example, to build more places of convenience for females compared to males. This is so because females naturally spend more time in places of convenience than their male counterparts.

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
	Gender-responsive Budget Circular	D	
	3.1 Gender-responsive Budget Circular	D	The Lviv City Government budget circular for FY2021 does not require key spending units to provide information on gender impact of budget policies.

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

GRFM–3.1 Gender-responsive budget circular

The annual budget circular issued by the City Government Finance Office for FY2021 does not require each key spending unit to provide information on the gender impact of their budget policies. There is also no requirement to analyse sex-disaggregated data on planned outputs and outcomes for service delivery.

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
	Gender-responsive budget proposal documentation	D	
	4.1 Gender-responsive budget proposal documentation	D	The Lviv City Government’s medium-term strategic document as well as the annual budget documentation do not provide an overview of its policy priorities for improving gender equality. Also, 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 Lviv City Government’s medium-term strategic document as well as the annual budget documentation do not provide an overview of its policy priorities for improving gender equality. Also, 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
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Sex-Disaggregated Performance Information for Service Delivery	D	
5.1 Sex disaggregated performance plans for service delivery	D	Key spending units under the City Government of Lviv publish information on performance plans for service delivery, but the information does not include sex-disaggregated data on planned outputs for service delivery or a framework of performance indicators in relation to service delivery outputs or outcomes.
5.2 Sex-disaggregated performance achieved for service delivery	D	Key spending units publish the performance achieved for service delivery, but at this stage, the information is not disaggregated according to sex.

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 the 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

Key spending units under the City Government of Lviv publish information on performance plans for service delivery, but the information does not include sex-disaggregated data on planned outputs for service delivery or a framework of performance indicators in relation to service delivery outputs or outcomes.

The score for this dimension is D.

GRPFM-5.2 Sex-disaggregated performance achieved for service delivery

Key spending units publish the performance achieved for service delivery but at this stage, the information is not disaggregated according to sex.

The score for this dimension is D.

GRPFM–6 Tracking Budget Expenditure for Gender Equality

Summary of scores

GRPFM-6	Indicator/Dimension	Score 2021	Justification for 2021 score
	Tracking Budget Expenditure for Gender Equality	D	
6.1	Tracking Budget Expenditure for Gender Equality	D	There is no tracking of budget expenditures for gender equality.

Guiding question

Does the government have the capacity to track gender equality–related expenditures?

Description

This indicator measures the government’s capacity to track expenditures 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 central government

Time period

Last completed fiscal year

GRPFM–6.1 Tracking budget expenditure for gender equality

There is currently no tracking of budget expenditures for gender equality. This is mainly due to the fact that budget proposals of key spending units are not allocated according to gender. At the same time, the Chart of Accounts (CoA) has the capacity to track expenditure based on economic, administrative, functional and program classifications, as well as the possibility to track expenditures according to gender.

The score for this dimension is D.

GRPFM–7 Gender-responsive Reporting

Summary of scores

GRPFM-7	Indicator/Dimension	Score 2021	Justification for 2021 score
	Gender-responsive government annual reports	D	
7.1	Gender-responsive government annual reports	D	The Lviv City Government publishes annual financial reports but the reports do not include specific gender-

		related expenditures. The reports also do not include the impact of budget policies on gender equality.
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Guiding question

Do the government's published annual reports include information on gender-related expenditures 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 expenditures 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 Lviv City Government publishes annual financial reports, but the reports do not include specific gender-related expenditures. The reports also do not include the impact of budget policies on gender equality, sex-disaggregated data on sub-national government employment budget, and an assessment of the implementation of budget policies and their impact on gender equality.

The score for this dimension is D.

GRPFM-8 Evaluation of Gender Impacts of Service Delivery

Summary of scores

GRPFM-8	Indicator/Dimension	Score 2021	Justification for 2021 score
	Evaluation of gender impacts of service delivery	D	
	8.1 Evaluation of gender impacts of service delivery	D	Key spending units under the Lviv City Government conduct and publish evaluations of the effectiveness and efficiency of their service delivery performance. However, the evaluations do not include an assessment of gender impacts of service delivery.

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 of service delivery

Coverage

Sub-national government

Time period

Last three completed fiscal years

GRPFM–8.1 Evaluation of gender impacts of service delivery

Key spending units under the Lviv City Government conduct and publish evaluations of the effectiveness and efficiency of their service delivery performance. However, the evaluations do not include an assessment of gender impacts of service delivery.

The score for this dimension is D.

GRPFM–9 Legislative Scrutiny of Gender Impacts of the Budget

Summary of scores

GRPFM-9	Indicator/Dimension	Score 2021	Justification for 2021 score
	Legislative Scrutiny of Gender Impacts of the Budget	D	
	9.1 Gender-responsive legislative scrutiny of budgets	D	There is no review of gender impacts of service delivery programmes. The budget proposals submitted to the City Council have no specific gender-related expenditure policies and proposals.
	9.2 Gender-responsive legislative scrutiny of audit reports	NA	This dimension is not applicable; external audit reports are not submitted to the City Council (local parliament).

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

GRPFM–9.1 Gender-responsive legislative scrutiny of budgets

There is no review of gender impacts of service delivery programmes. The budget proposals submitted to the City Council have no specific gender-related expenditure policies and proposals. There is no specific standing committee on gender at the City Council. There are, however, female representatives in each of the standing committees. The main sectoral standing committees include: (i) education and science committee, (ii) health and social protection committee, (iii) transport, communications and urban mobility committee, (iv) urban infrastructure, engineering and housing committee.

The score for this dimension is D.

GRPFM–9.2 Gender-responsive legislative scrutiny of audit reports

This dimension is not applicable; external audit reports are not submitted to the City Council (local parliament).

The score for this dimension is NA.

Annex 5.3 Summary of performance indicators for the GRPFM assessment

No.	Indicator/Dimension	Score 2021	Justification/Description of requirement met
GRPFM-1	Gender impact analysis of budget policy proposals	D	
1.1	Gender impact analysis of expenditure policy proposals	D	The Lviv City Government does not analyse proposed changes to expenditure policies with gender impact.
1.2	Gender impact analysis of revenue policy proposals	D	The Lviv City Government does not analyse proposed changes of revenue policies with gender impact.
GRPFM-2	Gender-responsive public investment management	D	
2.1	Gender-responsive public investment management	D	The Lviv City Government does not analyse the impact of major public investment projects on gender as part of the economic analyses of investment proposals.
GRPFM-3	Gender-responsive budget circular	D	
3.1	Gender-responsive budget circular	D	The Lviv City Government budget circular for FY2021 does not require key spending units to provide information on gender impact of budget policies.
GRPFM-4	Gender-responsive budget proposal documentation	D	
4.1	Gender-responsive budget proposal documentation	D	The Lviv City Government's medium-term strategic document as well as the annual budget documentation do not provide an overview of its policy priorities for improving gender equality. Also,

			there are no details of budget measures aimed at strengthening gender equality, nor an assessment of the impacts of budget policies on gender equality.
GRPFM-5	Sex-disaggregated performance information for service delivery	D	
5.1	Sex-disaggregated performance plans for service delivery	D	Key spending units under the City Government of Lviv publish information on performance plans for service delivery, but the information does not include sex-disaggregated data on planned outputs for service delivery or a framework of performance indicators in relation to service delivery outputs or outcomes.
5.2	Sex-disaggregated performance achieved for service delivery	D	Key spending units publish the performance achieved for service delivery but at this stage, the information is not disaggregated according to sex.
GRPFM-6	Tracking budget expenditure for gender equality	D	
6.1	Tracking budget expenditure for gender equality	D	There is no tracking of budget expenditures for gender equality.
GRPFM-7	Gender-informative annual financial reports	D	
7.1	Gender-informative annual financial reports	D	The Lviv City Government publishes annual financial reports, but the reports do not include specific gender-related expenditures. The reports also do not include the impact of budget policies on gender equality.
GRPFM-8	Evaluation of impacts of service delivery on gender equality	D	
8.1	Evaluation of impacts of service delivery on gender equality	D	Key spending units under the Lviv City Government conduct and publish evaluations of the effectiveness and efficiency of their service delivery performance. However, the evaluations do not include an assessment of gender impacts of service delivery.
GRPFM-9	Gender-responsive legislative scrutiny	D	
9.1	Gender-responsive legislative scrutiny of budgets	D	There is no review of gender impacts of service delivery programmes. The budget proposals submitted to the City Council have no specific gender-related expenditure policies and proposals.
9.2	Gender-responsive legislative scrutiny of audit reports	NA	This dimension is not applicable; external audit reports are not submitted to the City Council (local parliament).

Annex 5.4 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; sampled feasibility studies on selected public investment projects

GRPFM-3	Gender-responsive budget circular	Budget guideline (circular or instruction) for FY2020 and FY2021; interview with government officials
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	Performance evaluation reports of key spending units; interview with city government officials
GRPFM-6	Tracking budget expenditure for gender equality	Chart of Accounts; City Treasury reports FY2020; interview with city government officials
GRPFM-7	Gender-informative annual financial reports	Chart of Accounts; City Treasury reports; Annual Financial Statements for FY2020; interview with city government officials
GRPFM-8	Evaluation of impacts of service delivery on gender equality	Performance evaluation reports of key spending units; interview with city government officials
GRPFM-9	Gender-responsive legislative scrutiny	Interview with city legislators; budget documentation FY2020

Annex 5.5 Comparison of SNG PEFA Scores with GRPFM Scores

No.	PEFA Indicator/Dimension	Score 2021	No.	GRPFM Indicator/Dimension	Score 2021
SNG Pillar: Intergovernmental fiscal relations					
HLG-1	Transfer from higher levels of government	D+			
1.1	Outturn of transfers from higher levels of government	D			
1.2	Transfers composition outturn	D			
1.3	Timeliness of transfers from higher levels of government	A			
1.4	Predictability of transfers	D			
HLG-2	Fiscal rules and monitoring of fiscal position	A			
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			
Pillar I: Budget reliability					
PI-1	Aggregate expenditure outturn	B			
PI-2	Expenditure composition outturn	D+			
2.1	Expenditure composition by function	D			
2.2	Expenditure composition by economic type	D			
2.3	Expenditure from contingency	A			
PI-3	Revenue outturn	C+			
3.1	Aggregate revenue outturn	C			
3.2	Revenue composition variance	B			
Pillar II: Transparency of public finances					
PI-4	Budget classification	D	GRPFM-6	Tracking Budget Expenditure for Gender Equality	D
PI-5	Budget documentation	D	GRPFM-4	Gender-responsive Budget Documentation (and PI-9 below)	D
PI-6	Central government operations outside the budget	A			
6.1	Expenditure outside financial reports	A			
6.2	Revenue outside financial reports	B			
6.3	Financial reports of extra-budgetary units	A			
PI-7	Transfers to sub-national government	NA		Not Applicable	
7.1	System for allocating transfers	NA		Not Applicable	
7.2	Timeliness of information on transfers	NA		Not Applicable	
PI-8	Performance information for service delivery	B+	GRPFM-5	Sex-disaggregated Data	D

No.	PEFA Indicator/Dimension	Score 2021	No.	GRPFM Indicator/Dimension	Score 2021
8.1	Performance plans for service delivery	B	5.1	Sex disaggregated performance plans for service delivery	D
8.2	Performance achieved for service delivery	B	5.2	Sex-disaggregated performance achieved for service delivery	D
8.3	Resources received by service delivery units	A			
8.4	Performance evaluation of service delivery	B	GRPFM-8	Evaluation of impacts of service delivery on gender equality	D
PI-9	Public access to fiscal information	A	GRPFM-4	Gender-responsive Budget Documentation (and PI-5 above) GRPFM-7. Gender-informative Annual Financial Reports (and PI-29 below)	D
PI-9bis	Public consultation	D+			
9bis.1	Public consultation in budget preparation	C			
9bis.2	Public consultation in the design of service delivery programs	C			
9bis.3	Public consultation in investment planning	D			
Pillar III: Management of assets and liabilities					
PI-10	Fiscal risk reporting	B			
10.1	Monitoring of public corporations	B			
10.2	Monitoring of sub-national governments	NA			
10.3	Contingent liabilities and other fiscal risks	NA			
PI-11	Public investment management	C	GRPFM-2	Gender Impact Analysis of Investment Projects	D
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	C			
PI-12	Public asset management	B			
12.1	Financial asset monitoring	C			
12.2	Non-financial asset monitoring	C			
12.3	Transparency of asset disposal	A			
PI-13	Debt management	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			
Pillar IV: Policy based fiscal strategy and budgeting					
PI-14	Medium-term budget strategy	D			
14.1	Underlying forecasts for medium-term budget	C			
14.2	Fiscal impact of policy proposals	D	GRPFM-1	Gender Impact Analysis of Budget Policy Proposals	D
14.3	Medium-term expenditure and revenue estimates	D			
14.4	Consistency of budget with previous year's estimates	D			
PI-17	Budget preparation process	C+	GRPFM-3	Gender-responsive Budget Circular	D
17.1	Budget calendar	B			
17.2	Guidance on budget preparation	C			
17.3	Budget submission to the legislature	C			
PI-18	Legislative scrutiny of budgets	C+	GRPFM-9	Gender-responsive Legislative Scrutiny (and PI-31 below)	D
18.1	Scope of budget scrutiny	C			

No.	PEFA Indicator/Dimension	Score 2021	No.	GRPFM Indicator/Dimension	Score 2021
18.2	Legislature procedures budget scrutiny	B			
18.3	Timing of budget approval	A			
18.4	Rules for budget adjustment by the executive	B			
Pillar V: Predictability and control in budget execution					
PI-19	Tax administration	NA			
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			
PI-20	Accounting for revenues	A			
20.1	Information on revenue collections	A			
20.2	Transfer of revenue collections	A			
20.3	Tax account reconciliation	NA			
PI-21	Predictability of in-year resource allocation	B			
21.1	Consolidation of cash balances	A			
21.2	Cash forecasting and monitoring	C			
21.3	Information on commitment ceilings	A			
21.4	Significance of in-year budget adjustments	C			
PI-22	Expenditure arrears	A			
22.1	Stock of expenditure arrears	A			
22.2	Expenditure arrears monitoring	A			
PI-23	Payroll controls	B+			
23.1	Integration of payroll and personnel records	B			
23.2	Management of payroll changes	A			
23.3	Internal controls of payroll	B			
23.4	Payroll audits	B			
PI-24	Procurement	A			
24.1	Procurement monitoring	A			
24.2	Procurement methods	C			
24.3	Public access to procurement information	A			
24.4	Procurement complaints management	B			
PI-25	Internal controls on non-salary expenditure	B+			
25.1	Segregation of duties	A			
25.2	Effectiveness of expenditure commitment controls	C			
25.3	Compliance with payment controls	A			
PI-26	Internal audit	D+			
26.1	Coverage of the internal audit	D			
26.2	Nature of audits and standards applied	C			
26.3	Implementation of internal audits and reporting	A			
26.4	Response to internal audits	A			
Pillar VI: Accounting and reporting					
PI-27	Financial data integrity	A			
27.1	Bank account reconciliation	A			
27.2	Suspense accounts	NA			
27.3	Advance accounts	A			
27.4	Financial data integrity process	B			
PI-28	In-year budget reports	D+			
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			

No.	PEFA Indicator/Dimension	Score 2021	No.	GRPFM Indicator/Dimension	Score 2021
PI-29	Annual financial reports	D+	GRPFM-7	Gender-informative Annual Financial Reports (and PI-9 above)	D
29.1	Completeness of annual financial reports	D			
29.2	Submission of reports for external audit	D			
29.3	Accounting standards	B			
Pillar VII: External scrutiny and audit					
PI-30	External audit	D			
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			
PI-31	Legislative scrutiny of audit reports	D	GRPFM-9	Gender-responsive Legislative Scrutiny (and PI-18 above)	D
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

As part of the central government decentralisation agenda, some important public services have been transferred to the local government for purposes of improving efficiency and accessibility. The transfer of these services has led to a massive transfer of resources and responsibilities, which then requires a significant improvement in transparency and accountability. Therefore, as part of this main PEFA assessment, Swiss SECO, the State Government and the City Government of Lviv agreed to conduct a service delivery assessment to ascertain the level of impact of PFM on primary 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 "Guidance for SNG PEFA Assessment: Service Delivery Module" dated October 2020 was used. The methodology for assessing service delivery involved the use of standard guidance questionnaires provided by the PEFA Secretariat across the lines of the 2016 PEFA performance indicators. This assessment focused on only education and health sectors with the selection of primary school and hospital, followed by further discussions with Departments of Education and Health under the Lviv City Government. Although this sample size was not representative enough, the story lines were the same across SDUs visited. This limitation in sample size was as a result of the limited number of days to cover a large number of SDUs, as well as the health implications of the COVID-19 pandemic and the imposition of restrictions to certain public institutions. The fieldwork was conducted at the same time with the main PEFA assessment. Some data/information gathered during the main PEFA assessment was used; as required by the Service Delivery Module, additional information was gathered through the supplementary questions in the Module.

Findings of the Service Delivery assessment are provided in the table below.

Table A-6.1: Service delivery assessment findings

Indicator/dimension	Brief explanation
SUB-NATIONAL PILLAR: INTERGOVERNMENTAL FISCAL RELATIONS	

Indicator/dimension	Brief explanation
HLG-1: Transfer from higher-levels of government	Lviv City Council received subventions from the state and oblast budgets for education, healthcare, implementation of social programs, road subvention. 91.6% of subventions are received to finance educational and healthcare programs, including capital repair and subventions to fight the COVID-19 pandemic. In spite of the poor performance of HLG-1.4 which assesses the predictability of transfers from higher levels of government in the main PEFA, there was no impact on service delivery, mainly due to the fact that actual transfers were timely irrespective of the unpredictability. Actual transfers were adequate to meet expenditure requirements of approved service delivery programs.
HLG-2: Fiscal rules and monitoring of fiscal position	No direct impact on service delivery.
PILLAR I: BUDGET RELIABILITY	
PI – 1 Aggregate expenditure outturn	Aggregate expenditure outturns were satisfactory, with PI-1 in the main report rated ‘B’ except for the large deviation in FY2018 at 49.4%, otherwise deviations for FY2019, and FY2020 were within 10% of the original budget. As service delivery is the primary focus of the sub-national government, funds allocated to SDUs are protected to ensure continuity in service provision. The budget funding of SDUs is timely, with no negative impact on service delivery.
PI – 2 Expenditure composition outturn	
PI – 2.1 Expenditure composition outturn by function	<p>Deviations from the originally approved budget were revealed (Please, see PI-2.1 above which was rated ‘D’ – meaning above 15%). This is due to the fact that during the year, budget institutions or the city budget received additional revenues for the provision of services, which led to an increase in budget allocations during the year. Healthcare expenditure deviation was 25.9% in FY2018, 6% in FY2019, and 27.2% in FY2020; education expenditure deviation was 26.1%, 1.6% and 5.7% in FY2018, FY2019, FY2020 respectively; and social protection expenditure deviation was 3.7% in FY2018, 32.4% in FY2019 and 0.2% in FY2020.</p> <p>However, the deviations do not affect the provision of primary services because education institutions made expenditures almost at the originally approved level and healthcare institutions generally received more money than it was estimated in the original budget. In case the CG provides lower amounts of transfers than anticipated,</p>

Indicator/dimension	Brief explanation
	<p>healthcare SDUs may then trigger the bank overdraft arrangement but with approval of the City Government. As at the time of this assessment, this overdraft arrangement has not been utilised.</p> <p>When it comes to social protection programs (2018-2019), it depends on the number of recipients and budgetary funds might change during the year; also, the city budget received social protection subventions in 2018 after it was approved. The good news, however, is that service delivery programs that are to be funded have already been predetermined and agreed upon by the state government with the City Government, so that funding goes directly to those services. The only different situation was in FY2020, due to the COVID-19 pandemic, when the city received additional subventions to fight it.</p>
PI – 2.2 Expenditure composition outturn by economic type	<p>There is the same scenario of the service delivery module, described under PI-2.1 above. Additionally, variation between economic categories of expenditure is high (above 15%, hence PI-2.2 was rated 'D') and this affects the provision of service delivery. In particular, additional funding and budget allocations in education are aimed at wages, utilities, scholarships, and capital expenditures. The latter are not originally budgeted for, and therefore cause huge expenditure composition outturns. The largest deviation was observed in budget programs in the healthcare sector, such as “Multi-profile inpatient medical care for the population” (as a result of the COVID-19 pandemic) and “Centralised measures for the treatment of patients with diabetes and diabetes insipidus”.</p>
PI – 2.3 Expenditure from contingency reserves	<p>Expenditures from contingency reserves help SDUs to provide services at the planned level. This occurred in FY2020, due the necessity to fight COVID-19 pandemic by healthcare institutions (UAH 65.1 million).³⁸ In FY2018-2019, educational institutions received funds from contingency reserves to carry out urgent emergency recovery work at the elements of their buildings.³⁹ This improved service delivery as planned.</p>
PI-3- Revenue outturn	
PI – 3.1 Aggregate revenue outturn	

³⁸ Example: [https://www8.city-adm.lviv.ua/Pool/Info/doclmr_1.NSF/\(SearchForWeb\)/761572318168E5DCC22585840026A46A?OpenDocument](https://www8.city-adm.lviv.ua/Pool/Info/doclmr_1.NSF/(SearchForWeb)/761572318168E5DCC22585840026A46A?OpenDocument)

³⁹ Example: [https://www8.city-adm.lviv.ua/Pool/Info/doclmr_1.NSF/\(SearchForWeb\)/8470C8037A7C75DCC22584660041E4C5?OpenDocument](https://www8.city-adm.lviv.ua/Pool/Info/doclmr_1.NSF/(SearchForWeb)/8470C8037A7C75DCC22584660041E4C5?OpenDocument)

Indicator/dimension	Brief explanation
PI – 3.2 Revenue composition outturn	<p>Healthcare and educational institutions forecast own revenues only (6.5% of total healthcare institutions revenues, and 3.6% of total preschool, school, and vocational and technical education institutions in 2020), which usually exceed the plan and always cover the cost of services.</p> <p>Those institutions also prepare a forecast of expenditures supported from local budget. The Department of Education of the Lviv City Council provides educational institutions with a forecast of revenues from the local budget (64.4% of total preschool, school and vocational and technical education institutions in 2020). The Healthcare Department of the Lviv City Council provides healthcare institutions with a forecast of revenues from the local budget (20.5% of total healthcare institutions revenues in 2020) and subventions for insulin reimbursement (1.6%). The Ministry of Health (National Health Service) provides healthcare institutions with a forecast of revenues from the state budget (based on the number of patients with whom service contracts have been concluded; on tariffs, on the total number of bed-days and treated patients). The share of those revenues was 71.4% of total healthcare revenues in 2020.</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>
PILLAR II: TRANSPARENCY OF PUBLIC FINANCES	
PI – 4 Budget classification	Each healthcare and educational institution prepares a plan to use budget funds and reports about its execution based on administrative, program, function and economic classifications. They submit plans and reports to the Ministry of Health (National Health Service), respectively to the Healthcare and the Education Department of the Lviv City Council and to the Treasury. The budget classifications follow the City Government’s classifications.
PI – 5 Budget documentation	The explanatory note to the annual budget does not state or estimate budget implications of changes in revenues and/or expenditure policies.
PI – 6 Sub-national government operations outside financial reports	
PI – 6.1 Expenditure outside financial reports	

Indicator/dimension	Brief explanation
PI – 6.2 Revenue outside financial reports	The ratio of extra-budgetary expenditures and revenues of healthcare institutions to total City Government expenditures was 0.84% and 1.7% respectively for FY2020. These expenditures are not included in the budget and financial reports of the City Government. Educational institutions do not have operations outside financial reports. When they receive revenues in-kind, those revenues are reported in the Lviv City 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 the National Public Sector Accounting 101 "Submission of financial statements" and the Resolution of the Cabinet of Ministers of Ukraine Order No. 419 dated 28 February 2000. 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 Resolution of the Cabinet of Ministers of 28 February 2000 No. 419 to the Healthcare and Education Department of the Lviv City Council, as well as to 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>
PI – 7. Transfers to sub-national governments	
PI-7.1 Transfer distribution system	This dimension is not applicable, as there is no first-tier lower-level government.
PI-7.2 Timeliness of transfer information	This dimension is not applicable, as there is no first-tier lower-level government.
PI – 8. Performance information for service delivery	
PI – 8. 1 Performance plans for service delivery	SDUs budget programs contain the following outputs: for educational institutions - the average annual number of students and the cost per student (all programs are in the local budget); for medical institutions - the number of patients treated by type of disease and the average cost of the service; the number of primary care doctors and persons receiving their services (in the budget programs of the state budget); energy consumption volumes and their

Indicator/dimension	Brief explanation
	<p>cost; the number of pieces of equipment and their cost (in the budget programs of the local budget). Outcomes are not established. Indicators aligned with the strategy.</p> <p>Performance indicators are largely influenced by national policies since they depend on the state budget financing (through the state budget programs and the relevant subventions, see also PI-3).</p> <p>Performance plans are tied to HLG sectorial strategies.</p>
PI – 8.2 Performance achieved for service delivery	<p>Performance indicators are usually achieved. The National Health Service of Ukraine (NHSU), the Department of Education and the Healthcare Department prepare and publish annual reports on budget program passports execution.</p> <p>The Department of Education and the Healthcare Department prepare and publish consolidated reports that show the level of performance of service delivery in SDUs.</p>
PI – 8. 3 Resources received by service delivery units	<p>Information on resources (in-cash and in-kind) received by schools and clinics is reflected in the financial reports: the Department of Education – budget reporting, and hospitals and clinics – in the financial statements, as well as management reports submitted to the Healthcare Department.</p>
PI – 8. 4 Performance evaluation of service delivery	<p>There has been no independent evaluation of effectiveness in education and health.</p>
PI – 9. Public access to fiscal information	<p>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 trends must be approved by the local council. Based on the law dated January 13, 2011, No. 2939 “On the access to public information”, the local council must make available its draft decision to the public. Such draft decisions are published on the Lviv City Council website.</p> <p>The city of Lviv publishes information on local services funded from all sources on its website “Lviv catalogue”: https://city-adm.lviv.ua/portal/catalog.</p>

Indicator/dimension	Brief explanation
PI.9bis. Public consultation	
PI – 9bis.1 Public consultation in budget preparation	No direct impact foreseen.
PI – 9bis.2 Public consultation in the design of service delivery programs	The Lviv City Council organized a public consultation to identify the needs of citizens, civil society organizations, and other stakeholders through an online e-mechanism https://petition.e-dem.ua/lviv/ . The public appeal is often approved by the City Council and implemented by the Executive Committee.
PI – 9bis.3 Public consultation in investment planning	Public consultations are not conducted during the investment projects preparation process based on the key results of the economic analysis.
PILLAR III: MANAGEMENT OF ASSETS AND LIABILITIES	
PI – 10 Fiscal risk reporting	
PI – 10.1 Monitoring of public corporations	According to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" dated 16 July.1999 No.996, public enterprises prepare financial statements and submit them in due time (by the 25 th day of the month following the reporting quarter, and by February 28 of the year following the reporting year) to the State Statistics Service and the State Tax Service. However, if these enterprises are not recognized as large or medium (in terms of income and asset value or number of employees), they are not subject to audit. The services provided by City Government enterprises include energy/electricity, water and sanitation, and transport. These enterprises operate as commercial entities with a profit motive; the revenue generated from these activities is used to fund their operations.
PI – 10.2 Monitoring of sub-national governments	Not applicable.
PI – 10.3 Contingent liabilities and other fiscal risks	Not applicable.
Public investment management	
PI – 11.1 Economic analysis of investment proposals	The economic analysis of the SD-related investment projects has not been conducted.

Indicator/dimension	Brief explanation
PI – 11.2 Investment project selection	There are no criteria to prioritize and select SD–related investment projects. Investment projects are prioritized based on city strategic documents. Thus, SD–related investment projects included in the local budget are aligned with sectoral needs and priorities.
PI – 11.3 Investment project costing	The costing of investment projects is done only on the basis of total capital cost together with a three-year spending projection. There is no further recurrent cost projection associated to the investment project.
PI – 11.4 Investment project monitoring	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.
PI – 12 Public asset management	
PI – 12.1 Financial asset monitoring	No direct impact foreseen.
PI – 12.2 Nonfinancial asset monitoring	<p>The healthcare institutions visited maintain comprehensive 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 is reflected in the notes to the annual financial statements.</p> <p>The centralised Accounting Department of Education is responsible for the accounting of schools’ non-financial assets. At the same time, the schools also account for fixed assets in their possession in order to monitor the condition and use of these assets. The land register is not the responsibility of the primary service provider, but of the regional government.</p>
PI – 12.3 Transparency of asset disposal	As of the time of this assessment, disposal and/or transfer has been done in an insignificant amount. According to the reports on the implementation of the financial plan, five health care institutions received income from the sale of tangible assets totalling only 40 thousand hryvnia (the equivalent of about 1.5 thousand US dollars). That said, the disposal and transfer of fixed assets in schools and healthcare facilities is only possible with the consent of the

Indicator/dimension	Brief explanation
	Department of Education and the Healthcare Department respectively. Such disposals and transfers are done in accordance with established laws and procedures.
PI – 13 Debt management	
PI – 13.1 Recording and reporting of debt and guarantees	Schools are not allowed to borrow. Healthcare institutions can secure a short-term bank overdraft for operational purposes but with the approval of the City Government. In practice, Lviv healthcare institutions do not use such a mechanism, but could use in case of any issues with the cash unavailability.
PI – 13.2 Approval of debt and guarantees	
PI – 13.3 Debt management strategy	
PILLAR IV: POLICY-BASED FISCAL STRATEGY AND BUDGETING	
PI-14. Medium-term budget strategy	
PI-14.1 Underlying forecasts for medium-term budget	Strategic plans contain program targets for education and health. These strategies are aligned to the national strategy. However, the strategies are not costed. The City Government does not estimate the fiscal impact of policy proposals in general, and specifically for education and health. The City Government’s medium-term budget makes provisions for service delivery programs for the budget year and the two outer years. That said, SDUs do not prepare medium-term estimates.
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	
PI-17: Budget preparation process	
PI – 17.1 Budget calendar	The annual budget calendar specifies roles and contributions to the annual budget preparation process by SD key spending units (Healthcare Department, Department of Education). Those departments establish deadlines of activities for relevant SD institutions.
PI-17.2 Guidance on budget preparation	
PI-17.3 Submission of the budget to the legislature	

Indicator/dimension	Brief explanation
	<p>The budget process is decentralised from line departments to SD units. Each SD unit provides the relevant information needed to complete the budget request, such as expenditure forecast calculation, performance information, etc.</p> <p>Annual budget ceilings are issued at the department level and identify expenditures for the programs financed through the subventions from the state budget. The Healthcare Department and Department of Education allocate ceilings between budget programs based on norms provided by Financial Policy Department.</p> <p>SDUs prepare individual operational plans and budgets. The relevant department provides SDUs with information about expenditure ceilings which is the basis of their planning. SDUs know their results and output targets, since they take part in budget requests preparation.</p> <p>SDUs receive information of their budget allocations in January of the new fiscal year.</p>
PI-18 Legislative scrutiny of budget	
PI-18.1 Scope of budget scrutiny	As service delivery is crucial, the Lviv City Council devotes a significant amount of time during the budget review process to ensure that planned service delivery programs are realistic with the appropriate budget. The Council scrutinizes the previous year's performance and ascertains reasons for deviations, if any.
PI-18.2 Legislative procedure for budget scrutiny	No direct impact foreseen.
PI-18.3 Timing of budget approvals	During the assessment period, the City Government's budget has always been approved by the City Council on time (in December) before the start of the new fiscal year. SDUs receive information of their allocations in January, which is within a month after the previous year. Officials say there is no significant impact in terms of SD activities.
PI-18.4 Rules for budget adjustments	The executive has made budget adjustments to expenditures targeted by SD programs by increasing transfers from the central government. Performance plans have been regularly reviewed and adjusted accordingly. There are no limits to in-year budget adjustments; this is a concern as it has the potential to affect planned SD activities.
PILLAR V: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION	

Indicator/dimension	Brief explanation
PI-19 Tax administration	The main SDU's own revenue streams are payments for the services provided. They are paid directly to the relevant SDU's bank account; the own revenues cover critical aspects of SDUs programs. SD institutions determine tariffs for the service delivery based on the city's legislation.
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	
PI-20 Accounting for revenue	Educational institutions prepare monthly reports, which include own revenues, and submit them to the Treasury. The Treasury then consolidates all revenues, including own revenues of educational institutions. Healthcare institutions are allowed to keep their own revenues for operational purposes. The Budget Code of Ukraine (BCU) allows SDUs to open their own bank accounts to collect own revenues; these bank accounts are in addition to Treasury bank accounts through which budget funds are transferred. The State Audit Service conducts an audit of own revenues and expenditures during their routine audits. It helps in improving service delivery due to the implementation of recommendations.
PI-20.1 Information on revenue collections	
PI-20.2 Transfer of revenue collections	
PI-20.3 Tax accounts reconciliations	
PI – 21 Predictability of in-year resource allocation	
PI – 21.1 Consolidation of cash balances	There were no cases of critical underfunding or cash shortages as of the time of this assessment. The monthly cashflow forecast forms an integral part of the budget management framework; it serves as a tool for ascertaining the funding needs of educational and healthcare institutions. SDUs prepare annual cash flow plans based on estimates, issued by the city government level. A daily analysis of cash inflows and outflows helps to ensure that cash is properly managed and allocated to the needs of SDUs. In practice, shortfalls in a particular month's cash allocation are rolled over to the following months. The adjustment of the budget during the year is carried out in such a way that the SDUs funds are not reduced but relate to an increase in the SDUs funds.
PI – 21.2 Cash forecasting and monitoring	
PI – 21.3 Information on commitment ceilings	
PI – 21.4 Significance of in-year budget adjustments	

Indicator/dimension	Brief explanation
PI – 22 Expenditure arrears	
PI – 22.1 Stock of expenditure arrears	There were no expenditure arrears of budget institutions of the Lviv City Government as of 31 December 2020. There is, however, a short-term bank overdraft for healthcare facilities, repayable within a month. Accounting for liabilities of educational institutions is carried out by territorial bodies of the State Treasury Service of Ukraine in accordance with Order No.309 of the Ministry of Finance of Ukraine dated 2 March 2012 “Procedure for registration and accounting of budgetary obligations”. Debt control of healthcare institutions is carried out by the head of the institution in order to effectively manage the resources of the enterprise. SDUs submit monthly financial reports to their supervisory budget units; the reports contain information on arrears – balances are zero.
PI – 22.2 Expenditure arrears monitoring	
PI – 23 Payroll controls	
PI – 23.1 Integration of payroll and personnel records	The City Mayor appoints only the heads of SD institutions. SDUs are able to hire (temporarily) other staff without approval from the SNG.
PI – 23.2 Management of payroll changes	Newly appointed staff receive salary and other payments by schedule with existed staff. Newly appointed staff might receive a lower amount because he/she was appointed after the month began.
PI – 23.3 Internal control of payroll	
PI – 23.4 Payroll audit	<p>The staff payment structure includes salary, overtime and allowances. It helps incentivize staff to perform better.</p> <p>Only authorized persons (accountants) enter payroll data (new positions, changes, variable benefits, and deductions) to the payroll system. Changes are properly authorized and approved by the head of SDU. The Head of SD institution has access to review the payroll data.</p> <p>The Financial Policy Department and the Financial Control Department conduct payroll audits constantly, including audits in educational and healthcare institutions. In June 2021, the State Audit Service (SAS) undertook a comprehensive payroll audit of the Lviv City Government covering the period FY2017-FY2020. The audit included payroll audit in educational and healthcare institutions. The Labour Inspectorate conducts periodic checks in educational and healthcare institutions to ensure data accuracy and integrity.</p>

Indicator/dimension	Brief explanation
PI – 24 Procurement	
PI – 24.1 Procurement monitoring	Healthcare and educational institutions are responsible for all procurements financed by the city budget or from their own revenues. Each institution prepares and publishes detailed procurement plans on the centralised procurement database "Prozorro." The plan contains the procurement subject and its estimated value. All institutions have full access to "Prozorro" and record all their procurement operations properly. Thus, there is a complete oversight of either the provider or the price of goods.
PI – 24.2 Procurement methods	<p>With regards to the value of procurement operations of the municipal education sector (UAH 916.7 million), 63.8% of procurement operations followed competitive methods in FY2020. UAH 73.3 million, or 8% of total procurements were made by negotiations procedure due to procurement of services for heat supply, water supply, electricity, suppliers of which as a rule, are monopolists.</p> <p>For the health sector (total procurements were UAH 968,1 million), 60.9% of procurement operations followed competitive methods in FY2020. Urgent purchasing of medicines and equipment directly by health centres and hospitals is explained, especially for fighting COVID-19. Such procurements were UAH25.2million of total procurements, or 64.4% of all non-competitive procurements in FY2020.</p>
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 of educational and healthcare institutions in 2020, under which complaints were considered by the Antimonopoly Committee, the State Audit Service and customers, amounted to UAH 230.1 million, of which a violation was identified and eliminated for UAH 176.1 thousand, which is 4.8% of total spending on education and health. This was managed and resolved within the stipulated timeframe in accordance with the law, and therefore did not affect the provision of primary service.
PI – 25 Internal control on non-salary expenditures	
PI-25.1 Segregation of duties	

Indicator/dimension	Brief explanation
PI-25.2 Effectiveness of expenditure commitment control	The expenditure payment process required that each payment invoice and payment order must be signed by the head and chief accountant (and, in their absence, by persons agreed with the territorial body of the State Treasury). There were no cases of making payments outside the system or without following the established procedures for the use of budget funds. Territorial bodies of the State Treasury Service are an additional body for controlling current expenditures. Compliance with payment rules and procedures is high. Only authorized personnel have access to financial records; the entry into the financial management software of SDU is passworded. The head of SDU has view and approval access to all transactions.
PI-25.3 Compliance with payment rules and procedures	
PI-26 Internal audit	The Financial Control Department of the Lviv City Government conducts internal audits, even though it is not independent. The internal audits cover the service delivery units. Due to the lack of the staff, only two healthcare institutions were audited in FY2020. The head of the SDU and the head of the Healthcare Department received the internal audit reports. The main findings of the internal audits were violations in the procurement process. In general, audit coverage is below 50% of the entire City Government operations including SDUs.
PI-26.1 Coverage of internal audit	
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	
PILLAR VI: ACCOUNTING AND REPORTING	
PI – 27 Financial data integrity	
PI – 27.1 Bank account reconciliation	There are no suspense accounts related to SDUs.
PI – 27.2 Suspense accounts	
PI – 27.3 Advance accounts	
PI – 27.4 Financial data integrity processes	
PI – 28 In-year budget reports	

Indicator/dimension	Brief explanation
PI – 28.1 Coverage and comparability of reports	The in-year budget execution reports issued by the Treasury include information on budget execution by each service delivery program. Those programs present the types of services, such as pre-schools, schools, out-patient treatment, dental services, etc.
PI – 28.2 Timing of in-year budget reports	
PI – 28.3 Accuracy of in-year budget reports	
PI – 29 Annual financial reports	
PI – 29.1 Completeness of annual financial reports	In a similar way as the in-year budget execution reports, annual budget execution reports issued by the Treasury include information on budget execution by each service delivery programs.
PI – 29.2 Submission of reports for external audit	
PI – 29.3 Accounting standards	<p>Each SD unit prepares and submit an annual financial report to the Treasury. The Treasury prepares a consolidated report and submits it to the departments.</p> <p>Annual performance reports issued by the Educational Department and the Healthcare Department (budget program passport reports) include tasks of service activities (provision of appropriate conditions for children with special needs, implementation of the "Successful Teacher" program, etc.) and output data (see PI-8.1 of this Annex). Departments collect output data from each SD unit and record the costs of activities during the budget execution.</p> <p>The Department of Education and the Healthcare Department prepare annual consolidated reports which include a high-level qualitative and quantitative description and analysis of the activities and achievements of all SDUs. Reports are presented to the public and published on the city council website.</p> <p>Each SD unit provides information for in-year budget execution reports to the Treasury. The Treasury prepares a consolidated report and submits it to the departments.</p>
PILLAR VII: EXTERNAL SCRUTINY AND AUDIT	
PI-30 External audit	
PI-30.1 Audit coverage	

Indicator/dimension	Brief explanation
PI-30.2 Submission of audit reports to the sub-national council	During 2018-2019, SDUs were audited only by the State Audit Service (SAS), but not by the Accounting Chamber of Ukraine. SAS conducts both performance and financial audits of SDUs but not annually due to a limited staff. These reports are submitted to the head of the relevant SDU and the head of the Supervisory Department of the City Government.
PI-30.3 External audit follow-up	
PI-30.4 Independence of the public audit institution in charge of sub-national government	
PI-31 Legislative scrutiny of audit reports	
PI-31.1 Timing of audit report scrutiny	The local legislature has not organized SAS' audit reports hearings, even if those are not considered as external audits.
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	